

DIARY

Book 71

June 1 - June 6, 1937

Appointments and Resignations

| | | |
|---|------|---|
| Georgia - Collector of Internal Revenue; Senator George's letter about lack of consideration in selection discussed at 9:30 meeting - 6/1/37..... | LXXI | 2 |
|---|------|---|

China

| | | |
|---|--|-----|
| For resume of conversations between HMJr and Chinese delegation, see Book LXXVIII, page 190 | | |
| Feis tells HMJr of conversation between Bullitt and Kung with regard to British willingness to finance various railroad building projects in China through long-term bonds, proceeds to be spent in England - 6/4/37..... | | 210 |
| a) Bullitt cable - 6/3/37..... | | 237 |

Financing, Government

| | | |
|---|--|---------|
| Seltzer transmits alternative bill programs - 6/1/37..... | | 41 |
| Meeting with Open Market Committee - 6/2/37..... | | 138 |
| HMJr consults Pope and Love, of First Boston Corporation; Mills and Repp, of Discount Corporation; Levy, of Salomon Brothers and Hutzler; Devine, of C. J. Devine and Company; Swihart, of G. F. Childs and Company - 6/2/37 and 6/3/37.. | | 183 |
| a) Suggestions in HMJr's own handwriting..... | | 181 |
| b) HMJr discusses conferences with Burgess - 6/3/37..... | | 198-A |
| HMJr asks FDR as to advisability of announcing at 8:45 Thursday that financing would total \$800 million; FDR says, "Fine - go ahead" - 6/2/37..... | | 186 |
| Announcement at press conference - 6/3/37..... | | 197 A-B |
| a) HMJr discusses announcement with Burgess..... | | 198 |
| b) " " " " Schaller (Chicago).... | | 202 |
| c) HMJr and Burgess confer again; Burgess thinks only question is whether to divide fifty-fifty or put 500 in the two-year and 300 in the five-year; Burgess inclines toward the fifty-fifty - 6/4/37..... | | 215,220 |
| Meeting; present: Bell, Taylor, Murphy, Lochhead, Seltzer, Harris, Eccles, and Harrison - 6/5/37..... | | 306 |
| a) Conversation with Burgess; at 12:04 P.M., HMJr tells Burgess it's to be 400 and 400..... | | 355 |

Gold
See Stabilization

| | Book | Page |
|---|------|------|
| Housing | | |
| HMJr tells 9:30 group at last he has a formula; whether or not anyone else will take it is something else - 6/1/37..... | LXXI | 1 |
| Conference with regard to new plan; present: HMJr, McReynolds, Oppen, Lindow, Foley, Krug, Gray, and West - 6/1/37..... | | 67 |
| a) Proposed Federal housing program..... | | 90 |
| Second meeting; present: HMJr, McReynolds, Oppen, Lindow, West, Foley, Krug, Gray, Wagner, and Keyserling - 6/2/37.. | | 111 |
| a) Proposed Federal housing program (second draft)..... | | 168 |
| Summaries of conferences with representatives of local housing authorities respecting the housing financing formula suggested by FDR (Cincinnati, Schenectady, New York City, Boston, and Cleveland)..... | | 234 |

Japan
See Stabilization

| | | |
|--|--|-----|
| Narcotics | | |
| Thompson reports on League narcotic sessions at Geneva - 6/2/37..... | | 170 |

Open Market Committee
See Financing, Government

Pope, James P. (Senator, Idaho)
See Statements by HMJr

| | | |
|--|--|----|
| Public Health | | |
| HMJr asks Miss Roche to look into the possibilities of building sanitary water systems for rural schools - 6/1/37..... | | 51 |

| | Book | Page |
|--|------|----------|
| Simon, Sir John (Successor to Neville Chamberlain as Chancellor of Exchequer) | | |
| Some observations concerning..... | LXXI | 304 |
| Stabilization | | |
| Cochran reports on visit to Switzerland - 6/1/37..... | | 14 |
| a) HMJr talks to Cochran about report; does not think Bachmann is telling the whole truth - 6/2/37..... | | 173 |
| HMJr statement "nothing imminent on gold in spite of rumors developing over week-end" carried by Dow-Jones - 6/1/37..... | | 38 |
| a) Cochran reports on comment of financial press (in Paris) - 6/2/37..... | | 184 |
| Eccles, Ransom, Taylor, Upham, and HMJr discuss at luncheon: 6/1/37..... | | 48,63,65 |
| a) Bank of England advises that present dehoarding of gold is just about exhausting the gold hoarding | | |
| b) HMJr speaks of proposal from Trip (of Holland) concerning some sort of control over gold production | | |
| c) Eccles and Ransom tell of similarity to proposal from Belgium addressed to <u>Federal Reserve Board in Washington</u> rather than <u>Federal Reserve Bank in New York</u> | | |
| Chancellor of Exchequer questioned as to whether he would propose control of gold output or alternatively discuss its demonetization as remedy against dangers following accumulations annually of 250 million pounds of fresh raw gold which two signatories to Tripartite Agreement are now compelled to buy and put out of use to prevent unsettlement of trade; answer is "no" - 6/1/37..... | | 53 |
| With regard to possible addition of Japan to Tripartite Agreement, Hull tells American Embassy, London, "We believe it only sensible to withhold comment until Britain or United States has actually been approached by Japan" - 6/1/37..... | | 66 |
| a) Butterworth discusses situation with Waley, of British Treasury, who also has an appointment with Arakawa a little later - 6/3/37..... | | 206,209 |
| Cochran authorized to continue with investigation and report in Belgium and Netherlands - 6/2/37..... | | 190 |
| Netherlands Bank discusses with Federal Reserve Bank of New York release of the \$27 million under earmark in United States, getting dollars, buying bonds, and immediately taking gold off London gold market in the same amount; two reasons: (1) to help support the market; (2) to make profit - 6/3/37..... | | 191,197 |
| Butterworth (American Embassy, London) reports "process of dehoarding continues its snowballing course aided by rumors galore" - 6/4/37..... | | 223 |

Stabilization (Continued)

| | | |
|---|------|---------|
| Butterworth cables (1) message of good-will from new Chancellor of Exchequer (Sir John Simon) stating his ardent wish that same close cooperation between two Treasuries as existed under his predecessor be maintained; (2) two questions which have been asked in House of Commons and which must be answered on Monday; Sir John Simon "will be glad to know that you agree to the proposed answers thereto" - 6/4/37... | LXXI | 278 |
| Meeting to discuss answer to Sir John Simon; present: HMJr, Taylor, Gaston, Lochhead, White, and Feis - 6/4/37..... | | 243 |
| a) Answer with regard to cooperation between two Treasuries <u>in response to May 31st message from Neville Chamberlain</u> sent to Sir Ronald Lindsay for transmission - 6/5/37..... | | 273 |
| b) Answer to Sir John Simon sent to Butterworth for transmission - 6/5/37..... | | 274,366 |
| 1) Sincere wish that relationship be as cordial and successful as it was with predecessor | | |
| 2) No suggestions to make with respect to proposed answers to two questions to be put to him in Parliament on Monday | | |
| a) Answer discussed with Butterworth by telephone - 6/5/37..... | | 284 |
| Statements by HMJr | | |
| Senator Pope (Idaho) asks HMJr to do a fifteen-minute transcription on activities of Treasury, to be sent throughout his state - 6/2/37..... | | 187 |

Tax Evasion

| | | |
|---|--|-----|
| President's message to Congress - 6/1/37..... | | 92 |
| a) Magill reports to HMJr on reaction of Doughton and Harrison to draft of joint resolution to be introduced as soon as President's message has been read - 6/1/37..... | | 101 |
| 1) Doughton and Cooper report to Magill on discussions with Rules Committee - 6/4/37..... | | 231 |
| b) McKellar commends HMJr on floor of Senate for communicating facts to President and to Congress..... | | 103 |
| Magill tells HMJr, Shafroth wants more time in case entire matter should be delayed - 6/5/37..... | | 357 |

GROUP MEETING

June 1, 1937
9:30 A.M.

Present: Mr. McReynolds
Mr. Lochhead
Mr. Upham
Mr. Bell
Mr. Gibbons
Miss Roche
Mr. Oliphant
Mr. Gaston
Mr. Taylor

H.M.Jr: Well, I've got a formula for housing after meeting two and a half hours yesterday afternoon, a couple hours Sunday afternoon; whether Senator Wagner or the President will take it is something else. I'm satisfied to recommend it and get some houses built. Whether anybody else will take it is something else.

Incidentally, Mac, of course, you be here at 2:30, Clarence Oppen be here at 2:30. Who else be here?

McR: Matt (Daiger) called me up last night after he got home, asked me whether he was supposed to be here. I said you hadn't said and I didn't know any reason for him to come in unless you wanted him.

H.M.Jr: He told me he didn't want to appear before Senator Wagner because he was afraid he would hurt whatever Federal Housing has in mind.

McR: As it stands, he isn't coming.

H.M.Jr: Well, I didn't ask him. What? What do you think?

McR: I don't think it is necessary for him to come. The only reason - the only thing Stewart MacDonald said when he loaned him to me was that he'd rather not have him, since Wagner knows that he is now on Stewart MacDonald's payroll and MacDonald has to appear before Wagner on other things. He said he'd rather, if it wasn't necessary, for Daiger not to appear at hearings before Wagner. Now, that's the only reason. Matt doesn't care personally.

H.M.Jr: Well, don't have him here. I think he's terribly over-rated anyway. I think he's terribly overrated. Great housing expert!

-2-

- McR: Would you be interested in a letter from Senator George complaining about lack of consideration in the selection of Internal Revenue Collector at Atlanta?
- H.M.Jr: Sure. I told him I'd get one.
- McR: Well, you got it.
- H.M.Jr: I can't help it. Like everything else; got to take it.
- Gibbons: He says in there that I called him up. He called me up on something else.
- H.M.Jr: So you're in this thing. Ah ha! That's better.

"Since the nomination of Mr. Marion Allen to be Collector of Internal Revenue for the District of Georgia was sent to the Senate, I have received some information to the effect that all efforts by the Treasury Department and by the President to secure agreement between the Senators upon some third party having failed, the President himself settled the question by nominating Mr. Allen.

"In order that we may understand the facts, permit me to say that I talked personally with you shortly after the opening of the present Congress regarding the appointment of a successor to the Honorable W. E. Page, the present Collector of Revenue for Georgia. At no other time have I talked with you upon this subject and at no time has it been suggested by anyone that you desired the Senators to reach an agreement on a third party.

"When I stated to you that I was endorsing Mr. R. E. Matheson for the position; that my colleague, Senator Russell, was endorsing Mr. Marion Allen for the position, you gave me the assurance that if you were asked to certify anyone other than Mr. Matheson you would notify me in order that I might, as I inferred, visit the White House. Monday last, Assistant Secretary Gibbons called me and stated that he did not find an endorsement of file from me for the position of Collector of Revenue for Georgia."

I didn't know that you did that.

Gibbons: No, I didn't call him; he called me on some other matter and I mentioned at the time that we had received the letter....

H.M.Jr: Well, that's a slip there, you see, if you don't mind my saying that. I'll read it through. I'll tell you why. I didn't know that you did that.

"I then stated to Assistant Secretary Gibbons that I had endorsed Mr. R. E. Matheson and that if he did not find my letter of endorsement to please advise me in order that I might send another letter over. I heard nothing else from Assistant Secretary Gibbons and this was the only information transmitted to me out of your Department touching this matter. The purpose of this letter is to emphasize the fact that I received from you and from no source whatever a request for additional endorsements from the two Senators regarding this appointment."

Let's see - "that I received from you and from no source whatever" - that's wrong; he means he did not receive a letter from me.

Oliphant: He means "neither.....nor."

H.M.Jr: I mean when he wrote this he was so angry his voice trembled.

It's a slip.

Gibbons: He said he had sent the endorsement to Farley.

H.M.Jr: But you weren't in on this thing, my boy, shouldn't have been monkeying. I mean I didn't ask you to check with him.

Gibbons: No.

H.M.Jr: I mean this is Collector of Internal Revenue, it isn't Customs. I mean you shouldn't have - I don't know how you got in on it.

Gibbons: Well, we were talking about the thing here. It just happened that he called me after I left the meeting - about twenty minutes afterward.

H.M.Jr: Who?

Gibbons: Senator George.

H.M.Jr: Left what meeting?

Gibbons: Mac and I talked - I think it was brought up here before, wasn't it? Somebody had spoken to me.

H.M.Jr: Well, Mac was trying to get a clearance on it. I don't think anybody talked to you about it. They shouldn't have, anyway.

Gibbons: Well, you talked to me a long time ago, and Jim Farley....

H.M.Jr: But not on Monday, not a week ago yesterday.

Gibbons: It was in my mind. Mac and I had been - it was just a coincidence; about twenty minutes....

H.M.Jr: What did he call you about?

-4-

- Gibbons: About some - is he the one that wants the guard brought up, or is that Senator Smith that called me about.....
- H.M.Jr: Anyway, Steve, if you don't mind, I think you pulled a boner, and.....
- Gibbons: Yes, I know I did now.
- H.M.Jr: And I tell you why. What actually happened - when it came over, I reminded the White House that I had personally told Senator George that before anything was done I would give him a chance to talk to me again, that I had given him my word; whereupon Mr. McIntyre read over to me a letter from the President to Senator George telling him that he realized that he hadn't endorsed him, that he had no endorsement from him, but that he was going to appoint Mr. Allen and he hoped that Mr. George would not hold up his confirmation. And I said, "Well, under those circumstances - the President admits that George hasn't been - asks him please, as a personal thing, not to hold it up, and the entire blame is on the White House." Then you (Gibbons) butt in and make it very difficult. I don't know how to answer it. I mean between McIntyre and I - McIntyre said, "Let me read you the President's letter; see if that doesn't release you from your personal pledge." And I said we would acknowledge the letter and say, "I'm terribly sorry, but under the circumstances I have no comment." And don't try to make it good, see, don't call him up.
- Gibbons: Nothing to be done. But a long time ago.....
- H.M.Jr: I know, but that's six months ago.
- Gibbons: Yes
- H.M.Jr: That's six months ago; that's six months ago.
(To McR) Just call him up and say I'm terribly sorry; I've acknowledged the letter and I have no comment. I mean what's the use of trying to explain it?
- Gibbons: There's nothing you can do on the thing.

-5-

H.M.Jr: What else you (McR) got?
McR: (Nods nothing)
H.M.Jr: If I've made an enemy, I can't help it.
Gibbons: No, I think it's friendly.
H.M.Jr: Don't try to fix it up now.
Gibbons: He called me up to ask the.....
H.M.Jr: But don't try to fix this up. The only way would be to put it on the President; we can't put it on him. McIntyre said, "The White House is willing to take this; I think that releases you."
Gibbons: Their responsibility.
H.M.Jr: Danny, we get 50 millions, don't we, today or Wednesday?
Bell: Tomorrow.
H.M.Jr: Tomorrow?
Bell: Yes, sir.
H.M.Jr: I'm nervous.
Bell: That's the last one.
H.M.Jr: I know. A couple days.
Dan, this afternoon Wagner's coming in at three. I've got a housing plan, believe it or not. You want to see it or not?
Bell: Surely.
H.M.Jr: What?
Bell: Surely.
H.M.Jr: We're having a rehearsal at 2:30.
Bell: All right, I'll be here.

McR: You haven't seen Pat yet?

Bell: No, I haven't.

H.M.Jr: My own brainstorm.

Bell: You really got a housing plan?

H.M.Jr: I got one I'll take.

Bell: Cost money?

H.M.Jr: Well, it's to come out of the revolving fund.

Bell: Poor revolving fund.

H.M.Jr: 95 million left unearmarked.

Bell: Out of the 145 million of securities?

H.M.Jr: Well, he says there's 95 left. I don't want to go into it now, but I think it's kind of neat.

McR: They've got 120 million that's earmarked and 95 unearmarked.

H.M.Jr: I think if you're here from 2:30 to 3, you'll get it; it's very simple.

(Nods to Lochhead)

Lochhead: (nods nothing)

H.M.Jr: When you hear from Bolton, let me know.

Lochhead: Right.

Gibbons: I got a letter the other day from the leader of Brooklyn, a Mr. Kelly, asking me, on the reduction of this force under Bartelt in New York to do the accounting, to consider one man, and the man wrote me in the next mail I got this letter saying that he was the father of five children, has got \$1260 a year, has been laid off now. He said that your man Mr. Grubb up there said he was efficient.

H.M.Jr: We don't consider anybody unless he has six children. That's the limit.

-7-

- Gibbons: Well, this is.....
- H.M.Jr: He has to get a sixth child. Six children is the limit.
- Gibbons: It isn't - it's a serious matter.
- H.M.Jr: Bell put in that rule and I haven't overruled him. He'll only consider families of six children.
- Gibbons: O.K.
- H.M.Jr: If he wants to adopt one of the Spanish children and call it six, it's all right with me.
- I think if you start trading with these fellows - it's like the early days, when I had courage, starting to throw people out on their ear on seed loans; they'd be thrown out three times, and the Congressmen put them in three times. Then we put in a rule that when they go, they go, and no Congressman can put a fellow back in. Is that right, Mac?
- McR: Yes, we're writing every day to Congressmen and Senators and what not, merely telling them that as these people dropped - we're sorry, they're good people; practically everybody we've got left are good people; we'd like to keep them, but.....
- Gibbons: But the point is that, all things being equal, if a man has a family and another man hasn't any family, they'd just as leave drop the man with a family, and.....
- McR: No, they don't. Those people are rated on the basis of dependents and they're given certain credits.
- H.M.Jr: I've never interfered, I've never asked Bell a question about it. I've let him run his own shop. Haven't I?
- Bell: That's right. We take that into consideration.
- Gibbons: We haven't interfered, but just something has come up....

-8-

H.M.Jr: Well, your friend Mike Igoe wanted the same thing in Chicago. He wrote to Bell's man in Chicago.

Bell: They're supposed to take into consideration.....

Gibbons: They take all those things into consideration? Well, that's what I wanted to know.

Bell: That's right.

H.M.Jr: Even your friend Mike Igoe in Chicago - he brought Dan's man on us.

Oliphant: Well, where's that snappy comeback, Steve?

Gibbons: He ought to be given consideration; why not?

H.M.Jr: I don't mind you talking to Dan, but it's his shop and I don't want to interfere. Haven't yet. Any more than I tell Miss Roche to put a doctor on the staff.

Roche: We read your mind.

H.M.Jr: No, but I mean I've never asked.

Roche: I'm joking too.

H.M.Jr: Got anything else, good news?

Gibbons: No. Will Mac be free after today now so he can talk to me?

Bell: If he's able.

H.M.Jr: After three o'clock.

Taylor: Got a lot of back golf to catch up.

H.M.Jr: Joan and I went to the movies last night. When we came out, we saw - what's the lawyer's name at PWA - the lawyer we saw.....

McR: Foley.

H.M.Jr: Foley. He said, "First draft already written."

-9-

McR: Foley's a very good man. All our boys are very fond of him.

Bell: Was Foley there?

McR: Yes, and Charley West - he had to come back to town for this conference.

H.M.Jr: They all came in looking as pink as you (Bell) did, too; and I was cool.

Miss Roche?

Roche: Nothing very special. I had several conferences over the weekend with the National Youth people - all the field people, they're in with Mr. Williams - on where we're going to cut when the new reductions start in. Nothing final, just conversation so far.

H.M.Jr: Nothing of consequence?

Roche: Nothing final has been decided yet as to where the reductions will hit.

H.M.Jr: Will you (McR) see that my letter to the President on taxes is dated May 29 all through the files, please. All through the files. We sent it over undated, and they dated it the 29th.

Gaston: Nothing. Press conference been called for 10:30.

Taylor: (Nods nothing)

H.M.Jr: When you going to want to talk to me?

Taylor: Any time.

H.M.Jr: Have I got it down - gave you till Wednesday, didn't I? Nothing else?

Taylor: No - except a headache.

H.M.Jr: The reason....

Taylor: Not a real one.

-10-

H.M.Jr: The reason I'm so happy - they can take what I've got, - take it, like it, or leave it. I'm through; I've washed my hands of it. They can take it and like it.

Taylor: Not a physical headache.

Oliphant: You know that indefinite continuance of those proceedings in Chicago - that thing sort of.....

Then we've had a letter from Thompson - Judge Thompson - his lawyer, enclosing a fighting answer, which he wants to file. I told him to keep in mind that we couldn't take responsibility - hoped he wouldn't file it because we couldn't take responsibility for telling a lawyer how to protect his clients.

H.M.Jr: What did you say out of the side of your mouth?

Oliphant: (Words not understandable) So it might break out again. It's a good answer.

H.M.Jr: I think so.

Oliphant: I think it's noble.

H.M.Jr: Noble?

Oliphant: Uh-huh.

Gibbons: Which is the good answer, yours or the - Judge Thompson's?

Oliphant: Oh, his answer. Mine's no good; his is pretty good.

H.M.Jr: Well, I'm all right then, I guess.

Oliphant: Have you heard from Magill?

H.M.Jr: Magill?

Oliphant: Yes

H.M.Jr: He's up on the Hill - Bob Woughton and, I guess, his "kitchen cabinet." Be down after a while. They won't

-11-

talk business; you see. When Magill goes up there, they talk to him for one hour, and fifty minutes will be about this outrageous practice that you have to take the first man off the list and all that - and out of every hour they spend 50 minutes that way.

Oliphant: Postmasters.

Gibbons: On taxes, and they talk post service.

H.M.Jr: Maybe I'm exaggerating a little, but Magill said he was up two hours and the first hour was devoted solely to complaints on patronage - "You have to take the first man off the list, and he's always a Republican." And then Doughton rushed down here the other day to see me with Harrison, and he wanted to get here first because he's got two or three men we've been giving 90 days ever since I don't know when; and he finally got down - talk to the fellow in charge of alcohol - finally he said, "Give me one more 90-days and if I can't get Civil Service to recognize their ability this is the last I'll ask for." Either two or three men in his district.

McR: Those are the ones he got on with Stewart Berkshire.

H.M.Jr: Yes, and he made Berkshire ride down with him. If he can't make Civil Service see reason that these men are better and more qualified than any lawyers that can pass the examination, because they know a hill-billy when they see one, and his son is now sheriff of the county - first time in 40 years a Democrat's been elected - and he knows a "moonshiner" when he sees one; and the trouble is all these slick lawyers can pass the examination and his constituents can't. And if he can't get Civil Service to see that, why then he'll give them one more 90-day appointment and he'll sign off.

Gaston: He knows too which ones to arrest and which ones not to arrest, doesn't he?

McR: I suppose they need some change in the Civil Service. Maybe that's the reason why Doc White is resigning.

H.M.Jr: But they know a bootlegger when they see one.

Gibbons: I listen to that 300 days out of the year - an everyday

-12-

happening.

H.M.Jr: But the only important thing is one more 90-day appointment. He promised me he wouldn't ask for another.

If I had any friends left anywhere, all friends will be gone after one o'clock. Except amongst the people.

Roche: I was going to say you'd better make an exception.

H.M.Jr: Except amongst the people.

All right.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 1, 1937, 10 a.m.

NO.: 713

FROM COCHRAN.

Re Telegram No. 243 of May 28, 6 p.m., from the Department.

I spent May 31 in Bern and returned this morning. At the Swiss National Bank I was received by President Bachmann of the Board of General Managers, together with members Weber and Schnyder, and an assistant on technical matters. Bachmann took me with him for an appointment which he had with the Chief of the Federal Department of Finances and Customs, Meyer, just before we had lunch.

The Chief of this Department said that since Switzerland had adhered to the tripartite agreement of last autumn he had enjoyed closer relations with the American Treasury. Such relations and the exchange of information which results were a pleasure to him. He hoped that rather than let anything happen which might weaken the agreement it would be strengthened. The greetings from Secretary Morgenthau were warmly returned by Meyer.

As a result of the gold scare, Bachmann said, many concerns and individuals in Switzerland have been turning their gold in to the National Bank's equalization fund. More gold than the Bank can carry has had to be absorbed by it. He has recently been disposing of gold to the American authorities

- 2 -

authorities as he receives it. Recently he disposed of gold in this manner to an amount of almost 25 million dollars which he had in an account earmarked with the Federal Reserve Bank of New York. At the present time he has en route from Bern to New York \$11,000,000 gold. I asked whether this would be sold and he replied that he did not know as yet. The Federal Reserve Bank has invested some of his dollars for him in United States Treasury bills.

702 Bachmann explained his above-mentioned practice saying that the gold cover for his notes was almost 200 percent, and around 90 percent against all sight liabilities. Less than one percent of his holdings is made up of foreign exchange. He has very little sterling and practically no French francs. Bachmann said that he wants to use the dollar almost exclusively as the foreign exchange through which he can steady the Swiss franc and finance purchases abroad by Switzerland.

Switzerland, Bachmann said, was quite pleased with the results of its trade agreement with our country. He thinks, with the above-mentioned view, that he should maintain a dollar balance of between fifty and one hundred million dollars and to this end he is shipping gold to New York and through the Federal Reserve Bank is selling to the Treasury. I was questioned by Bachmann as to whether I thought such

a

- 3 -

a dollar balance was considered an excessive amount. I told Bachmann that no criticism of his utilization of his facilities for earmarking and disposing of gold in the United States had reached me, and that we certainly would be happy if he would use his dollar balance importantly for buying American goods. However, I added that as partners under the monetary arrangement we should exchange views as freely as possible in this regard.

He agreed with me and proceeded to ask what I knew about the London reports of an American-Russian agreement on gold, and of Anglo-American accords for lowering the gold price in terms of sterling and dollars. I had not received the slightest official suggestion, I told him, that there was anything that might be called an agreement with Russia or any

END SECTIONS ONE TO THREE INCLUSIVE.

BULLITT.

EA:LWW

RECEIVED
DEC 3 1944
U.S. DEPARTMENT OF STATE
WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

NO.: 713 - Sections 4 and 5
FROM: American Embassy, Paris
DATE: June 1, 1937

negotiation with Great Britain.

With respect to Russia, I stated that I could not conceive of our contracting Russian gold in Europe. Except for a few unusual instances (for example, when the Central Banks of Belgium and France were in immediate need of dollars), we have contracted gold only after it is in the United States. It was recalled that last fall we did not accept Bachmann's general proposition to make gold available to us in central banks in Europe. I reminded him, however, that no emergency requiring dollars immediately had been experienced by him as it had by the French and the Belgians. He felt sure that no facility would be extended by us to the Soviets that would not also be accorded to a "club member".

I told him frankly, with reference to the British, that Governor Norman had complained to me earlier in the month because conversations between the British and American officials on the gold question had been lacking. I informed Mr. Bachmann that I was sure that since that time no arrangement had been reached. I called to his
attention

-2-

attention the fact that Washington has repeatedly denied that they intended to change the price of gold at the present time. Mr. Bachmann agreed with me that it would not be possible for us to issue a statement to the effect that the price of gold would never be altered by us.

I made mention to Bachmann of the calming effect on the markets a few days ago of the news that more gold was being bought by the Bank of England, that large amounts were being absorbed by the Netherlands, and that now Argentina and other raw-material countries might be expected to rebuild their stocks all of which tended to relieve the United States as the important purchaser of gold; no sympathetic reaction was registered by Bachmann. There was stressed the uncertainty as to how much gold the Soviets might now place on the world market and continue to supply.

Hope was expressed by Bachmann that the British would be moved to take some step toward stabilizing or indicating their position toward the price of gold as a result of the conversations which are now being held with the Dominion representatives in London. At Basel earlier in the month,
he

- 3 -

he said he and Trip of the Netherlands and Frank of Belgium approached Governor Norman on the proposition of reaching an agreement between the principal purchasers of gold and the gold producers - that is between the central banks or monetary authorities and the producers. The Governor of the Bank of England promised to consult British producers on this point and to report back to the other three Bank Governors.

END SECTIONS FOUR AND FIVE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION SIX No. 713 of June 1 from Paris
at the June meeting of the BIS.

According to Bachmann, the Swiss bankers and gold holders - particularly those in Basel and Zurich - have taken the gold rumors printed in the London and continental financial press seriously. They do think that even though all the stories about international arrangement proposed and plans for early action on gold are not true, the price which is paid for gold now is such that production will be carried on to an extent that some step will have to be taken which will react on gold's market value. Therefore those who have been hoarding gold are now getting rid of their holdings. I asked what was being done with the proceeds/^{and}Bachmann said that Swiss franc bank deposits were being built up, and furthermore, there had been an increase in purchases of dollars for Swiss account.

Officials of the Swiss Bank have no faith in the situation in France. It is their belief that the Blum Government cannot achieve the restoration of confidence necessary for overcoming the financial problems with which they are faced. The French themselves, the Swiss officials said, were becoming increasingly worried over their internal political and social situation as evidenced by the shipment of their foreign securities which has begun again.

END SECTION SIX.

BULLITT.

EA:LWW

to Swiss banks for safe-keeping, along with other valuables. A further devaluation of the French franc my friends believe is uncalled for, and so long as the present regime is in office would simply be a waste of capital. The people of Switzerland are happy to think that a political trend from radicalism to conservatism may be indicated by van Zeeland's victory over Degrelle and Colijn's gain in the Netherlands.

I was informed by Bachmann that the French had made no recent approach to his bankers for a loan for their Treasury or for any independent bodies in France. In the present circumstances, he said he was sure that his banks would make no loans to France unless the loans were backed by gold earmarked in a central bank, and he did not think that requirement could be afforded by France.

According to Bachmann the outlook for the Swiss tourist trade is relatively good. Business is too modest, he said - explaining this by the example that one hotel which reported a ten-fold gain this year over last was found to have had on the comparable date last year only two tourists. Yesterday morning while with Meyer Bachmann discussed the terms of a Swiss Treasury loan which is to be launched shortly. The loan will pay 3 1/2 percent, and the amount will be from 150 to 200 million francs, to be issued at par.

END SECTION SEVEN.

BULLITT.

EA:LWW

PARAPHRASE OF
SECTION EIGHT OF TELEGRAM NO. 713 of June 1, 1937, from
Paris.

Bachmann hopes the duration may be 20 or 25 years, but
this has not yet been fixed.

I had taken advantage of an American holiday to
visit him and his fellow officials again in Bern, I said.
Bachmann invited me to return there or to his Zurich
office whenever practicable, and he asked me to give
him any American news on the gold question at Basel on
June 14. You may share my impression, from the above
account, that Bachmann himself is worried over the gold
price situation, and is exercising caution - which is
customary with him.

Bachmann asked me whether I had visited the Nether-
lands of Belgium. I said I had not, but thought that
if Trip did not attend the BIS meeting on June 14 I would
suggest seeing him.

I reported my visits to Legation Secretary Bigelow
in the absence of Minister Wilson.

END MESSAGE.

BULLITT.

EA:LWW

RECEIVED
JUN 1 1937
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

June 1, 1937
10:10 a.m.

23

H.M.Jr: Hello?

Operator: Mr. Knoke.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello?

Knoke: Good morning, Mr. Secretary.

H.M.Jr: Hello, Knoke.

K: According to the Bank of England, the market -
foreign exchange market is much quieter.

H.M.Jr: Foreign exchange much quieter.

K: The Spanish-German incident has died down.

H.M.Jr: The - the what?

K: The Spanish-German incident seems to have died
down.

H.M.Jr: Yes.

K: He put it, "No war over night."

H.M.Jr: No war over night.

K: Stock market has revived a little.

H.M.Jr: Yes.

K: The speculators in dollars who had first bought
dollars this morning in anticipation of further
trouble politically, turned around and sold when
they found their speculation didn't work out -
so they turned around and sold.

H.M.Jr: Yes.

K: The amount of gold which the front took today
is upwards of \$15,000,000.

H.M.Jr: Golly.

K: Of which, \$9,000,000 were from the market -

H.M.Jr: Yes.

- K: - and the balance from some central banks, South Africa, for instance. In other words, the regular Tuesday supply.
- H.M.Jr: Yes.
- K: But, at any rate, the total which they purchased was 3,400,000 pounds.
- H.M.Jr: Ah-ha. What do you mean - the Tuesday supply?
- K: Well, every Tuesday South African gold comes into the market.
- H.M.Jr: I see.
- K: As to Russian gold, the amount so far received is unchanged at 30,000,000 pounds. They understand that the Russians may ship another 5,000,000 pounds, but after that there will be a long break.
- H.M.Jr: Well, I didn't know that they had shipped 30 -
- K: Oh, yes, that we had from them, and that
- H.M.Jr: Well, where did that offer, in London?
- K: Oh, yes, and arrivals in London were 30,000,000 pounds, of which we have here so far received \$90,000,000.
- H.M.Jr: I see.
- K: So far I mean what we can identify as Russian gold - Russian bars.
- H.M.Jr: Well, and then do we trace down the deposits.
- K: The deposits have - have been given to Lochhead regularly every Wednesday. The last was, I think, 40 million or 37 million dollars.
- H.M.Jr: Where is the difference?
- K: Oh, it hasn't all been sold yet. We knew that about 5,000,000 pounds were still being held in - in safe deposit in London.
- H.M.Jr: No, but I meant if that \$90,000,000 had come here,

and the deposits are only \$40,000,000, where is the difference?

K: Well, that has gradually gone - I don't know - the Russians have used it - gradually gone back into the - I think into the Paris market and probably into the London market.

H.M.Jr: No, but I thought you meant the United States received \$90,000,000 worth of Russian gold.

K: Yes.

H.M.Jr: Now, where is the 90 million that has come to this country - to our shores?

K: Well, as I - as I - they're - they're repaying here about 40 million -

H.M.Jr: Well, where is the other 50?

K: The rest has gone back to - to Paris we know in part, and probably to London also.

H.M.Jr: Oh, well, they haven't spent it, have they?

K: Have they spent it here?

H.M.Jr: Yes.

K: Well, of course, we've always found it very difficult to trace it down. None of any importance has gone into the market here.

H.M.Jr: You mean to say that it has drifted back again from -

K: Yes, a good deal goes back into that French account - the - which is a cover-up for the Russians, and when it goes in there you very nearly lose track because they make a dozen transfers in and out, and the net result is very nebulous.

H.M.Jr: But as to the immediate situation - today a little bit better, eh?

K: Oh, yes. Very definitely so.

H.M.Jr: Ah-ha.

K: He made one rather significant comment also yesterday. I asked kind of facetiously, "Where do we go from

4

here?" He said, "Well, what do you mean? The only thing we can do is to carry on as heretofore."

H.M.Jr: Ah-ha.

K: "If the dishoarding continues at the present pace, it should all be out after two months," -

H.M.Jr: Ah-ha.

K: "And from then on the problem will be simplified."

H.M.Jr: Did he say that?

K: Yes.

H.M.Jr: I didn't know that.

K: Yes.

H.M.Jr: That's interesting. Now, would you mind calling up Cariguel, too?

K: Cariguel?

H.M.Jr: yes.

K: Yes, all right, sir.

H.M.Jr: Call him up, and now just a minute. What we're doing on the Japanese coming in the tripartite, we're simply sending word to England. What's the use of our commenting on it until they've asked to come in, see? We're withholding any comment.

K: Yes.

H.M.Jr: They just asked us how would we feel if they came in and asked to come in -

K: Yes.

H.M.Jr: So we're going to say we're going to wait until they ask either the British or ourselves. There's no use commenting on something that hasn't happened.

K: Well, when you say, "commenting," you mean -

H.M.Jr: They wanted us to say would we be willing to have them come in.

K: Yes.

H.M.Jr: I'm going to withhold comment until they ask. In other words, I don't want the English to use us, see? If the Japanese want to come in, I want to do business with the Japs directly. Let the Japanese ask me - why should they ask the English, and then let the English make a secret deal with them? There's certainly nothing lost. I say when the Japanese ask the English if they do ask them, then we'd be glad to comment, but we'll withhold comment until they ask.

K: Well, of course, I - I should imagine that if the Japs are serious they would ask all - at least London and Washington -

H.M.Jr: Well, we're closer to them here than the English are.

K: Well, in that case, they should ask Washington first.

H.M.Jr: Sure. Well, that's just what I got in mind. In other words, just like I said. We're ready to stabilize when the world is. We're ready to talk to the Japs when the Japs are ready to talk, but why let the English say, "Well, you know we can tell you that the American Government would be very glad to have you come in."

K: Yes.

H.M.Jr: I'm going to tell them that myself.

K: Well, this goes from Butterworth to Phillips, does it?

H.M.Jr: That's right.

K: Yes, I see. Yes.

H.M.Jr: And then with those Japanese Cabinets falling, how do I know? In other words, I'm not putting any stumbling blocks in anybody's way. I'm simply saying I'd like to know

- K: Yes. Well, don't it appear that if they - if they really volunteered to come in, it would be a step forward?
- H.M.Jr: Oh, yes.
- K: Yes.
- H.M.Jr: Oh, sure.
- K: Yes.
- H.M.Jr: But I don't want the English to play politics with us, that's all.
- K: Yes.
- H.M.Jr: Now if you'll call Cariguel and then call me back?
- K: All right, sir. Now, meanwhile are you willing that we should support the market if it needs support?
- H.M.Jr: Well, now - well - your boy friend is sitting right here, Mr. Lochhead. What - what's the price of sterling right now?
- K: Well, sterling is about a half to five-eighths. That is 4.92-1/2 to 4.92-5/8. Whereas against gold we have - against gold it should be 4.9348.
- H.M.Jr: Well, now just let me think a minute. Let me think a minute.
- (Pause)
- H.M.Jr: I think I'd carry on as usual.
- K: Well, yes - that's - that's just it. After all, to us, it's a very - in addition to being very desirable operation, it's a profitable operation.
- H.M.Jr: Well. I - I'd do it just the way we always do it. I wouldn't be too aggressive, but I'd take it and keep the thing on an even keel.
- K: Yes, sir.
- H.M.Jr: All right?

K: Fine.

H.M.Jr And you work out the details with Lochhead.

K: Thank you.

H.M.Jr: Thank you.

Fin 30

June 1, 1937
10:50 a.m.

H.M.Jr: Hello?

Operator: Dr. Burgess.

H.M.Jr: All right.

Operator: Go ahead.

H.M.Jr: Hello?

Dr.
Burgess: Hello?

H.M.Jr: Hello, Burgess.

B: Hello, Henry, how are you?

H.M.Jr: Well, it's stifling hot down here.

B: Is it?

H.M.Jr: Yes.

B: Well, will you cool it off for us by tomorrow?

H.M.Jr: Well, that's what I want to find out. Are you coming?

B: Sure.

H.M.Jr: You?

B: Yes.

H.M.Jr: Good. What do you know?

B: Well, I - I think the same as I did last week.

H.M.Jr: How was that? I've forgotten.

B: I think a two-year and a five-year.

H.M.Jr: Two and a five.

B: Divide it up.

H.M.Jr: Ah-ha. Well, I - I think it ought to be two pieces of paper.

B: I agree with you.

H.M.Jr: We're not very far apart.

B: I think - I think that's about right.

H.M.Jr: Who do you want me to see and when?

B: Well, that depends on who you want to see.

H.M.Jr: Well, who would you suggest?

B: I think - do you want to see some dealers this time?

H.M.Jr: I think so - I've seen enough bankers.

B: I think Discount and the First of Boston and Childs and - and Solomon. Now there's just a question whether you want to see Devine or not. I think - you haven't seen him, have you?

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

B: All right - let's include him, too.

H.M.Jr: Well, now, as to time.

B: Yes.

H.M.Jr: Don't you want it now while you're still in New York?

B: Yes, I'd like to make the dates today.

H.M.Jr: Well, you think we should - when are you going to go back?

B: Tomorrow afternoon.

H.M.Jr: Ah-ha.

B: Be there - that is run down Thursday morning.

H.M.Jr: Well, pardon me?

B: I'd like to be back here Thursday morning.

H.M.Jr: Yes. Well, I could see somebody Wednesday afternoon.

3

B: Yes.

H.M.Jr: What?

B: All right.

H.M.Jr: Just a minute. Let me just put down - supposing I - just a moment. Supposing I say Wednesday, 3:00?

B: Wednesday at 3:00?

H.M.Jr: Yes. Now do you want me to do anybody that evening or not?

B: Well, just as you say.

H.M.Jr: Do you want to stay over?

B: I'd just as soon. I can take a night train.

H.M.Jr: How do you feel?

B: I'm pretty well.

H.M.Jr: I've kept supper open.

B: Wednesday night?

H.M.Jr: Yes.

B: Yes.

H.M.Jr: Who do you -

B: Well the 'logical fellows for that are the ones - are the Discount fellows.

H.M.Jr: All right.

B: They understand it better and you get more out of them I think.

H.M.Jr: All right, we'll have them for dinner at 7:30.

B: Dinner at 7:30.

H.M.Jr: Now that's Wednesday.

B: Yes.

H.M.Jr: Now, let's do it this way. You see press is 10:30. I could see somebody at 9:30 Thursday morning.

B: Thursday at 9:30.

H.M.Jr: Now just a minute.

B: Well, how about Levy?

H.M.Jr: Good, he don't take very long.

B: No.

H.M.Jr: All right. Now at 9:30 and then see one other fellow at 11:00?

B: All right. Devine at 11:00?

H.M.Jr: All right - just a minute.

B: Thursday at 11:00.

H.M.Jr: Devine. And then I can give you 3:00 Thursday afternoon.

B: Thursday afternoon at 3:00.

H.M.Jr: Yes.

B: That will be Childs.

H.M.Jr: All right - now let me -

B: That's Swiehart.

H.M.Jr: All right, now have we got - have we got - let me see; let me go over this again. Burgess - Levy - wait a minute. Who did we have coming Wednesday at 3:00?

B: First of Boston Corporation.

H.M.Jr: First of Boston.

B: Mr. Love.

H.M.Jr: First of Boston at 3:00. Then Wednesday night Discount.

B: Yes.

H.M.Jr: And then 9:30 Levy.

B: Yes.

H.M.Jr: At 11:00, Devine, and 3:00 Childs.

B: Yes. Now, just - Madison just happened to be in the room with me and Saul. Just let me ask them if they have any suggestions.

H.M.Jr: Please.

B: May I?

H.M.Jr: If you please.

(Pause)

B: They're all agreed - they think that covers the job.

H.M.Jr: Yes, then that gives us the rest of the time to make up our mind.

B: Yes. That's right. Yes.

H.M.Jr: And -

B: And if I come back here Thursday, I can see some more people here.

H.M.Jr: That's the idea.

B: Yes.

H.M.Jr: But that covers it - I think that's enough. Don't you?

B: Yes. Let me hold it a little bit flexible whether I stay over Wednesday night. If I get a little tired I'd better take an afternoon train, but -

H.M.Jr: Well, I could have those men any way, couldn't I?

B: Yes, you could have them any way, of course.

H.M.Jr: Well, I've given you these dates.

B: Yes.

H.M.Jr: You - you can put them around any way you want.

B: All right. These are all right for these fellows.

H.M.Jr: Fine.

B: And whether I sit in with you on Wednesday will depend on how tired I get.

H.M.Jr: Well, if you're tired after 3:00, you can come up to the house and rest.

B: Yes, well, that's very nice of you.

H.M.Jr: You can come up there and take a rest for a couple of hours. I don't want you to strain yourself.

B: No. Well, that's bully. I appreciate that.

H.M.Jr: I want you to go up to the house and rest for a while and then we'll cut the thing short and see that everybody left at 9:30, and you could be on the train at 10:00.

B: Well, that's very nice of you, Henry.

H.M.Jr: But think it over and see how you get along.

B: Yes; yes. That's fine.

H.M.Jr: We're not getting any shocks today.

B: No, I think the way - the way the market stood up today without any shock was quite remarkable.

H.M.Jr: Have you been thinking about the suggestion to let the market decide how much they'd want of each note.

B: I don't think that's so good.

H.M.Jr: You don't?

B: No.

7

H.M.Jr: Well, if we had 800 million, which way would you throw it?

B: Four and four.

H.M.Jr: Four and four.

B: Yes.

H.M.Jr: I would have said five and three, but you're - I mean five for the two years.

B: No, I wouldn't do that. I'd make it an even amount of the -

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

B: - five years.

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

B: This little improvement the market had last week -

H.M.Jr: Ah-ha.

B: - helped the feeling a good deal.

H.M.Jr: I see.

B: So that some of these fellows that talked blue to you, I think might talk a little better now.

H.M.Jr: Well, I'm not going to call up any of them until I see you.

B: That's all right.

H.M.Jr: I don't know as I'll call up anybody.

B: Fine.

H.M.Jr: Because - well, I'm not going to speak to anybody until I see you now.

B: Yes.

H.M.Jr: Well, so they feel less blue. I thought the market today took the thing beautifully.

B: What was that?

H.M.Jr: The market took this European news -
B: Oh, I think so, yes. Very encouraging.
H.M.Jr: Yes.
B: All right.
H.M.Jr: Thank you.
B: All right, then.
H.M.Jr: Hello?
B: Yes.
H.M.Jr: What - what coupon are you figuring on the two-year?
B: 1-3/8s.
H.M.Jr: Well that's two-year, three-months, isn't it?
B: That's right, September, '39.
H.M.Jr: How - how much would there be in it? Profit?
B: Oh, that would be - I don't know - between a quarter and a half point.
H.M.Jr: Is that enough?
B: Yes. I think so.
H.M.Jr: Ah-ha. Okay.
B: Very good.
H.M.Jr: Thank you.
B: Good-bye.

June 1, 1937
10:54 a.m.

H.M.Jr: Hello?

Knoke: Yes, Mr. Secretary.

H.M.Jr: Go ahead.

K: There is nothing new that Cariguel could tell me except that he laid the - the - he ascribed the reason for the upset abroad more to the gold rumor than to the Spanish-American development.

H.M.Jr: Ah-ha.

K: Well, that is just a different approach. At any rate, he also says the market is very much quieter all over Europe, and the possibilities of a war, he thinks, don't exist.

H.M.Jr: Ah-ha.

K: His own operations are very small; he loses steadily but in very small amounts. He says his daily losses are about 25,000,000 francs.

H.M.Jr: Ah-ha.

K: Well, that isn't worth talking about.

H.M.Jr: No. But he's not worried about the European war.

K: He is not.

H.M.Jr: Did you read my statement on the Dow Jones?

K: No.

H.M.Jr: Didn't you?

K: No, I've been on the telephone all the time. About gold?

H.M.Jr: Oh, yes. Let me read it to you.

K: Yes, sir.

H.M.Jr: It came out here at 10:49. It says here, first, "Morgenthau says nothing imminent on gold; praises working of tripartite agreement; to announce June financing total Thursday." So far, all right?

- K: Yes, sir.
- H.M.Jr: "Secretary Morgenthau said today that his statement that there is nothing imminent on gold still stands despite rumors which developed over the weekend. At the same time he praised the working of the tripartite monetary agreement in the face of the new European crisis, pointing out that there had been a minimum of fluctuations in foreign exchange markets. Secretary Morgenthau said that this stability in the face of political troubles was attributable to the Stabilization Funds of the powers cooperating under the agreement. There has been no particular disturbance in the foreign exchange field, but there would have been if there had been no tripartite agreement, Morgenthau said. Asked how important gold was in controlling exchanges under the tripartite agreement, Morgenthau remarked that it was a factor but only one. When he was asked if there was any cause for worry over gold, he responded with the following story: A young man returning from Europe sighted his father, who was his business partner on the dock, as soon as the ship was close enough shouted, 'Hello papa; should I worry?' "
- K: (Laughs)
- H.M.Jr: What? I didn't know they would print that. Don't you like that?
- K: That's lovely. (Laughs)
- H.M.Jr: "Secretary Morgenthau said that he would announce on Thursday, etc., the amount" Well, that's all right, isn't it?
- K: That's all right.
- H.M.Jr: What?
- K: May I just ask one question? Didn't nobody pick you up on the word "imminent"?
- H.M.Jr: Imminent?
- K: Yes.
- H.M.Jr: No.

K: Isn't that what you said?

H.M.Jr: I said there was nothing imminent on gold working.
 There's nothing imminent.

K: Nothing imminent.

H.M.Jr: Yes.

K: And nobody has asked what that means?

H.M.Jr: No.

K: I see.

H.M.Jr: They can look at the dictionary.

K: (Laughs) Well, we have an inquiry from the Uruguans
 today.

H.M.Jr: Yes.

K: Well what about all these rumors about gold, so
 I have asked Cameron to get in touch with Lochhead
 and find out what the Treasury wants us to tell
 them.

H.M.Jr: Yes, well, he - he can quote this thing. He'll
 tell you.

K: (Laughs)

H.M.Jr: Tell him my story.

K: Well, I'm telling everybody I am convinced there
 are no - no changes -

H.M.Jr: Imminent.

K: Yes, I haven't got - I haven't got - I've been
 more definite than that.

H.M.Jr: All right. Okay. Thank you.

K: Okay.

4 Fin

June 1, 1937

For: Secretary Morgenthau
Prepared by: Mr. Seltzer *R.H.S.*
Subject: Some Alternative Bill Programs

I. Without Quarterly Concentrations
at Income-Tax Payment Periods

Alternative A: Introduction as of June 23 of a regular series of 3-months bills of \$50 millions weekly in addition to the present series of 9-months bills.

(1) The effect of such a program would be to convert our June and September concentrated bill maturities into a regular additional series of 3-months bills, thereby preventing a reduction of \$650 millions in the cash balance, and providing for a regular bill volume outstanding of \$2,600 millions, to be maintained by weekly offerings of \$100 millions.

(2) The bill volume of \$2,600 millions outstanding on June 3, 1937 would be reduced by June 18 to \$2,300 millions by reason of the mid-June bill maturities. During the next three months, however, we would pick up \$650 millions through the new 3-months bills, raising our outstanding bill volume to \$2,950 millions just prior to the mid-September bill maturities. By September 18, our outstanding bill volume would be reduced to \$2,600 millions, at which level it would be stabilized.

(3) Alternative A could be modified to great advantage if 6-months bills instead of 3-months bills were used between June and December, as described under Alternative B.

Secretary Morgenthau - 6/1/37 - 2.

Alternative B: Introduction as of June 23 of a series of 6-months bills of \$50 millions weekly in addition to the present series of 9-months bills, the new series to be replaced by 3-months bills, if then desired, after the middle of December.

(1) The effect of such a program would be not only to convert our June and September concentrated bill maturities into a regular series of 6-months bills, thereby preventing a reduction of \$650 millions in the cash balance; but, in addition, to raise \$650 millions of new money. It would provide for a regular outstanding bill volume of \$3,250 millions, to be maintained by weekly offerings of \$100 millions.

(2) The bill volume of \$2,600 millions outstanding on June 3, 1937 would be reduced by June 18 to \$2,300 millions by reason of the mid-June bill maturities. During the next three months, however, we would pick up \$650 millions through the new 6-months bills, raising our outstanding bill volume to \$2,950 millions just prior to the mid-September bill maturities. By September 18, our outstanding bill volume would be reduced to \$2,600 millions; but, during the next three months, it would be increased by an additional \$650 millions, to \$3,250 millions, at which level it would be stabilized.

(3) If, in the middle of December or subsequently thereto, it were desired to reduce the volume of outstanding bills, this could be accomplished, without immediate loss of cash, by substituting a series of 3-months bills for the 6-months bills. If this were done in the middle of December, no loss in cash would be sustained until after the middle of March. At that point, and for the following three months, bill maturities would be some \$150 millions weekly and bill offerings only \$100 millions weekly, resulting in a reduction in the outstanding volume of bills by \$50 millions weekly between the middle of March and the middle of June, to a level of \$2,600 millions, at which point this alternative would become identical with Alternative A.

(4) The obvious advantage of Alternative B over Alternative A is that the Treasury would obtain \$650 millions of additional funds at a time when they are needed. If, in December, it appears that funds will become available for debt reduction during and immediately after the period beginning March 15, and if it be decided to employ such funds for reduction of the bill volume rather than of other forms of the public debt, the mere substitution of 3-months bills for 6-months bills, as outlined in (3) immediately above, would reduce the level of bills to \$2,600 millions by the middle of June. Or, the same result could be

Secretary Morgenthau - 6/1/37 - 3

obtained by dropping the 9-months series, after the middle of the coming December, and thereafter confining our bill offerings to \$100 millions weekly of 6-months bills. In this case, the outstanding volume of bills would be reduced by \$50 millions weekly between the middle of June and the middle of September 1938, to a stabilized level of \$2,600 millions.

(5) It might be contended that the yield basis on which 6-months bills could be sold would not be significantly lower than that of 9-months bills, whereas 3-months bills might be sold on a very substantially lower yield basis. Unfortunately, there are no adequate up-to-date data which would permit a conclusive analysis of this point. Such data as we have, however, indicate that no clear case can be made for this contention.

On the six occasions between February 1935 and June 1936, when the Treasury made simultaneous offerings of 6-months and 9-months bills, the average accepted rates on the 6-months bills were lower than those on the 9-months bills by percentages varying from 21 to 39 percent of the rate on the 9-months bills. On the eight occasions between December 1936 and April 1937, when the Treasury simultaneously offered 273-day bills and bills of 92 days or less, the average accepted rate on the shorter bills was lower than that on the 9-months bills by percentages ranging from 22 to 68 percent. It may be significant that in the most recent of such joint offerings, that of April 7, 1937, the average accepted rate on the 72-day bills was only 22 percent lower than the average accepted rate on the 9-months bills.

A reasonable conclusion is that, although it is natural to expect the rate on a 3-months bill to be lower than that on a 6-months bill, it is by no means clear that the rate on a 6-months bill would not also be significantly below that on a 9-months bill.

II. With Quarterly Concentrations at Income-Tax Payment Periods.

Alternative C: Introduction as of June 23 of a series of 6-months bill issues of \$50 millions weekly on 6 or 7 of the 13 Wednesdays of each quarter and the offering on the remaining Wednesdays of each quarter of \$50 millions of bills maturing at the second following quarterly income-tax payment period, in addition to the continuance of the present series of 9-months bills of \$50 millions weekly.

Secretary Morgenthau - 6/1/37 - 4

(1) The effect of such a program would be to convert our June and September concentrated bill maturities into a continuing series of such maturities (the first two being for December and March concentrations), and, in addition, to raise \$650 millions of new money. The regular volume of outstanding bills would range from \$2,950 millions to \$3,250 millions, to be maintained by weekly offerings of \$100 millions.

(2) The bill volume of \$2,600 millions outstanding on June 3, 1937 would be reduced by June 18 to \$2,300 millions by reason of the mid-June maturities. During the next three months, however, we would pick up \$650 millions, partly through the series for quarterly concentration and partly through the new 6-months bills, raising our outstanding bill volume to \$2,950 millions just prior to the mid-September bill maturities. By September 18, our outstanding bill volume would be reduced to \$2,600 millions; but, during the next three months, it would be increased by an additional \$650 millions to \$3,250 millions just prior to the mid-December concentration, and reduced to \$2,950 millions immediately thereafter.

(3) This alternative combines the advantage to the money market of concentrated bill maturities, with that of providing new money of \$650 millions (in addition to, in effect, refunding the outstanding mid-June and mid-September bill maturities), and with those of limiting our weekly offerings to \$100 millions and of offering the market a shorter bill maturity.

(4) This alternative, like Alternative B, would permit us easily to reduce the volume of outstanding bills after the middle of March, by either substituting 6-months bills for the 9-months bills, or 3-months bills for the 6-months bills, beginning at any time after the middle of December.

III. Quarterly Concentrations of Maturities.

Alternatives A and B have to meet the objection that they do not provide for quarterly concentrations of maturities at income-tax payment periods to ease the money market stringency that may otherwise be incident to such periods. Several factors may be cited, though I do not believe conclusively, in answer to this objection:

Secretary Morgenthau - 6/1/37 - 5

(1) The management of the money market is primarily a function of the Federal Reserve authorities, who, by purchasing bills and other securities, are in a position to place into the market any funds that may be temporarily needed. The ability of the Reserve banks to perform this service is already ample, but it would be increased if Mr. Eccles' proposal for the establishment of posted buying rates for Treasury bills were adopted. In the latter event, banks could regularly look forward to the sale of Treasury bills directly to the Reserve banks, and the repurchase of them later from dealers, to supply their cash requirements for the few days each quarter.

(2) The Treasury now has note maturities on three out of the four principal income-tax payment dates of each of the calendar years 1938 to 1941, inclusive. These note maturities can perform the same function as concentrated bill maturities if partial note redemptions are made at each such maturity.

(3) Offerings of 3-, 6-, 9-, or 12-months Treasury certificates of indebtedness can be made, to the extent that may be desired, to mature at quarterly income-tax payment dates. Such certificates would be purchased in part by corporations which intended to proffer them or their proceeds in payment of income taxes, and they would also be attractive to many interior banks which do not purchase bills.

While certificates of indebtedness maturing on the fifteenth of each of the four principal income-tax payment months may meet the money market's requirements, they do not serve the Treasury as well as bills. The Treasury must redeem these certificates on the fifteenth, but its heaviest income-tax receipts become available only after a lag of a day or two. Treasury bills permit an easy adjustment to this fact because their maturities may be spread over several days.

Prior to the Banking Act of 1935, it was possible to meet this problem by having the Federal Reserve banks purchase from the Treasury 1-day certificates of indebtedness, which were partially renewed for several days, the proceeds of these certificates being employed to meet the maturing obligations -- these certificates being retired as checks representing the concurrent tax collections were finally cleared. This is apparently no longer possible because of the new prohibition in the Banking Act of 1935 against Treasury borrowing from the Reserve banks. Theoretically, it would still be possible for the Treasury to offer 2- or 3-day certificates of indebtedness or bills for public subscription, with the New York banks probably absorbing them.

Secretary Morgenthau - 6/1/37 - 6

In favor of concentrating maturities of Treasury bills or other short-term obligations at income-tax payment periods, the following factors may be cited:

(1) Although the management of the money market is primarily a function of the Federal Reserve authorities, they may properly ask the Treasury to cooperate with them. Since a considerable fraction of the Treasury's receipts is concentrated in any event at the four principal income-tax payment periods, it is not unreasonable that the Treasury be asked to concentrate a portion of its payments at such periods in order to help preserve the stability of the money market. Such a coordination of concentrated receipts and concentrated payments reduces the fluctuations in the Treasury's balance with the Reserve banks, and thereby minimizes the effects of such fluctuations upon the money market. We have been doing much in this direction by using the fifteenth of each of the four principal income-tax payment months as the date of the issuance of new and refunding notes and bonds, thereby making interest payments due on these dates. Our interest payments on each of these four dates are now running at around \$150 millions.

(2) Treasury bills and certificates of indebtedness may be considered, in part, as tax-anticipation obligations. Even on a balanced budget or budgetary surplus basis, the Treasury has found it necessary or convenient to borrow for short periods in anticipation of income-tax receipts. When the maturities of such obligations are arranged to coincide with income-tax payment periods, the Treasury is enabled to maintain a smaller average cash balance, and thereby to avoid an unnecessary interest cost.

While quarterly concentrations of bill maturities inevitably create substantial fluctuations in the volume of outstanding bills, it is important to note that they normally result in a maximum volume at times when the Treasury's cash needs are greatest, and that the periodical reduction in this volume normally takes place at times when the Treasury's immediate needs are at a minimum.

V. Conclusions

The three alternatives discussed above by no means exhaust the possible bill programs, but they present several of the more promising possibilities. On the whole, the conclusion of this analysis is that the Treasury's bill program should preferably provide for quarterly concentration of bill maturities. On this basis, Alternative C, because it would provide some \$650 millions of new money, would be preferable to a continuation of our recent practice of offering \$100 millions of bill issues only some weeks of each quarter. As between Alternatives A and B, however, I should greatly prefer Alternative B, because it, also, would provide \$650 millions of new money.

MEMORANDUM

June 1, 1937

To: Secretary Morgenthau
From: Dr. Burgess

Treasury bond prices tended lower today but there was little activity. The market closed approximately at its lows, with quotations generally 2/32 to 5/32 off relative to last Friday. In the guaranteed group, F.F.M.C.'s were off generally 1/32 to 5/32 and the H.O.L.C.'s 4/32 to 5/32. Turnover of Treasuries and guaranteed bonds on the board was \$551,000 compared with \$755,000 last Friday. Note market was quiet, and easier in the afternoon, the long maturities closing generally 2/32 down from last Friday.

Domestic bonds were dull and price changes were small. High grades for the most part remained steady at Friday's levels; second grades were quoted small fractions off. Communication and traction bonds were easier.

There was fairly active trading in foreigners. On sales, German bonds were off fractionally to 4 points; Italians were off fractionally to about 1 point, and Japanese bonds were fractionally off. Argentine bonds were strong. The rest of the list was approximately unchanged.

No purchases for Treasury today.

June 1, 1937.

48

Mr. Eccles, Mr. Ransom, Mr. Taylor and Mr. Upham had lunch with the Secretary of the Treasury.

Mr. Morgenthau told Mr. Eccles and Mr. Ransom, suggesting that the information be not passed along to their Board at this time, that the Bank of England now advises us that gold dishoarding has just about exhausted the gold hoarding and that they expect to see an end to gold dishoarding in about two months.

Mr. Taylor expressed the view that the Bank of England is overoptimistic in this particular.

Mr. Eccles wondered if the British were buying dishoarded gold and Mr. Morgenthau said that they were taking some gold although what they took yesterday they passed along to us.

Mr. Morgenthau spoke of a proposal which has come from Trip of Holland, presumably for some control over gold production and Mr. Taylor told Mr. Eccles that it was similar to a proposal which had come to the Federal Reserve Board from Belgium.

Mr. Eccles and Mr. Ransom said that this communication which had come to the Federal Reserve Board, and about which they had consulted the Treasury was historic in that it is possibly the first which has been addressed to the Federal Reserve Board in Washington rather than the Federal Reserve Bank of New York.

There was some discussion of the increase in foreign bank balances in this country and the desire on the part of central banks to hold foreign exchange rather than gold. Recent action along that line by the Bank of Switzerland was discussed and Mr. Morgenthau indicated that Mr. Cochran is in Switzerland today making inquiries about the situation.

-2-

Mr. Morgenthau told Mr. Eccles that Mr. Taylor is making a thorough study of the things that can be done about gold and hot money and as soon as the June 15th financing is out the way we will consult with the Federal Reserve on that. In the meantime he suggested that he would appreciate it if Mr. Eccles told those to whom he talks that he sees the Secretary frequently and the Secretary is not at all worried about gold.

There was some discussion of the President's message today on tax evasions and Mr. Morgenthau told them that the President had taken a greater interest in this and had devoted more attention to it than anything for a long time.

Mr. Morgenthau said that he is looking for a young lawyer of the type of Pecora to conduct the tax investigation. He says it ought to be conducted as a prosecution rather than a persecution, and he thought it was difficult to find just the right man.

There was some discussion of housing and Mr. Morgenthau indicated that he had hit upon an idea for temporary procedure -- which would continue for two or three years longer the housing unit of PWA and which would at the same time make grants to state housing authorities. He indicated that Senator Wagner is coming to the Treasury today and he hopes to sell the idea to him.

On the financing, the Secretary indicated that most of the talk is about two notes, one for two years and 3 months and the other for five years. He stated after the June 15th financing is completed and before we take up the gold matter he wants to discuss with the Federal Reserve the matter of bill issues. He favors tentatively, running two series, one for 9 months and one for 90

days.

Mr. Eccles said that he would send to Mr. Taylor a 15 page memorandum on gold which has been prepared by Mr. Gardner.

Upm.

June 1, 1936

HM, Jr told Miss Roche today that their little school up in the country has no sanitary water supply. He would like to have Public Health put on a campaign of building sanitary water systems for rural schools. He stated that he would not be surprised to know that as many as 10,000 rural schools throughout the country were using surface well water. He would like a report on it within two weeks. He said if any trouble develops he himself would be delighted to take it up personally with Harry Hopkins.

June 1, 1936

HM, Jr sent for Bell and said, "I met Harry Hopkins at the station and discussed the relief bill with him. I said to Harry, 'If the Relief Bill goes through, you will want to come in and see Bell and me'. Harry answered, "No, that is out of my hands now and up to Ickes because he has \$500,000,000 out of that bill. They have raised it from \$250,000,000 to \$300,000,000 and I have to pay him back the \$250,000,000 that I was supposed to have borrowed from him.

HM, Jr asked Mr. Bell to give him a memorandum by noon so he could discuss this with the President.

The Secretary then reminded Bell that the President had made three separate recommendations in his Budget message to Congress. He asked Bell to find out if Congress had taken any action on carrying out these three recommendations and to let him have a memorandum on this also so it could be brought to the President's attention.

HM, Jr then referred to the appropriation of \$100,000,000 to be taken out of Customs receipts for the use of Agriculture. He inquired if that law could be changed so it could be used for Rural Electrification and Flood Control. Bell said the \$100,000,000 was not in the Budget because they felt sure Congress would not possibly approve it or allocate it to Agriculture. Therefore, if Congress did approve it, the Budget would be in the hole by that amount, so in any case the funds would not be available for Flood Relief. HM, Jr then said, "In that event, we certainly should bring the matter to the President's attention."

He also asked Bell for a memorandum of how the President's budget picture was out of line and what had caused it, so they could bring it to the President's attention and see what could be done to adjust it.

FS

GRAY

London

Dated June 1, 1937

Rec'd 1:35 p. m.

 53

Secretary of State,
Washington.

331, June 1, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

Questioned in the House of Commons this afternoon whether he would propose control of the output of gold or alternatively discuss its demonetization as remedy against the dangers following accumulations annually of 250,000,000 pounds of fresh raw gold which two signatories to the tripartite agreement are now compelled to buy and put out of use to prevent unsettlement of trade the Chancellor of the Exchequer replied "the answer is in the negative". Further asked whether he realized that he ought not to allow the matter to drift Sir John Simon said "matters of importance are under constant observation".

Contrary to the report current here I am authoritatively informed that the British authorities have not (repeat not) approached the South Africans with a view to arranging for reduced output of South African gold.

The

FS 2-No. 331, June 1, 7 p. m. from London

The London Stock Exchange was virtually inactive today. But the bullion market experienced one of the largest dehoarding days - 641 bars being sold at fixing. There were no buyers after fixing and no business could be done in futures.

CSB

BINGHAM

RECEIVED
JUN 1 1931
TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON, D. C.

JUN 55 1937

Copies of Cables and extracts from Cables received from Butterworth,
London

Cable No. 172
March 25, 1937

"In the course of a discussion of the prospects of an inflationary boom, Clay said that several thoughtful continentals had inquired whether any consideration had been given in London to the possibility of using a reduction in the price of gold as an instrument of control. He said in fact there had been some informal consideration of it here and he wondered whether similarly it had been considered in Washington for, of course, under the tripartite monetary arrangement no action could be taken individually. Clay said personally he thought the possibility of say a five per cent reduction in the value of gold deserved serious consideration. In the first place, it was hard to believe that Great Britain and the United States would continue indefinitely to absorb the world's now enormous gold production which was increasing all the time and that a five per cent reduction in price would no doubt be a salutary check to the gold boom. Secondly, it should be a check to the type of boom activity which might need such attention; it was, of course difficult to prejudge the effect any such action would have for the whole world had become slump and boom conscious and nearly everyone was attempting to beat the market in one way or another with the result that fluctuations occasioned by actions or events were accentuated; it was therefore possible to engineer a depression in attempting to avoid a boom. Clay said that for this reason he mentioned a reduction by such a moderate amount as five per cent."

Cable No. 189
April 2, 1937

"During a conversation at the British Treasury, Waley mentioned that Arakawa, the Financial Attache of Japan accredited to London and Paris as well as Washington, was in this country. In the course of a luncheon, Waley said, Arakawa had indicated that he wished to call at the British Treasury in the near future to discuss the possibility of Japan adhering to the six-power monetary arrangement. According to Arakawa, the authorities in Japan intend to hold the yen stable and they were favorably disposed to adhere to the agreement. Arakawa had not yet made

a visit to the British Treasury, but Waley said the sudden general election in Japan might of course alter his intentions.

"My contact said that for his part he would welcome the adherence of Japan to the tripartite monetary agreement, that he did not know his "political geography well enough to say whether Japan belonged to the Italo-German axis", but he did believe that the monetary arrangement had political democracies associated with it too much, and to have a non-democratic adherent would be a healthy thing. In addition, he said it seemed that Japan had garnered what it could from the anti-comintern pact with Germany, and might now find it suitable to take the contemplated step, for political as well as economic and financial reasons.

"Re the last paragraph of my 172, March 25, 9 p.m., we also discussed in a casual way - without reference to Clay - the question of reducing the value of gold. Waley dismissed the idea, saying that it was interesting but probably beyond the realm of practical politics. He said it was always difficult to retrace one's steps, and usually to explain them away to members of parliaments and senates was impossible."

- - - - -
Cable No. 206
April 9, 1937

"Waley also mentioned Arakawa, Japanese Financial Attache, had not yet come to see him regarding the tripartite monetary agreement (see my 199, April 2, 5 p.m.) and he therefore assumed that due to the election in Japan the matter would remain in abeyance. Waley specifically inquired whether the Japanese had approached the United States in this regard."

- - - - -
Cable No. 222, April 16, 1937

"He, (Waley), 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 Philippe, 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."

- - - - -

Cable No. 341
April 23, 1937

"At the weekly meeting at the British Treasury today, I conveyed the information which was given me in the telephone conversation of April 19th on Japanese financial approaches in Washington, and Phillips stated in reply that he had seen Arakawa since the latter's conversation with Waley and that he had found him very vague. Arakawa had made no mention of the tripartite monetary agreement and asked a number of questions and had given no information in return. Phillips said he could only conclude that Arakawa had no instructions to do anything specific and was merely 'nosing around for information on the price of gold'.

"I also mentioned that I had heard that the views which he had been good enough to make known in last Friday's meeting had been read with interest in Washington, particularly his offer to exchange at any time views on the general situation created by the increase in the quantity and value of gold. The American Treasury was, of course, also willing to exchange views at any time; however, the important question of ways and means immediately arose since the related problems were so complicated that they did not lend themselves to cabled instructions. Phillips said that he understood that point of view; that it was desirable to keep the matter in the back of one's mind for it was not pressing - there was no need of precipitate action."

- - - -
Cable No. 265
May 4, 1937

"I venture to mention, as of possible interest, that the tenor of Phillips' conversation left me with the feeling that the British authorities are more aware now than ever before of the importance to the United States of the problems connected with the incoming gold, and that they wish to indicate a cooperative attitude to us. It is not altogether clear whether this is merely to play for time or to play for active cooperative action."

- - - -
Cable No. 301, May 21, 1937

"Phillips asked whether we had any information regarding the reasons for the recent Japanese gold shipments to the United States and he said that he knew of no adequate reason why they should ship gold particularly at this time and he queried why Japan's balance of payments should require gold shipments now when their export trade was at its all time high. Phillips then mentioned that Argentina had been absorbing amounts of gold and he inquired as to Brazil which he felt also ought to be in a position to do likewise. I then thought it opportune to ask him about the Empire countries and he replied that South Africa had of course increased its holdings considerably and no doubt would continue to do so; that Australia and New Zealand had reduced their gold holdings and in the case of Australia she might not be able to afford to hold increased

-4-

quantities of gold. As for Canada 'she handles that question herself'. Philippe also mentioned that the British had recently bought considerable quantities of gold from time to time and in reply to a question he said that the best estimate he was able to get some weeks ago about the amount of hoarded gold remaining in London was one hundred thirty million pounds but it was very difficult to obtain an accurate figure."

Cable No. 313
May 27, 1937

"Likewise in a luncheon conversation with Leith-Ross today he volunteered that in his opinion the British financial and industrial community was not yet prepared for de jure stabilization since they still somewhat associated the gold standard with high interest rates and deflation but that conception was waning. Feeling was becoming general that some further step implementing the tripartite monetary would be welcome. He emphasized that the immediate gold problem was one of distribution and in particular stressed the fact that France having lost some 500,000,000 pounds of gold in the past four years an improvement in the French situation would bring an immediate alleviation in the gold position and in general his approach was not dissimilar to that revealed in the conversations with Philipps and Waley.

"Leith-Ross also said that the eventual problem, namely, whether the world could absorb its current gold production could not now be ascertained or dealt with but if it was seen at some future date that the world could not absorb current production satisfactorily an agreement encompassing all the important trading countries would then have to be negotiated so that they might simultaneously reduce the value of gold without disturbing their relative exchange rates.

"It might be useful in this connection to summarize certain points brought out in various conversations with British Treasury and other officials:

"First, The British, it would seem do not wish any precipitate action to be taken. They are by no means convinced that eventual gold price reduction will be absolutely necessary, although such action is regarded as inevitable by such individuals as Clay of the Bank of England and Hawtrey of the Treasury. The British authorities do feel, as remarked by one highly placed governmental official in a private conversation, that 'the United States is holding the gold baby while England is merely supporting a leg'. They are fully aware that at some point the United States may find it difficult to bear the double burden of paying interest on the bills for sterilizing gold while giving Russia and other countries (omission) thus building up bank balances in New York, and I O U in terms of gold on future American goods and services at such reduced prices. They want to indicate, at the same time, that they are taking a more active part in bearing a share of the burden of sterilization by increased purchases of the excess gold offered on the market. (Reference is made to my telegram No. 301 of May 21.)

-5-

"Second. A continuance of the price rise, with 1939 the desideratum level, is favored by the British Treasury. (Reference is made to my telegram No. 265 of May 4.)

"Third. Hope is still held out by the British Treasury that other countries besides those adhering to the tripartite monetary arrangement will increase their holdings. In this connection reference presumably to the remarks regarding Argentina, Brazil, and Japan in my telegram No. 301 of May 21.

"Fourth. The hot money question they regard as having been absorbed in the more inclusive gold question about which they offered to undertake detailed discussions with the United States. (Reference is made to my telegram No. 222 of April 16, paragraph three.) The gold problem, they believe, is now receiving active attention in Washington, and the United States is in the process of formulating the policy it will follow. I might add, incidentally, that any action regarding hot money, such as an increase in the withholding tax if Washington took action without prior consultive discussions with Great Britain, would not in the given circumstances be understood in London."

- - - -

Cable No. 315
May 28, 1937

"Appreciate receiving your telegram of yesterday, the substance of which I conveyed to the British Treasury at a meeting with Philipps, Waley and Bewley today. Philipps said that he was most interested to have this information, that whereas he must admit that he was not fully acquainted with the Japanese position, nevertheless, he could not help feeling that it was not as bad as they were inclined to make out.

"Waley remarked that this meeting was most timely since Arakawa had without prior notice called to see him yesterday when he was out. He assumed that Arakawa now wished to take up the question of the possibility of Japan adhering to the tripartite monetary agreement (my 189 April 2, 5 p.m.) and in turn he did not wish to be particularly specific with Arakawa without prior consultation with us. The question was if Arakawa asked whether Japan would be welcomed as a member of the tripartite agreement could one say 'yes'? At this point Bewley interposed to say that he had understood from Arakawa that Arakawa had discussed this matter at the American Treasury in February and had received the impression that inasmuch as Japan had no equalization fund and had instituted a system of exchange controls she was inadmissible from the American point of view. Waley queried were there two aspects of the tripartite monetary arrangement, viz., the declaration of principles of September and the gold arrangements of October? Therefore was it not possible for Japan to adhere to the September declarations even though she had exchange control? He referred to the Rome-Berlin axis in much the same terms reported in my 189 of April 2, 5 p.m., and said that there was an added advantage since such an adherence might act as a deterrent toward further depreciation of the yen. On the other hand, the tripartite monetary agreement had helped to keep the French away from exchange control and the admission of a country with exchange control might

-6-

have the disadvantageous effect of weakening the French position. In this connection Waley emphasized that America's position was somewhat different from Great Britain's because of the free gold market here but at the same time there was no desire here to move except in concert.

"I agreed to obtain information regarding the American attitude and I mentioned that inasmuch as Monday was a holiday it would be difficult to receive it before Tuesday. Pressed for my personal opinion I said that my instinct was to look upon the September and October arrangements as a unit and that aside from the disadvantage mentioned by Waley it hardly seemed an appropriate time to weaken the tripartite monetary arrangement especially as the benefits of Japanese adherence were completely intangible. Philipps expressed agreement with this view and said that if he were convinced that there is any serious danger of Japan's further depreciating the yen in the near future he 'would be willing to consider doing almost anything that might stop it' but he could not feel that the danger was real at present and that he too felt that nothing should be done to weaken the tripartite monetary arrangement if it could be avoided. He concluded by saying that the weakness of the yen was fundamentally due to the weakness of the Japanese budgetary position which in turn was caused by excess armament expenditure."

OFFICE CORRESPONDENCE

DATE June 1, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM: L. W. Knoke

WITH BANK OF FRANCE.

Mr. Knoke called Mr. Cariguel at 11:30. He thought European markets were excited yesterday because of the renewed gold rumors rather than because of what had happened in Spain. However, the dollar market in London, which had been considerably upset yesterday, was much quieter today.

With reference to the gold rumors, I ventured to repeat that, as I saw it, there was no change in the situation whatever and that the idea of a change in the gold price was simply not in the cards. Cariguel replied that it was unfortunate that some people, possibly for their own purposes, kept these rumors alive and always managed to find a following because of the credulity of the masses. I pointed out that, after all, we were continuing to buy gold at the rate of \$50,000,000 a week which should really be sufficient answer to those who were in doubt as to our plans.

With reference to the French Fund's operations, Cariguel said that on an average he was losing about 25,000,000 francs worth of foreign exchanges a day. Yesterday had been very quiet in Paris; today, as things looked at the moment, he might even gain a small amount. The French security markets were weak, with a downward tendency; gold mining stocks were almost unsaleable, partly because even at present levels prices were still too high and partly because London seemed unwilling to take them just now; the French bond market was very poor; the last small Colonial Issue received very poor assistance from the public. The 1937 Defense Loan was being quoted about 92.

FEDERAL RESERVE BANK
OF NEW YORK

62

OFFICE CORRESPONDENCE

DATE June 1, 1937.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATIONM L. W. Knobewith BANK OF FRANCE.

- 3 -

The Russians, since the middle of last week, had sold him an additional five tons of gold on the same conditions. I asked whether they were living up to the terms of the contract better than in the past and Cariguel hinted that in that respect there was still room for improvement. Nevertheless, he felt it very desirable that direct relationships be maintained between central banks, particularly with the Russian bank which simply could not be ignored.

GW
LWK:KMG

OFFICE CORRESPONDENCE

DATE June 1, 1937.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATIONFROM L. F. KnocksWITH BANK OF ENGLAND.

I called Mr. Bolton at 10:40 today. The exchange market was very much quieter today, he said. Early this morning he had sold a quarter of a million dollars when the rate went to just over 4.92. It very soon developed, however, that those who had accumulated dollar balances expecting further trouble in the Mediterranean, felt disappointed and began selling out, with the result that the rate went back to 4.93. On the other hand, the gold market today repeated its nervousness of yesterday and the Fund took a total of £3,400,000 (£1,800,000 from the market and £1,600,000 from central banks - South Africa - and one or two other people).

Russian gold shipments to England still stood at £50,000,000. He understood, however, that they might send another £5,000,000 and that, after that, there would probably be a long break. However, one's information about Russia was very fragmentary. I mentioned that we had now received formal request to open an account for the Russians. The Bank of England was more or less at arms length with the Russians, Bolton said. Through their agents in London they bought some gold from time to time but it did not amount to much.

Dishoarding of gold, he thought, would continue until the bulk of it was out of the way. There seemed to be nothing now that was going to stop that as hoarders had definitely given up the expectation of ever getting a higher price for their metal. I suggested that dishoarding was not a disaster in itself. Bolton agreed and thought that it would not last very much longer than a few months if it continued at the present clip.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 1, 1927.

CONFIDENTIAL FILE

SUBJECT: TELEPHONE CONVERSATION

FROM: L. V. Knake

WITH BANK OF ENGLAND.

- 2 -

I inquired what dollars he planned to use against his sales of yesterday; he replied he was afraid he would have to work under our standing order as he had no other means of raising dollars.

LWK:KMG

RECEIVED

JUN 5 1927
TREASURY DEPARTMENT
Office of the Director
Financial Section

FEDERAL RESERVE BANK
OF NEW YORK

Mrs. Lockheed

65

OFFICE CORRESPONDENCE

DATE June 1, 1937.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM L. W. Knobe

WITH BANK OF ENGLAND.

I called Mr. Bolton at 11 a. m. yesterday. The chances that the Spanish attack upon a German battleship and the retaliatory action taken against Almeria by a German squadron would lead to a general explosion, he thought, were small. Nevertheless, the incident was, of course, unfortunate because it was bound to add to the general bad temper. The immediate effect of these developments in Spain upon the foreign exchange market had been a renewed demand for dollars, particularly from Paris and Amsterdam, with supplies dwindling. Under the circumstances the British Fund had felt called upon to sell dollars all day long. The total so far sold was \$11,000,000.

As regards the gold market, the offers in the market at time of fixing had been about \$8,000,000 and the Fund had taken it practically all. Business after fixing had been small. Disharding continued at the same pace as before, that is from £500,000 to £1,000,000 per day. If this pace were maintained the gold hoarded in London would be sold in a few months and the problem would thereafter be gradually simplified. Meanwhile, he thought all they could do was to carry on as heretofore.

GW
LWK:EMC

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: June 1, 1937, 1 p.m.

NO.: 212

FOR BUTTERWORTH FROM SECRETARY MORGENTHAU.

Re telegram No. 315 from the Embassy.

Before we reply to the British Treasury about the attitude of the United States towards the possible addition of Japan to the Tripartite Agreement, we believe it is only sensible to withhold comment until the British or ourselves have actually been approached by Japan.

HULL.

RECEIVED
JUN 2 1937
TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON, D. C.

MEETING RE NEW HOUSING PLAN

June 1, 1937
2:30 P.M.

Present: Mr. McReynolds
Mr. Opper
Mr. Lindau
Mr. Foley
Mr. Krug
Mr. Gray
Mr. West

H.M.Jr: Mr. Gray, do you suppose that you could bring this (PWA projects book) up to date for me, so I could show it to the President tomorrow? Take a look at it. The very latest there, I think, is March 1. . . See what we've done?

Gray: This is all our work.

H.M.Jr: Yes. And he (Lindau) is behind on that. I understand you've sent up stuff as late as May 3.

Lindau: Mr. Stevenson informed me you had sent late figures up to the Appropriations subcommittee and that they would release them right away, and he didn't have a copy available.

H.M.Jr: "ould you (Gray) give me a cut-off date - May 15 or May 1?

Gray: I think we could, yes, sir.

H.M.Jr: What date was that - the hearing?

Lindau: He said the figures were as of May 3.

H.M.Jr: Well, May 3.

Gray: Well, we could make it May 3 very easily.

H.M.Jr: Could you, for me, so I could have it tomorrow morning?

Gray: In the same way?

H.M.Jr: Just take this book and bring it up.

McR: That's the boss's copy. If you could just bring that up-to-date....

Gray: I'll bring this up-to-date.

-2-

H.M.Jr: Send it to Mr. McReynolds.

Gray: I'll send it to Mr. McReynolds in the morning.

H.M.Jr: I don't believe the President has ever seen the thing. He may start arguing with me about your work, and I had it prepared in a way that I thought was a good way to sell it to him.

Gray: Well, I can bring all this up for you, right up to the last information. What time do you want it back? By ten o'clock?

H.M.Jr: If you will. He wants to take a look at it because that's the whole thing.

Foley: Would ten o'clock be all right for the summary?

H.M.Jr: Yes

Foley: There is the more recent draft of it.

H.M.Jr: Incidentally, you gentlemen might be interested to know that I had Mr. Eccles for lunch - we lunch together every week - and Mr. Ransom, and I described what we were proposing. He's tickled to death - the best suggestion he's heard, "common sense," and he's for it, and so forth and so on. You know, he's taken a great interest in this housing and he thinks it's fine.

West: Uh-huh, that's good.

H.M.Jr: And the only question he raised, and I said that was for lawyers, was this question: if you had to repossess, what would you do? I mean how would you - would the bondholders do it if we sold the bonds, or the Government? Could they jack the rent if they repossessed on the thing?

McR: The boys modified this memorandum slightly in a way that helps that situation. In other words, as I understand, they are now proposing that the whole thing be a bond issue, be sold, not 40 percent, but for the whole thing. Then you cancel out each year instead of collecting....

Foley: That's a way of gaining....

-3-

- McR:which would leave you in control. They're really in possession; they've got to pay all their bonds unless they live up to their agreement.
- H.M.Jr: That would overcome this?
- Foley: That is the effective control that you get through the present Wagner bill, without having the disadvantage of an annual appropriation from Congress.
- H.M.Jr: Well, let me ask you - I wanted to read it first - let's say a million dollars worth of bonds and you issued four hundred thousand; is that what you propose?
- Foley: No. The project would cost a million dollars. The New York City Housing Authority would issue to the Government a million dollars worth of bonds; then you determine what the grant would be and divide it over the period of the loan, and then you would cancel that amount of bonds each year, provided they operated the project in a manner entirely satisfactory to you. You divide - if the grant was 60 percent.....
- H.M.Jr: Six hundred thousand.
- Foley:that would be six hundred thousand dollars. And if the bond issue was for a period of sixty years, then you would cancel - what is it - ten thousand dollars worth of bonds every year.
- H.M.Jr: Ten thousand?
- Opper: Yes, 60 into 600,000.
- H.M.Jr: Well - the grant, I see.
- Opper: And the other 40....
- Foley: And they'd advertise the other portion.
- H.M.Jr: They pay interest on the whole?
- Foley: No, just on the 40 percent; but if they didn't behave, they'd have to pay interest on the whole business.
- H.M.Jr: And you'd amortize one sixtieth each year and in that

-4-

way keep a string on it.

- Foley: That's right. But from the standpoint of the fellow who has some of the 40 percent bonds, there is no fear that you'd sell the other 60; it's not like - it's like unissued stock.
- H.M.Jr: That's right, Treasury stock.
- Foley: Yes. But you'd have the authority.
- H.M.Jr: I know.
- Krug: It would be tied up in an agreement pursuant to which you would have to cancel a certain amount of those bonds in each year that the low-rent character of the project was maintained, and the bondholder would....
- H.M.Jr: But the Treasury stock couldn't be sold.
- McR: It couldn't be sold, but you could collect on it if they forfeited their.....
- H.M.Jr: Sounds all right.
- Foley: We worked out the grant with PWA that way, Mr. Secretary.
- H.M.Jr: You have?
- Foley: We worked.....
- H.M.Jr: I never heard of this way.
- Foley: We worked it out in that Sanitary District out in Chicago.
- McR: They stuck it in last night on us. I think it's a swell idea, because it solves your repossession problem raised by Eccles.
- H.M.Jr: That's the only thing Eccles could put the finger on.
- West: The fact that he's for this would be most helpful, because he is known all over as a housing advocate.

-5-

- H.M.Jr: Don't you think so?
- West: Yes, I do.
- H.M.Jr: He said it's the only decent suggestion he's heard, that he'd be willing to O.K. - he said he'd underwrite that.
- Foley: The bondholder never would have the right to foreclose and have the property sold to satisfy a deficiency judgment, and thereby have the property get into the hands of private real estate interests.
- H.M.Jr: This overcomes that?
- Foley: Not only that, sir, but the indenture that we would take to secure the obligations we'd purchased in the first instance would also cover that. We don't need to foreclose; we don't take a forecloseable mortgage.
- H.M.Jr: You don't?
- Foley: No, sir - on any of this stuff, because the purpose of the grant would be defeated if the bondholder could have the property sold and title would pass to private interests and they'd operate it for profit.
- H.M.Jr: "A permanent housing administration should be created, with all of its powers vested in the Secretary of the Interior. Since the primary purpose of a corporate housing agency was to provide an instrumentality for the issuance of bonds guaranteed by the United States, there is no need for such a corporation if funds are to be provided by appropriations."
- Why do you say there is no need for such a corporation?
- Foley: The reason I said that, sir, is because I thought that the only purpose that could be served by having the attributes of a corporation would be to incur indebtedness.
- H.M.Jr: Would you mind - what you're doing here is you're arguing here, aren't you, against the Wagner bill?
- Foley: (Nods yes)

-6-

- H.M.Jr: So let's do it - if that's the way you've set it up, I think you've immediately given it a - if you don't mind, if that's the way it's done, I'd ask you to do it verbally and don't mention the Wagner bill. I mean he's going to come back and say we do need it, and then we're in an argument. I mean we won't use this memorandum. Do you follow me?
- Foley: (Nods yes)
- H.M.Jr: I'll say, "Now, we worked out something entirely new, Senator, and I'll ask Mr. Foley to explain it." I mean don't let's get into "This is better than the Wagner bill." See? Do you follow me?
- Foley: Oh, surely.
- West: I think the psychology is better; that's what I'm thinking of.
- H.M.Jr: See, he stops and says, "Why is it better?" Then I get in an argument.
- "The Housing Administration should be created as a separate administration, so as to facilitate its transfer at a later date pursuant to any plan which may be enacted for the reorganization of the executive departments of the government.
- "The housing bill should transfer to the Administration the Housing Division of the Public Works Administration (including all its assets, equipment, records and employees) and should also authorize the President to transfer to the Administration any other bureau or division of the Federal Government that is engaged in low-rent housing or slum clearance activities."
- Now, what you're doing in One is to set up a new administrative agency.....
- Foley: Yes.
- H.M.Jr: ...which would be under Interior, known as....
- Foley: Give it the same name - you could give it the same - "United States Housing Agency." He calls it "Housing

-7-

Authority"; you can call it "Housing Authority" or "Housing Agency" - "United States Housing Agency."

H.M.Jr: Now, take in the low rent housing; that would take the stuff which used to be with Tugwell and now is with Agriculture; would that take that?

Foley: I don't....

Krug: It would authorize the transfer of that. If the President saw fit to transfer people in Resettlement and the projects in Resettlement relating to low rent housing, those could be transferred.

H.M.Jr: Well, I'll argue with you; I don't know why you want it.

Foley: We don't want it. I mean there wasn't any - we didn't have that in mind.

Gray: No.

Foley: They took those Resettlement projects away from us, or the subsistence homesteads from us; we were awfully glad to get rid of them.

H.M.Jr: Do you mind - I mean I'll argue with you afterwards - I'd leave that reference out in your verbal thing. See? In your verbal explanation. I haven't got time to go into it.

"2. Loans and Grants - Local Contributions. Grants of not to exceed sixty per cent of the cost of the project would be authorized to be made to public housing agencies. As a condition to such Federal aid, the bill would require that the proposed project be given full exemption from state and local taxation, although not from special assessments and customary service fees. Such tax exemption would constitute a substantial contribution by the locality toward assuring the low-rent character of the project, for full taxation of a housing project in a municipality would amount to a monthly charge per room of from \$3 to \$5."

Foley: Almost as much as that annual subsidy that the Wagner bill provided.

-8-

H.M.Jr: Well, if you don't mind, let me deal with that my way. Then when they begin to get technical, I'll throw it to you.

Foley: I think that would be better than....

H.M.Jr: And then it doesn't make the Interior advocate something for itself.

West: That's all right.

H.M.Jr: How's that, Charley?

West: That's fine.

H.M.Jr: That's interesting, that it's equal to \$3 to \$5 per room.

Foley: Per room per month.

H.M.Jr: That's surprising. Hell, that takes care of a lot, doesn't it?

Gray: Impossible to do this otherwise.

Foley: It isn't possible to do it without that.

West: That's what we're doing to cut down the Federal subsidy.

H.M.Jr: It's marvelous.

Could you, Mr. Gray, take a definite project and do it - have you got any one that you have been on long enough that you could say, "Well, we've worked out a city and this is in dollars and cents; we're not guessing at it."

Krug: We have it on four projects - four different cities.

Foley: I've got it right here.

H.M.Jr: Well, in my book put it on a pink-colored sheet or blue sheet.

Gray: In this book.

H.M.Jr: Yes. You (Lindau) haven't got that in there.

Lindau: No.

-9-

- H.M.Jr: Just put it on a different-colored piece of paper.
- Gray: In the back of the book.
- H.M.Jr: No, right where the project is. I mean have the pink sheet right where that particular project is.
- Gray: Yes, sir.
- Foley: We can do that.
- H.M.Jr: "Loans would be made to local public housing agencies, which would have the full responsibility for acquiring the land, constructing and operating the projects. Such loans would be amortized over a period of not to exceed sixty years and at an interest rate of not less than three per cent." Taking a minimum rate at three?
- Foley: That's right. I thought that's what you said.
- H.M.Jr: I said a flat three. You mean and no top on it then?
- Foley: That's right.
- H.M.Jr: Yes.
- Foley: I mean if it would make your bonds more marketable to get four and it wouldn't affect your rents, you would want to get that, wouldn't you?
- H.M.Jr: Well - I mean I want to get through, I can't argue it. Isn't one percent amortization a year - how much does that run off?
- Lindau: Depends on the interest rate. If you take two and a half percent, it takes about three-quarters of one percent for amortization.
- H.M.Jr: And a three percent rate - what's the table?
- McR: Three percent rate will amortize a little over fifty years - no, three and a half.
- H.M.Jr: Three percent rate, amortized one percent a year. Well, I'll go on.
- "The Administration should have some way of assuring that public housing agencies which have received

-10-

Federal assistance will operate their projects for the benefit of the low-income group. While the state housing laws contain provisions requiring public housing agencies to operate their projects in this manner, it may be advisable to obtain additional assurances that the low-rent character of such projects is maintained. Perhaps the most effective means of control would be to authorize the Federal Administration to make all or a part of its grants through the cancellation of bonds. Thus, instead of making a loan of only forty per cent of the project cost, the Administration could make a loan of a hundred per cent. Assuming a project cost of one million dollars, the Administration could purchase one thousand bonds of \$1,000 each. It could then make its sixty per cent grant by cancelling ten thousand dollars of these bonds in each year of the sixty year amortization period (in addition to cancelling the interest coupons on the \$600,000 of bonds evidencing the proposed grant). The Federal Administration could agree that it would continue to make these annual cancellations of such bonds and interest coupons only so long as the public housing agency maintains the low-rent character of the project."

Yes, I like that business of that bonding. Don't you, Clarence? That's a nice rental, isn't it?

Opper: Yes.

H.M.Jr: I think - without going into everything, I think it's a swell idea. It tickles me loads, because if we can overcome the thing by making the cities - making the thing tax-free, and that's equal to this annual grant that they call - what do they....

Foley: Rent subsidy.

H.M.Jr: Yes, contributions - it's done by the city. Now, why in the hell shouldn't they?

Foley: They'll say to you, "Well, you could get that under our plan too, and that would get your rents down below the level that you may be able to achieve with this scheme of yours." I'm only giving you the other side.

H.M.Jr: Immediately Eccles' reaction was - I didn't try to sell

-11-

it to him - "Well, the thing I like about this is it doesn't commit the Federal Government for 59 years of contributions," and that's what appeals to Eccles. He says, "You do the job, cut it off - finished." That's the thing that.....

Gray: I think they'll immediately think - bring up that that won't produce any lower rents than we are getting now and that that is not....

H.M.Jr: Pardon me?

Gray: That this scheme will only produce the rents we are getting now and they are not low enough.

H.M.Jr: You mean the ones the people are getting now or the ones you're getting?

Gray: For instance, the seven dollars for the Harlem project; they'll say that isn't low enough.

H.M.Jr: But if you're going - but under that Harlem project the City of New York doesn't waive all taxes.

Foley: Yes, sir, that's how we're able to get that.

H.M.Jr: My only answer to that is to Senator Wagner: "We can't house everybody in America anyway, and this is a step toward lower rents, and....."

Gray: Filling a great need.

H.M.Jr: Pardon me?

Gray: Filling a great need.

H.M.Jr: It's the best I could do. I've slept over this. As far as I'm concerned, if he or the President don't like it, they'll have to get somebody else to work it. That's the way I feel, after sleeping on it. How do you (West) feel?

West: The thing about it that is admirable is that you take a problem, you have analyzed the elements in this problem, and this has emerged as the logical way to approach the solution of the problem, and meets the

-12-

objections that would be raised against such a program.

- Gray: In the city of Lackawanna today this is bringing four dollars rent - 60 percent. Cuts it down.
- H.M.Jr: But how about Pacific Coast?
- Gray: We've never done any on the Pacific Coast. The farthest west is in Texas.
- H.M.Jr: How about a city like Washington?
- Gray: These rents up here will probably be, with the one percent interest, in the neighborhood of five dollars.
- H.M.Jr: One percent interest?
- Foley: 45 percent grants.
- H.M.Jr: Would be what?
- Gray: I imagine in the neighborhood of five dollars; 45 percent and one percent is the equivalent of 60 percent grant and three percent.
- Foley: 60 percent grant, three percent interest.
- McR: Three percent interest, with one percent on top of it, will pay out, amortize, in 46 years.
- H.M.Jr: What did you say, Mac?
- McR: 46 years - three percent and one.
- H.M.Jr: But you could do 45 percent and one percent interest or 60 percent and three for five dollars in Washington. Well, Ihlder isn't doing much less. I just don't know what his Alley Dwelling is.
- Foley: No.
- Gray: The lowest we have been able to do without grant and three percent and paying taxes is \$9.85 a room.
- McR: That pays the taxes.

-13-

- Gray: Pays District of Columbia taxes.
- McR: And no grant.
- Foley: Well, you're - he's interested in housing programs, sir, as you are and all the rest of us, and if you take the position that the Treasury can't stand his financing and this is the only thing that you see, why, I don't think you'll have as much trouble with him as you will if you try to argue why this is as good as his plan.
- H.M.Jr: I'm not going to argue about it.
- Now, while we're waiting - I wanted to get through the thing - in rewriting the memorandum I'd take out any arguments.
- Foley: Yes, sir.
- H.M.Jr: Then, if I may go back to One, I question, unless you can tell me what it is, giving you the authority to transfer anything, because immediately they're going to say, "What do you want to transfer?" I ask, "What do you want to transfer?"
- West: Won't that authority come in the reorganization bill?
- Foley: Take it out; we don't need it.
- H.M.Jr: Immediately it raises - somebody is going to fight, you know.
- McR: There's nothing being done at the present moment that goes to low cost housing except what is being done in the PWA Low Cost Housing Project. They all know that.
- Foley: What you want to do is to re-create the present PWA Housing Division as the agency to carry out this program.
- H.M.Jr: But why ask for this transfer?
- Foley: We won't, if we do it that way.
- H.M.Jr: They'll immediately say, "What do you want?" Then you get - immediately get Henry Wallace started on that.

-14-

Foley: Create the PWA Housing Division as an administrative agency within the Department of the Interior to carry out this program.

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

Foley: And to continue everything it's been doing.

H.M.Jr: Have you a big engineering staff down there?

Foley: Yes.

H.M.Jr: Now, on this new thing, you won't need....

Foley: No.

Gray: We're going to reduce anyway a great deal, because the last contracts will be let soon and then we'll just be - all our money will be spent anyway.

H.M.Jr: What you need is just supervision.

Gray: We need lawyers, of course.

H.M.Jr: Always. We never can escape lawyers or taxes.

Gray: Have to have also people that can check their land appraisals and who can check their estimates of cost, etc., before we - to see whether they are within reason. And then we'll have to have what we call housers.

H.M.Jr: But it won't be a very expensive organization.

Gray: Not anything like you would have if you were doing it yourself.

McR: You have now an operating division. You could expect to have merely a supervisory group.

Foley: Mr. Secretary, when you look at it this way, you will see that we have in PWA all the facilities we need, when we strip it down, to handle this kind of program. The Housing Agency of PWA at the present time is a construction agency. The PWA proper is a financing agency. And you will have to shift the personnel, you see, into Housing from PWA that are qualified to set

-15-

up the loans and pass on the security and finance the projects; and you will have to use a certain number of the construction people in the going over of plans that are submitted by the local housing authorities; and the inspectors, watching their construction of the projects. But there are trained people already there; won't have to take on any new people for the job.

H.M.Jr: But you think it's going to shrink?

Foley: Oh yes, shrink materially, because the PWA program is gradually closing down.

McR: We've had lots of applicants from PWA.

H.M.Jr: (To Kieley) Find out if the Senator (Wagner) is on his way. Also let Mr. Bell know; he was to be here at three.

Now, they're going to ask how many states or communities can operate under this.

Foley: Thirty already, and the balance, where there is any job to do, within a very short time; it's no legislative problem.

West: All important states now have it.

Foley: - Have adequate housing powers.

McR: All of them won't admit that - the housing people. They won't admit their present ability to do that.

Foley: They'll admit it in so far as powers are concerned. They probably will tell you that as a practical matter they can't get the money unless the Government helps.

Opper: There will be some question about the tax exemption in some of these states; that is, the authority of the community to give a commitment for tax exemption.

Foley: Well, there is that element, yes. In many states, New York, Connecticut, Pennsylvania - I mean the legislation provides for tax exemption.

-16-

- Opper: And in the other states they can bring them in line.
- Foley: Twenty states have absolute provision for tax exemption. The other ten will just have to amend their law to provide that.
- Krug: Tax exemption was upheld in that Kentucky case that went to the Court of Appeals two months ago.

(Conference splits into informal groups waiting for Senator Wagner)

- H.M.Jr: I think I'd just as leave have a little bit more time on this and hit the thing first thing in the morning.
- West: We're available any time you want us.
- H.M.Jr: I don't know whether he'd get up at nine o'clock tomorrow morning. He doesn't get up that early, does he?
- West: I don't know. Being a New Yorker, he ought to.
- H.M.Jr: Are these bonds tax exempt?
- Foley: In the states? Yes.
- H.M.Jr: They are?
- Foley: Yes, sir.
- H.M.Jr: But not Federal.
- Opper: Oh, yes, sir, they'd be exempt from Federal taxation.
- Foley: Because they're instrumentalities of the states.
- H.M.Jr: Totally? Surtax too?
- Opper: Yes, sir.
- H.M.Jr: (On phone) Hello, Bob? - - Only a little one. Oh. - - I'm always patient, but I'd like to proposition you. Which would you rather do, do it now or do it at nine o'clock tomorrow morning? - - Yes,

-17-

because I got another meeting at ten and I guarantee you it won't last an hour. The whole thing is only on a page and a half. And I haven't had a chance to show it to the President either. - - No. - - Oh, we'll build some houses on this plan. - - Yes. - - Well, I'm personally.... Yes - - Well, I think the plan we got - as I say, I haven't shown it to the boss, because.... - I know. Yes, - - Well, I can make it before nine o'clock if you want it. - - Well, nine o'clock. And I got the Library of Congress Committee coming at ten, so we'll have to be.... Yes. - - Does that suit you a little better? - - Well, it will be cool in the morning anyway. - - Goodbye. (Conversation with Wagner ended)

He'd prefer it and he'll be here at nine o'clock tomorrow.

- West: That's O.K.
- H.M.Jr: Because he may sit there - he's waiting for a vote.
- West: It may take an hour.
- H.M.Jr: Now let me just go over this thing once more.
- McR: On that tax exemption for the Housing Authority bonds, Internal Revenue held they could be taxable under the Federal statute.
- H.M.Jr: They're what, Mac?
- McR: Internal Revenue has held housing authority bonds could be Federally taxable under the Federal statute.
- H.M.Jr: Well then, what about that?
- Oppen: But the thing is that that is being contested all along the line, and the Bureau's being licked as far as it's gone. It's been appealed in the Second Circuit. Now, my own feeling is that they're going to get licked. And I am inclined to think, as a result of this, that they ought to be licked. That is a question in those cases as to whether this is a governmental function being carried on by the

-18-

municipality; and it seems to me the Treasury is in a better position from the standpoint of financing these things if it concedes that they are licked.

H.M.Jr: Uh-huh. You don't call them instrumentalities. Now, they're instrumentalities of the housing authority.

Foley: Of the state in which they're created.

H.M.Jr: The strongest thing in here, I think, that has hit me, is that you get three to five on tax exemption.

Foley: That's the local contribution.

H.M.Jr: That's the local contribution.

McR: It shows that you're getting a substantial local contribution.

H.M.Jr: Where they're going to attack us is that they'll say we're exaggerating it.

Foley: Oh, we can show you that.

Gray: We've worked that out.

H.M.Jr: Well, Mac, you going to carry on this show?

McR: Nine o'clock.

H.M.Jr: Wait a minute. What else do you know on that? Anything else?

McR: I haven't anything else.

H.M.Jr: Clarence?

Oppen: Nothing.

H.M.Jr: Any suggestions on this memo?

Oppen: No, just made a couple verbal suggestions.

Foley: I've got them here. I'd like to be sure, Mr. Secretary, when we rewrite it, just how much of this argument we

-19-

leave out. I'm clear on One. Now, in Two, where we say, "Such tax exemption would constitute a substantial contribution by the locality," is that argument? Do you want that to come out?

H.M.Jr:

No.

Foley:

You want that left in.

H.M.Jr:

What do you (West) say?

West:

I think so.

Foley:

Now you raise some question here about the three percent and....

H.M.Jr:

Yes.

Foley:

....and we have in there, "Consideration should be given to making the minimum interest rate the going Federal rate, rather than three percent." Now, I don't want to get....

H.M.Jr:

Well, the trouble with that is I ought to like it, see, but I think it's kind of tough on housing. I tell you what I'm willing to do; make it a minimum of three and a maximum of four.

Foley:

You wouldn't be willing to make it a minimum of two and a half and a maximum of four?

H.M.Jr:

No.

Foley:

All right.

H.M.Jr:

No, because we can't borrow money at such rates.

Now, how does that hit Bill Myers? He's always hollering about interest rates. Would he holler on that? That is, a minimum of three and maximum of four.

Lindau:

It is lower than his rates, because he has a one percent spread between the rates he charges on loans and the rate he pays - that is, the Land Banks - in order to pay the operating expenses of his Land Banks. That spread sometimes isn't adequate in the case of many of the banks. And that would be

-20-

definitely lower - tend to be lower by the amount of that spread, I should think, just as a rule of thumb.

- H.M.Jr: Well, the trouble - if you make it the going rate you don't know what it would be, and it adds uncertainty.
- McR: I don't think it ought to be - ought to put a minimum.....
- H.M.Jr: What?
- McR: Certainly I don't think your minimum should be less than three.
- Foley: Should not be less than three percent. Period. I don't think we have to say anything about maximum.
- H.M.Jr: Won't they come back and say, "How do you know they won't charge five?"
- Foley: If you want to put that in the law.....
- Opper: I don't think there is any reference to that in the Wagner bill.
- H.M.Jr: All right, I'm satisfied - minimum of three. But a minimum of three.
- Foley: Yes, take out that.
- H.M.Jr: I'm always afraid to limit it. If you do it two and a half for housing, why shouldn't you finance the farm loans of the country at two and a half percent? Huh?
- McR: The difference between this and farm loans.....
- H.M.Jr: What else you got?
- Foley: That's all I had.
- H.M.Jr: Well, I'll be here a few minutes before nine tomorrow morning. I think Wagner is tickled to death that he didn't have to come, because he was waiting up there.
- You (Lindau) got anything else?

-21-

- Lindau: The only suggestion I might make is that instead of forcing tax exemption, force a payment - a cash subsidy of the amount of the taxes or tax exemption. The danger of forcing tax exemption might be that the Federal Government is dictating that it shall be a local governmental activity which doesn't get into the local budget, whereas the cash subsidy would get into their own local budget. So if you provide that you could have either form, you wouldn't be accused of dictating a form of financial practice which might be unsound.
- Foley: I think that's a good point. As a matter of fact, I had intended to ask you if it would be all right to draft it that way, make it either the tax exemption or the cash equivalent that the municipality would donate.
- H.M.Jr: Would that help the municipalities?
- Foley: In some instances. If it was impossible for the municipalities to give you tax exemption, it could do it in this way.
- H.M.Jr: Well, I have no objection.
- Foley: I didn't think you would.
- Lindau: Mr. Bone of Cleveland told us when we talked to him that he thought you would have a better chance of getting a cash subsidy rather than tax exemption, because tax exemption would irritate so many elements in the community, whereas a cash subsidy would - they wouldn't be likely to raise as much objection.
- H.M.Jr: Good. What else you got?
- Lindau: That's the only point that I have right now.
- McR: That's trying to keep the community from doing what we are trying to keep from doing in the Federal Government.
- H.M.Jr: Just as long as the Federal Government doesn't have to make a contribution for 59 years; that's all I want. Bad enough to have irrigation projects started which finish twenty years from now.

-22-

- McR: What we are really doing is what we started out doing two days ago, to put up a revolving fund and amortize from that revolving fund over the period of fifty years.
- H.M.Jr: Well, this wasn't Matt Daiger's memorandum, what we're talking about today; we're pretty far from Matt Daiger on that.
- McR: When you work out the mathematics and put it down side by side, the only difference between this and that is that we're a little more liberal here than Matt Daiger.
- Opper: Mr. Secretary, I want to ask you, would you be anxious to get these bonds taxable if you could, because it occurs to me that it probably could be worked out on the basis of agreement.
- Foley: I tell you what you could do; say that they will be exempt from Federal taxation.
- Opper: I was thinking the other way, if the Secretary wanted to have them taxable.
- H.M.Jr: Here's the thing; on the ticker, when they were discussing the President's tax message - referred to me - well, the first thing I'm going to do is take care of all these tax-exempts. Then we come along immediately and issue some new tax-exempts. I wouldn't be surprised if Congress may pass something and say no more tax-exempts.
- Opper: Well, these wouldn't be tax exempt as a matter of what we say, probably, but....
- H.M.Jr: Listen, what I would do.....
- Foley: Just clarify it, that's all.
- H.M.Jr: If it was a legal question, I wouldn't want to issue a certificate over which there is legal doubt right now. See?
- Opper: I think if you let the law stand where it is, Mr. Secretary, in spite of these Bureau rulings.....

-23-

Foley:you'll end up with tax-exempts in the courts.

H.M.Jr: Well, as long as the present system is to sell tax-exempts, I'd sell a tax exempt bond.

I'm more encouraged - this has done more to me, taken more depression off my brain, than anything. I don't give a hoot if they don't like it; somebody else can tackle it.

Gray: Well, right along we've had all the machinery and personnel sitting right there to do this, if somebody would decide how much.

H.M.Jr: Just been the forgotten bureau.

Gray: Well, you see, we've been working.....

H.M.Jr: Well, we've worked up this little booklet and we've told ourselves about it.

West: Well, we want the Treasury - want to be close to the Treasury. Never can tell what will happen.

H.M.Jr: Now, Charley.....

PROPOSED FEDERAL HOUSING PROGRAM

1. Administrative Agency. A permanent housing administration should be created, with all of its powers vested in the Secretary of the Interior. Since the primary purpose of a corporate housing agency was to provide an instrumentality for the issuance of bonds guaranteed by the United States, there is no need for such a corporation if funds are to be provided by appropriations. The Housing Administration should be created as a separate administration, so as to facilitate its transfer at a later date pursuant to any plan which may be enacted for the reorganization of the executive departments of the government.

The housing bill should transfer to the Administration the Housing Division of the Public Works Administration (including all its assets, equipment, records and employees) and should also authorize the President to transfer to the Administration any other bureau or division of the Federal Government that is engaged in low-rent housing or slum clearance activities.

2. Loans and Grants - Local Contributions. Grants of not to exceed sixty per cent of the cost of the project would be authorized to be made to public housing agencies. As a condition to such Federal aid, the bill would require that the proposed project be given full exemption from state and local taxation, although not from special assessments and customary service fees. Such tax exemption would constitute a substantial contribution by the locality toward assuring the low-rent character of the project, for full taxation of a housing project in a municipality would amount to a monthly charge per room of from \$3 to \$5.

Loans would be made to local public housing agencies, which would have the full responsibility for acquiring the land, constructing and operating the projects. Such loans would be amortized over a period of not to exceed sixty years and at an interest rate of not less than three per cent. (Consideration should be given to making the minimum interest rate the going Federal rate, rather than three per cent. In some cases, this lower interest rate may be necessary to provide housing within the rent-paying ability of the low-income group.). No loans to limited dividend companies would be authorized.

3. Control of Rentals. The Administration should have some way of assuring that public housing agencies which have received Federal assistance will operate their projects for the benefit of the low-income group. While the state housing laws contain provisions requiring public housing agencies to operate their projects in this manner, it may be advisable to obtain additional assurances that the low-rent character of such projects is maintained. Perhaps the most effective means of control would be to authorize the Federal Administration to make all or a part of its grants through the cancellation of bonds. Thus, instead of making a loan of only forty per cent of the project cost, the Administration could make a loan of a hundred per cent. Assuming a project cost of one million dollars, the Administration could purchase one thousand bonds of \$1,000 each. It could then make its sixty per cent grant by cancelling ten thousand dollars of these bonds in each year of the sixty year amortization period (in addition to cancelling the interest coupons on the \$600,000 of bonds evidencing the proposed grant). The Federal Administration

-2-

could agree that it would continue to make these annual cancellations of such bonds and interest coupons only so long as the public housing agency maintains the low-rent character of the project. Of course, these provisions for bond and interest cancellation would not apply to the actual forty per cent loan on the project, which would have to be repaid with interest.

4. Federal Projects. The Federal Government would not be authorized to construct directly any additional housing projects. With respect to the projects now owned by the Government, the Administration would be authorized to sell them to public housing agencies at a write-off of not to exceed sixty per cent of their cost and to accept the bonds of public housing agencies in payment of the purchase price. The Administration would also be authorized to lease such projects to public housing agencies or to operate the projects directly. In the leasing or operation of such projects, the Administration would be required to charge rentals which would be at least sufficient to pay the operating expenses of the project and to repay, within a period not exceeding sixty years, at least forty per cent of the initial cost of the project (making allowance for the maximum sixty per cent grant), together with interest at such rate as the Secretary of the Interior deems advisable.

5. Financial Provisions. It is suggested that the bill authorize an appropriation of \$ _____ for the fiscal year ending June 30, 1938; \$ _____ for the fiscal year ending June 30, 1939; and \$ _____ for the fiscal year ending June 30, 1940; all of such sums to continue to be available to the Administration until expended. By providing for appropriations over a three-year period, it would be possible for the Federal Administration and the local authorities to plan and prepare for a definite program.

The Administration would be authorized to sell any securities acquired by it and the Secretary of the Treasury would be authorized to purchase such securities (excluding, of course, any bonds which are intended for cancellation pursuant to the foregoing alternative method of making the sixty per cent grant). Any monies received by the Administration from the sale of securities or collections of principal or interest thereon or from the sale, leasing or operation of projects, would continue to be available to the Administration until expended.

The Secretary of the Treasury would be authorized to resell any securities which it purchases from the Administration or to hold such securities and raise additional funds equivalent to the par value of the securities so held.

HOLD FOR RELEASE

HOLD FOR RELEASE

HOLD FOR RELEASE

June 1, 1937.

CONFIDENTIAL: To be held in STRICT CONFIDENCE
and no portion, synopsis or intimation to be
published or given out until delivery of the
President's message to the Congress has begun.
CAUTION: Extreme care must be exercised to
avoid premature publication.

STEPHEN EARLY
 Assistant Secretary to the President

 TO THE CONGRESS OF THE UNITED STATES:

A condition has been developing during the past few months so serious to the Nation that the Congress and the people are entitled to information about it.

The Secretary of the Treasury has given me a report of a preliminary study of income tax returns for the calendar year 1936. This report reveals efforts at avoidance and evasion of tax liability, so widespread and so amazing both in their boldness and their ingenuity, that further action without delay seems imperative.

We face a challenge to the power of the Government to collect, uniformly, fairly and without discrimination, taxes based on statutes adopted by the Congress.

Mr. Justice Holmes said "Taxes are what we pay for civilized society." Too many individuals, however, want the civilization at a discount.

Methods of escape or intended escape from tax liability are many. Some are instances of avoidance which appear to have the color of legality; others are on the borderline of legality; others are plainly contrary even to the letter of the law.

All are alike in that they are definitely contrary to the spirit of the law. All are alike in that they represent a determined effort on the part of those who use them to dodge the payment of taxes which Congress based on ability to pay. All are alike in that failure to pay results in shifting the tax load to the shoulders of others less able to pay, and in mulcting the Treasury of the Government's just due.

I commend to your attention the following letter from the Secretary of the Treasury.

"THE SECRETARY OF THE TREASURY
 "WASHINGTON

"May 29, 1937.

"My dear Mr. President:

"As you know, the Treasury was surprised and disturbed by the failure of the receipts from the income tax on March 15th to measure up to the budget estimates. Therefore, we undertook an immediate investigation. Only a preliminary report can be made at this time because the complete investigation covering all the income tax returns filed will require the balance of this year. Furthermore, since many of the returns of large manufacturing corporations have not yet been filed, the present report is confined almost wholly to data disclosed by the individual tax returns.

"But even this preliminary report discloses conditions so serious that immediate action is called for. More than the usual examination and audit by the Treasury is needed. It seems clear that if tax evasion and tax avoidance can be promptly stopped through legislation and regulations resulting from a special investigation a very large portion of the deficiency in revenues will be restored to the Treasury.

- 2 -

"I herewith enumerate some of the principal devices now being employed by taxpayers with large incomes for the purpose of defeating the income taxes which would normally be payable by them. As we continue our preliminary examination, other devices are being disclosed.

- "1. The device of evading taxes by setting up foreign personal holding corporations in the Bahamas, Bermuda, Newfoundland, and other places where taxes are low and corporation laws lax.

"Americans have formed 54 such companies in the Bahamas alone in 1935 and 1936, and 22 more were organized by Americans in the Bahamas during the past two months. Panama and Newfoundland seem to be even more fertile territory since their corporation laws make it more difficult to ascertain who the actual stockholders are. Moreover, the stockholders have resorted to all manner of devices to prevent the acquisition of information regarding their companies. The companies are frequently organized through foreign lawyers, with dummy incorporators and dummy directors, so that the names of the real parties in interest do not appear.

"One American citizen with a \$3,000,000 Bahamas corporation has apparently attempted to prevent the Bureau of Internal Revenue from catching up with him by filing his individual tax returns in successive years from towns in New Brunswick, British Columbia, and Jamaica.

"Another individual believes that he has been so successful in removing his assets from the United States to the Bahamas that he is defying the Treasury to collect a tax upon a \$250,000 fee he has received; and by way of insult, he has offered to compromise his admitted tax liability of \$23,000 for past years by a payment of \$1700.

"Still another individual showed a large net loss on his personal return for 1936. In considerable part, the loss was due to the large deduction he claims for interest on a loan made to him by his personal holding company. But the man in question is no object of charity, for his personal holding company, organized in Canada, had an income of over \$1,500,000 from American dividends in 1936, though it has not yet filed a return.

"Perhaps the most flagrant case of this character is that of a retired American Army officer with a large income from valuable American securities which he desires to sell at a very large profit. To escape our income and inheritance tax laws, he used the device of becoming a naturalized Canadian citizen, and six days later organized four Bahamas corporations to hold his securities. He and his lawyers apparently think that he can now sell his securities free from any taxes on his profits, since there are no income taxes in the Bahamas, and that he has adroitly escaped American taxes.

- "2. The device of foreign insurance companies.

"Two New York insurance agents have caused the organization of insurance companies in the Bahamas with a view to enabling taxpayers to secure spurious deductions for interest through an ingenious scheme for the issuance of life insurance policies. Americans who went into the scheme purported to pay a large single premium for their policies, but immediately borrowed back practically the entire sum. Under the plan the so-called policyholders sought to obtain a large deduction for interest on this loan, although the fact was that no interest was really paid. By this means five prominent Americans sought to evade nearly \$550,000 in income taxes in the years 1932 to 1936. This fraud was discovered by the Treasury's investigators and all of the taxpayers have now submitted offers to pay the full amount of taxes evaded, plus interest. Until our investigation is completed we do not know how many similar companies may have been organized in other countries, and utilized by our citizens; nor do we yet know whether this newly invented type of fraud has other ramifications.

- 8 -

*3. The device of domestic personal holding companies

"The rates of tax applicable to personal holding companies were reduced in 1936 at the time of the enactment of the undistributed profits tax. It was believed at that time that the combined rates of the two taxes would be sufficient to insure the distribution of the entire incomes of these companies, and the consequent imposition of surtaxes upon their owners. This expectation has not been realized.

"Thus, the single stockholder of one large personal holding company saved himself \$322,000 by causing his company to distribute none of its income to him.

"In another case, a man and his wife saved \$791,000 through the use of personal holding companies in 1936.

"In a third case, the personal holding company reported over \$500,000 of net income but the total taxes paid by the two stockholders, husband and wife, were less than \$60,000, due principally to credits for payments on indebtedness the holding company prudently incurred in accumulating properties for its owners. If the personal holding company had not been in existence, the stockholders would have paid over \$200,000 additional income taxes.

"Another favorite device is to organize a considerable number of personal holding companies, not only for the sake of reducing the tax, but of increasing the Treasury's difficulties in auditing transactions between companies. At last accounts one man had caused to be set up some 96 companies scattered all over the country. Two other individuals were utilizing 23 personal holding companies.

*4. The device of incorporating yachts and country estates

"Many wealthy taxpayers today are dodging the express provisions of the law denying deductions for personal expenses by incorporating their yachts or their country estates, turning over to the yacht or to the estate securities yielding an income just sufficient to pay the entire expenses of operation. Hundreds of thousands of dollars in income taxes are annually avoided in this way.

"Thus, one man's yacht is owned by his personal holding company, along with three million dollars in securities. He rents the yacht from his company for a sum far less than the cost of upkeep, and the company uses its income from the securities to pay the wages of the captain and crew, the expenses of operating the yacht, and an annual depreciation allowance. None of these items would be deductible if this individual owned the yacht personally.

"A great many wealthy taxpayers are utilizing a similar arrangement for the operation of their country places and town houses.

"One man has placed his five million dollar city residence in such a corporation; another his racing stable whose losses last year were nearly \$200,000. The tax savings he thus sought to obtain through the use of the holding company were \$140,000.

"One wealthy woman has improved on the general plan of evasion by causing her personal holding company, which owns her country place, to employ her husband at a salary to manage it. She can thereby supply him with pocket money, and in effect claim a tax deduction for the expense of maintaining him.

*5. The device of artificial deductions for interest, losses, etc.

"Taxpayers are seeking greatly to reduce their personal income taxes by claiming deductions for interest on loans to them by their personal holding companies, or on loans to them by their family trusts. These transactions normally have no business purpose, but are merely an artificial means of shifting income from one member of the family subject to high surtax rates to another member of the family subject to lower rates.

- 4 -

"Thus, one woman claims a large annual deduction for interest on a loan made to her by her husband as trustee of a trust which she created for their children. The mother thereby seeks to secure a deduction for her contribution to the children's support, and since the trust is revocable by her husband, the parents still have the desired control over the property and its income.

"In the same category are losses deducted by taxpayers who claim that their racing stables or hobby farms were operated for profit, even though a profit is never realized. Thus, a prominent manufacturer seeks a deduction of over \$125,000 against his income from his business, on account of his losses in operating a chicken farm.

"6. The device of the creation of multiple trusts for relatives and dependents

"Splitting income two ways, between husband and wife, reduces income taxes and leaves the family income intact. Splitting the family income many ways by means of many trusts, all for the same beneficiaries, may affect a much greater saving, while leaving the money actually in the same hands. For the creator of the trust often constitutes himself or his wife as trustee, and thus retains full control over the investment and disposition of the fund itself and of its income.

"One thrifty taxpayer has formed 64 trusts for the benefit of four members of his immediate family, and thereby claims to have saved them over \$465,000 in one year in taxes.

"Another thrifty pair have constituted 40 trusts for their relatives, and a prominent lawyer and his wife utilize 16 trusts for the same purpose. The first pair maintains numbered brokerage accounts, and only at the end of the year are the beneficial owners identified. In this way innumerable transactions are carried on, often between accounts, which do not actually affect the beneficial interests of their owners, but which are designed solely to reduce tax liability.

"7. The device of husband and wife or father and children partnerships

"The purpose of these partnerships, like the multiple trusts, is to split the family income artificially into two parts; or, if the children are taken in, into still smaller fractions.

"There are many instances of this kind; but to illustrate the point, it is sufficient to cite the case of a New York brokerage firm which late in 1935 admitted into partnership the four minor children, two boys and two girls, of one of the partners. The tax saving he sought thereby in 1936 amounted to over \$50,000.

"8. The device of pension trusts.

"For 10 years the revenue acts have sought to encourage pension trusts for aged employees by providing corporations with a special deduction on account of contributions thereto, and exempting the trust itself from tax. Recently this exemption has been twisted into a means of tax avoidance by the creation of pension trusts which include as beneficiaries only small groups of officers and directors who are in the high income brackets. In this fashion high salaried officers seek to provide themselves with generous retiring allowances, while at the same time the corporation claims a deduction therefor, in the hope that the fund may accumulate income free from tax.

"Thus, in one case \$43,000 is annually appropriated by the corporation to a pension trust for the benefit of its two chief owners. One of the co-owners will retire at the age of 65 with a monthly pension of \$1725, and the other will retire at 60 with a monthly pension of \$1425.

- 5 -

"These eight types of tax avoidance are sufficient to show that there is a well-defined purpose and practice on the part of some taxpayers to defeat the intent of Congress to tax incomes in accordance with ability to pay. In some cases, the Bureau of Internal Revenue under existing law can establish a liability or indeed proceed on the ground of fraud; but many of these cases fall in the category of a legal though highly immoral avoidance of the intent of the law. It seems, therefore, that legislation should be passed at this session of the Congress in order to eliminate these loopholes which our preliminary investigation has proved; and that as a result of the further investigation this summer and autumn the next session of the Congress should finally close any further loopholes which may be discovered.

* * *

"In addition to these cases of moral fraud, there are three other major instances in which the law itself permits individuals and corporations to avoid their equitable share of the tax burden.

"1. Percentage depletion

"This is perhaps the most glaring loophole in our present revenue law. Since 1928 large oil and mining corporations have been entitled to deduct from 5 to 27½ percent of their gross income as an allowance for the depletion of their mines or wells, and the deduction may be taken even though the cost of the property has been completely recovered. Thus, in 1930, one mining company deducted nearly \$3 million under this provision, although it had already completely recovered the cost of its property. The amount of the deduction was a sheer gift from the United States to this taxpayer and its stockholders, and the revenue that we lost thereby was \$618,000. Similar annual losses of revenue in the cases of a few other typical companies are \$584,000; \$557,000; \$512,000; \$272,000; \$267,000; \$202,000; and \$152,000. The estimated annual loss of revenue due to this source alone is about \$75,000,000. I recommended in 1933 that this provision be eliminated but nothing was done at that time; and it has since remained unchanged.

"2. The division of income between husband and wife in the 8 community property states

"This is another major cause of revenue loss, which is unjustifiable because obtained at the expense of taxpayers in the 40 states which do not have community property laws. A New York resident with a salary of \$100,000 pays about \$32,826 Federal income tax; a Californian with the same salary may cause one half to be reported by his wife and the Federal income taxes payable by the two will be only \$18,826. The total loss of revenue due to this unjustifiable discrimination against the residents of 40 states runs into the millions.

"3. Taxation of non-resident aliens

"The 1936 Act eliminated the requirement that a non-resident alien, (without United States office or business) should file a return; fixed the withholding rate for individuals at 10 percent; and freed the non-resident alien from taxation on American capital gains. Since the total Federal tax upon a citizen or resident amounts to 10 percent of his total net income at about \$25,000, (in the case of a married individual with no dependents), the withholding rate has proved in practice to be too low as applied to wealthy non-resident alien individuals. There are a number of cases of non-resident aliens with large incomes from American trusts or with large American investments whose taxes have been cut to one-third or one-fifth of what they paid under the prior act.

-6-

"Thus, one American woman who married an Englishman had an income from this country in 1935 of nearly \$300,000. Her tax for 1936 will, therefore, be approximately \$30,000 as against over \$160,000 under the prior law.

"Another American woman who married a Frenchman has an income of over \$150,000 from American trusts, on which she paid a tax of about \$55,000 in 1935. Her tax is reduced to about \$15,000 by the 1936 law. Although the tightening of the withholding provisions in 1936 will tend to insure more revenue from non-resident aliens in the lower income brackets, the present taxing provisions are not satisfactory as applied to non-resident aliens with incomes in the higher brackets.

* * *

"The problem of tax avoidance is not new. The Congress devoted particular attention to it in 1933 and 1934, and by legislation effectively put a stop to many evasive devices discovered then as having been in use. The practices outlined above can and should be stopped in the same way.

"In conclusion, I have two observations to make from the evidence before me. In the first place, the instances I have given above are disclosed by a quick check of comparatively few individual returns. As I have said before, most of the large corporation returns have not yet been filed. The general audit of 1936 returns is just beginning. Nevertheless, it is likely that the cases I have digested above are symptomatic of a large number of others, which will be disclosed by the usual careful audit.

"In the second place, the ordinary salaried man and the small merchant does not resort to these or similar devices. The great bulk of our 5,500,000 returns are honestly made. Legalized avoidance or evasion by the so-called leaders of the business community is not only demoralizing to the revenues; it is demoralizing to those who practice it as well. It throws an additional burden of taxation upon the other members of the community who are less able to bear it, and who are already cheerfully bearing their fair share. The success of our revenue system depends equally upon fair administration by the Treasury, and upon completely honest returns by the taxpayer.

"The disclosures are so serious that I recommend that authority be given to the Treasury Department with an adequate appropriation in order that a complete and immediate investigation may be conducted. The cost of such an investigation will be returned many times over to the Treasury of the United States.

"Faithfully,

"HENRY MORGENTHAU, JR."

"The President,
The White House."

- - -

A feeling of indignation on reading this letter will, I am confident, be yours, as it was mine.

What the facts set forth mean to me is that we have reached another major difficulty in the maintenance of the normal processes of our Government. We are trying harder than ever before to relieve suffering and want, to protect the weak, to curb avarice, to prevent booms and depressions -- and to balance the budget. Taxation necessary to these ends is the foundation of sound governmental finance. When our legitimate revenues are attacked, the whole structure of our Government is attacked. "Clever little schemes" are not admirable when they undermine the foundations of our society. Classified

The three great branches of the Government have a joint concern in this situation. First, it is the duty of the Congress to remove new loopholes devised by attorneys for clients willing to take an unethical advantage of society and their own Government. Second, it is the duty of the Executive branch of the Government to collect taxes, to investigate fully all questionable cases, to prosecute where wrong has been done, and to make recommendations for closing loopholes. Third, it is the duty of the Courts to give full consideration to the intent of the Congress in passing tax laws and to give full consideration to all evidence which points to an objective of evasion on the part of the taxpayer.

Very definitely, the issue immediately before us is the single one relating to the evasion or unethical avoidance of existing laws. That should be kept clearly in mind by the Congress and the public. Already efforts to befog this issue appear. Already certain newspaper publishers are seeking to make it appear -- first, that if an individual can devise unanticipated methods to avoid taxes which the Congress intended him to pay, he is doing nothing unpatriotic or unethical; and, second, that because certain individuals do not approve of high income tax brackets, or the undistributed earnings tax, or the capital gains tax, the first duty of the Congress should be the repeal or reduction of those taxes. In other words, not one but many red herrings are in preparation.

But it seems to me that the first duty of the Congress is to empower the Government to stop these evil practices, and that legislation to this end should not be confused with legislation to revise tax schedules. That is a wholly different subject.

In regard to that subject, I have already suggested to the Congress that at this session there should be no new taxes and no changes of rates. And I have indicated to the Congress that the Treasury will be prepared by next November to present to the appropriate committees information on the basis of which the Congress may, if it chooses, undertake revisions of the tax structure.

The long-term problem of tax policy is wholly separate from the immediate problem of glaring evasion and avoidance of existing law.

In this immediate problem the decency of American morals is involved.

The example of successful tax dodging by a minority of very rich individuals breeds efforts by other people to dodge other laws as well as tax laws.

It is also a matter of deep regret to know that lawyers of high standing at the Bar not only have advised and are advising their clients to utilize tax avoidance devices, but are actively using these devices in their own personal affairs. We hear too often from lawyers, as well as from their clients, the sentiment "It is all right to do it if you can get away with it."

I am confident that the Congress will wish to enact legislation at this session specifically and exclusively aimed at making the present tax structure evasion-proof.

I am confident also that the Congress will give to the Treasury all authority necessary to expand and complete the present preliminary investigation, including, of course, full authority to summon witnesses and compel their testimony. The ramifications and the geographical scope of a complete investigation make it necessary to utilize every power of Government which can contribute to the end desired.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

June 1, 1937.

Regraded Unclassified

Mr. Kist
June 1, 1936

99

1937 BUDGET

The President made three specific recommendations in his 1937 Budget Message, as follows:

1. A provision for transfer between appropriations within the same department.
2. Repeal of the amendment to the Agricultural Adjustment Act appropriating a sum equal to 30 per cent of customs receipts to the Secretary of Agriculture to encourage exportation and domestic consumption of agricultural commodities.
3. Amend section 3679 of the Revised Statutes so as to bring all agencies of the Government, including Government owned and Government controlled corporations, within the authority of the Director of the Budget with respect to appropriations of appropriations and of other funds available to them.

No. 1 has not been generally adopted by Congress but has been adopted in a few cases so that a transfer can operate within a bureau.

No. 2 has not been acted upon and I understand from Mr. Buchanan that there is no chance of getting the Agricultural Adjustment Act amended so as to eliminate this appropriation. The President stated in his Budget Message that no estimate of expenditure for account of this legislation is included in the Budget. Failure of Congress to repeal this amendment will therefore add an estimated expenditure of \$100,000,000 to next year's Budget.

No action has been taken on No. 3, but Mr. Buchanan did include a provision in the deficiency bill now pending so as to prohibit 19 of the emergency agencies from incurring any obligations for administrative expenses after June 30, 1937, except pursuant to annual appropriations made specifically therefor by the Congress.

ITEMS NOT IN THE BUDGET

The Senate included in the deficiency bill a provision authorizing the Federal Emergency Administration of Public Works, upon the direction of the President, to use not to exceed \$300,000,000 from funds on hand or to be received from the sale of securities for the making of grants to aid in the financing of projects capable of being substantially completed in the determination of the Administration not later than June 30, 1937.

-2-

Provision is also made that not more than 30 per centum shall be granted on any project the cost of which is more than \$100,000 and in no case shall the grant exceed 45 per centum.

I understand that the Public Works Administration has, including securities on hand, about \$450,000,000 in the revolving fund. The provision added by the Senate would authorize the Administration to make grants up to \$300,000,000 out of this fund.

The Senate also added a provision authorizing the President to restore to the Federal Emergency Administration of Public Works out of the \$1,425,000,000 any sums which after December 28, 1934, were by order of the President impounded or transferred to the Relief Administration.

This provision is not mandatory, but if you exercise this authority it would reduce the relief appropriation by approximately \$238,000,000. Practically the same provision was in last year's relief bill and the Public Works Administration received from that appropriation approximately \$447,000,000, which certainly is a restoration of any money taken from that organization prior to the passage of that act.

NEW LEGISLATION

Rural Electrification Bill has become a law, which adds expenditure authorization of \$50,000,000 for the fiscal year 1937. It is probable that all of this will not be spent in that year.

Flood Control Bill, now in conference, authorizes an appropriation of \$50,000,000. This will probably be held to \$25,000,000.

Flood Relief Loans, authorized to be made by the RFC, estimated at \$50,000,000.

MEMORANDUM OF THE DAY'S ACTIVITIES

June 1, 1937

To: Secretary Morgenthau
From: Mr. Magill

1. The President's message on tax evasion

Mr. Doughton went over the draft of the joint resolution which we prepared Saturday afternoon and had no suggestions to make. He agreed to introduce it in the House as soon as the President's message had been read. Mr. L. H. Parker came into the conference at my request and was entirely cooperative in the matter.

Mr. Parker and I then called upon Senator Harrison. The Senator expressed the fear that the resolution would be objected to on the grounds, first, that it superseded the Ways and Means Committee, the Finance Committee, and the Joint Committee on Internal Revenue taxation, and second, that it delegated too much power to the Treasury Department. We pointed out to the Senator that any legislation recommended by the new committee would be reported to Congress by that committee, and that presumably the bills embodying the legislation would be referred to the Ways and Means Committee and Finance Committee in the ordinary course. The Senator then said that he thought that the committee should make its final report immediately after the opening of the next session of Congress and that it should not be a permanent committee. I consented to this time limit on the authority of the committee, since it is my understanding the committee is expected to do its work during the summer. Senator Harrison then asked us to help him in preparing a statement for the Press, and promised to introduce the joint resolution immediately after the message was read.

Both Mr. Doughton and Senator Harrison stated that a provision for an appropriation should not be made in the joint resolution, since it would be subject to a point of order at least in the House. Mr. Doughton said that he would be glad to see the Speaker and the Chairman of the Appropriations Committee about the introduction of a bill for a suitable appropriation. Senator Harrison objected strongly to any appropriation to the Treasury, urging that the Treasury should use the money it now has and then ask for a deficiency appropriation.

As you know, the joint resolution passed the Senate this afternoon with three slight amendments: (1) Extending the term of the new committee to February 1, 1938; (2) authorizing the committee to consider methods of evasion and avoidance other than those mentioned by the President; and (3) providing for six members from each House, instead of five. Mr. Doughton's resolution was referred to the Rules Committee; but he called me at five o'clock to say that he would ask unanimous consent to pass the Senate

- 2 -

resolution this afternoon. Otherwise the resolution will be reported to the House by the Rules Committee tomorrow.

2. Extension of excise taxes

The Ways and Means Committee will take up Mr. Doughton's resolution tomorrow morning at 10:30. I will arrange to be present and discuss the resolution with the Committee in executive session.

3. Board of Tax Appeals rules

The secretary of the Joint Committee of the Board and of the General Counsel's office informs me that the Board members of the Committee think their rules are perfect at present and are quite uncooperative. I told him to work with the members of the Committee from the General Counsel's office and prepare a satisfactory program for changes in the present procedure. I will then discuss the subject further with the chairman of the Board and see whether we cannot force some action.

Rm

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 2, 1937

TO Secretary Morgenthau
FROM Herman Oliphant

For your information -

Was your attention called to the following remarks of Senator McKellar on the floor of the Senate yesterday?

"I take this occasion to commend the Secretary of the Treasury for his letter. I think it was a wise and a proper thing to communicate these facts to the President and to the Congress; and I entirely approve and heartily endorse the Secretary of the Treasury for his act in boldly coming out and giving the facts to the Congress and in writing this courageous letter to the President. He has done the Government and the country a notable service."



LMS

GRAY

Paris

Dated June 1, 1937

Rec'd 2:35 p. m.

Secretary of State,
Washington.

715, June 1, 5 p. m. (SECTION ONE)
FROM COCHRAN.

Compared with the corresponding month of 1936 normal and permanent French budgetary revenue for April 1937 is down about 183 million francs. As concerns revenue from direct taxes revenue is less by about 51 million francs and as concerns indirect taxation revenue is less by about 131 millions. "Revenue from the business turnover tax is less by about 143 millions". Compared with estimates revenue from indirect taxation and monopolies is less by approximately 252 millions (comparisons cannot be usefully made as concerns revenue from direct taxes). Therefore, as concerns the first four months of 1937 revenue from indirect taxation and monopolies is 92 million francs more than estimates and compared with actual revenue for the (END SECTION ONE)

BULLITT

KLP

PARAPHRASE OF SECTION TWO, NO. 715 of June 1 from Paris
corresponding period of 1936 there is a total increase
in revenue of about 592,000,000 francs.

French control sold a little sterling yesterday at
110 (?) but apparently has been inactive today with the
principal exchange transactions being from dollars to
sterling. Market is thin and nervous. General uneasiness
comes from the Spanish political situation and from re-
crudescence of gold scare with exceptionally large amounts
of gold being offered at London. French tax statement
for April above mentioned has hurt French market sentiment.
Understand Soviets have sold \$1,000,000 today and have addi-
tional \$2,000,000 on hand which they are holding for more
favorable price. The French Government control is said
to have sold \$14,000 yesterday. Swiss were important
buyers of dollars again yesterday. French rentes slightly
up and down.

Today the Bank of France invoiced to Federal Reserve
Bank of New York 49,998,000 francs gold bars for account
of BIS.

END MESSAGE.

BULLITT.

EA:LNW

RECEIVED

JUN 1 1936

THE FEDERAL RESERVE BANK

WASHINGTON, D. C.

June 2, 1937
8:47 a.m.

H.M.Jr: Hello?

Knoke: Good morning, Mr. Secretary.

H.M.Jr: Good morning; say, Knoke?

Knoke: Yes, sir.

H.M.Jr: In any of your talks with Bolton, has he ever seemed worried that the price of gold is not at 34.77?

K: Well, not recently. No, I don't think - at least, offhand, I would say no.

H.M.Jr: Archie is sitting here with me. He says it is 34.66.

K: That's right.

H.M.Jr: Got any ideas?

K: Well, yes. Governor - Mr. Harrison is going to talk to you today. I discussed with him yesterday the question of whether it wouldn't be advisable to - for the Treasury to do some buying in London. In other words, to make it clear to the Bank of England that the order which the Treasury has been using from week to week is not only an exchange stabilization order, but also one to keep gold in line.

H.M.Jr: Spot or futures?

K: Well, I had in mind spot. Archie thinks futures would be a good approach. And he's probably correct, but I think if you start with futures, you eventually would have to go to spot also because futures market is too small.

H.M.Jr: I know, but right now, our cash balances are small, too.

K: Well, but you get it anyhow, Mr. Secretary.

H.M.Jr: No, but you don't get it for 90 days.

K: No, but I mean on spot. If you don't buy it in London, you see what happens. At least - it comes over.

H.M.Jr: Why -

K: - and you get it seven days later, and pay 9¢ more an ounce.

H.M.Jr: Yes, I'm surprised though at you. I think they'd jump at it. If I buy it for 90-day future, that commits me. Think of the psychological effect on that. Where are you?

K: Well, that's bound to be. Do you want to be committed?

H.M.Jr: Well, I'm surprised you didn't just jump down my throat on that.

K: Well, no, because I'd -

H.M.Jr: I mean that you'd be delighted.

K: (Laughs) All right.

H.M.Jr: You asked me yesterday what is the word "imminent". Well, I might say 90 days, and then what?

K: Well, I hope it's more than 90 days.

H.M.Jr: Oh, I don't know. Well, I don't - if you're so lukewarm, I guess we better not do 90 days.

K: Well, there's - there's another thing that I pointed out to Archie yesterday, and that is I think you are branching out there, and you are assuming responsibilities unnamed and that we really know very little about.

H.M.Jr: Oh, I'd buy it from the Bank of England.

K: How's that?

H.M.Jr: Or we could buy it from New York banks.

K: Yes, all right. Doing that we can put the responsibility on them, but it's always - there are very few people who know much about these Indian
which are the principal operators in gold
for forward delivery.

- H.M.Jr: Well, of course, I don't know just what the effect would be if we stepped in there. I just wondered if we sat tight and waited for England to say something to us. I mean why shouldn't we wait until England calls up and says, "Listen -
- K: Well, of course, the answer - my answer to that would be that the price is crumbling day after day, and psychologically that cannot be helpful. I think that really invites further dishoarding, and further nervousness. People - this price started at seventy-three seventy-four, and at that time we felt that it was desirable that that discount should be wiped out as soon as possible. Well, it hasn't wiped out; it has gradually gone - widened.
- H.M.Jr: It has. But, look, we're doing our end. We'll take all that we get at \$35.00. I can't help what it sells for in London. Why won't the South African mines turn around and sell the stuff here?
- K: well, of course, the - I think the first answer is that that requires a re-arranging of the mechanical end of it.
- H.M.Jr: Well, that's their worry. I can't see - I mean I'm being very serious now. I don't see where the price of gold in London is our worry.
- K: Well, Mr. Secretary, it is our worry only to an extent - I mean it is our worry, I think, to the extent that psychologically it does not create the best impression.
- H.M.Jr: Well, who's worrying?
- K: Well, I'm not implying that any - anybody is being worried, but after all, the possibility, or at least the one thing we want to guard against is that this thing should go out of hand some day. I mean you have had psychologically bad developments in the last few days. If the Swiss pursue in their attitude, which, after all, really means no more than this - that they are not particularly fond of gold any more - well, if that feeling spreads, you don't know just where it will stop. And that is - I'm not suggesting that anybody should worry, but that is a point that should be bore in mind.

4

H.M.Jr: Well, what are the Swiss going to do? We've got this long cable - it's come in now.

K: Yes. Archie read part of it to me.

H.M.Jr: Well, why do they want to build up their dollar balances here?

K: Well, I think probably we are the last - this country is the last one that can claim that gold is better than dollars.

H.M.Jr: Ah-ha.

K: Maybe we get no further with the Swiss.

H.M.Jr: Well, I've got to get some better suggestion than just to go ahead and buy. That doesn't satisfy me.

K: Well, of course, my reason is that - I had three reasons for it. The one is the psychological side of it. The next is that you really render a service to our own shipping industry, because only through your own purchases in London can you control the shipping afterwards. In other words

H.M.Jr: Well, if you don't mind my saying, that's a minor reason.

K: What's that?

H.M.Jr: That's a minor reason.

K: Well, yes. That may be so, but I think it is a reason. And my third reason is that I think in the long run it means a difference very possibly of a million dollars to the Treasury.

H.M.Jr: A million dollars?

K: Well, I'm taking today's what is still in hoard in London - a million pounds, \$500,000,000.

H.M.Jr: I don't get that.

K: The gold still hoarded in London is a million pounds. That is -

H.M.Jr: One million pounds.

K: One hundred million pounds.

H.M.Jr: Oh.

K: One hundred million pounds.

H.M.Jr: Yes.

K: The present difference between market price in London and New York parity is 10 points.

H.M.Jr: Yes.

K: Well, on that basis, you get more than - you make more than a million dollars. You save more than a million dollars.

H.M.Jr: Yes. Well, let me think about it and we'll see how the thing develops during the forenoon, see?

K: All right, sir.

H.M.Jr: Thank you very much. Hello, Knoke?

MEETING RE NEW HOUSING PLAN

June 2, 1937
9:00 A.M.

Present: Mr. McReynolds
Mr. Opper
Mr. Lindau
Mr. West
Mr. Foley
Mr. Krug
Mr. Gray
Senator Wagner
Mr. Keyserling

H.M.Jr: Have you (Lindau) done any work on these Federal farm mortgage banks of Home Owners Loan?

Lindau: Well, I don't have any - I'm familiar with them.

H.M.Jr: Did you do that last year?

Lindau: No, I didn't, no, sir.

H.M.Jr: Is that what you call them?

Lindau: There's the Federal Home Loan Banks.

H.M.Jr: No, I mean the ones where they give the capital to a bank in a locality and take a mortgage. What do they call.....

Lindau: You mean the Federal Savings and Loan Associations.

H.M.Jr: Federal Savings and Loan Associations, yes.

Lindau: Well, I know of them.

H.M.Jr: Well, as soon as you get off this, will you start making a study of that? They tell me it's lousy.

Lindau: They put in a considerable amount of money in capital.

(West comes in)

West: Good morning, sir. Am I the first of the Mohicans?

H.M.Jr: You are outside of the Treasury.

West: Of course, we expected the Treasury to be right on the dot.

(Gray, Foley, Krug, Keyserling
come in)

-2-

H.M.Jr: Is this the revised?

Foley: Yes, sir.

H.M.Jr: Go to a movie last night too?

Foley: No, sir. It was a pretty good movie.

H.M.Jr: The other night? It wasn't bad, except that my daughter almost had fits as to whether President Roosevelt could reach the prison in time. I was blue; she pinched me. I said, "Don't worry, they've got to save him for another movie."

(Senator Wagner comes in)

.....

Wagner: Well, how far have we gotten?

H.M.Jr: Well, Senator, what I have attempted to do - and I take responsibility for this, because I haven't had a chance to talk to the President about it, see - but what we have done here in the Treasury, we have tried very sincerely for about a month to do what the President asked us to do, namely, find a formula, financial formula. I haven't attempted to master low rent housing, because there are too many opinions. The President gave us the formula in his own handwriting, which I worked on, but I doubt whether that will work. That's why I'm a little hesitant. But still, he told us that you and I should try to work something out.

Wagner: Yes.

H.M.Jr: The reason these people are here is that I have been using them to help me, and they in turn don't want to be committed, because some of them come from Interior and they don't know how Mr. Ickes feels. But they advise me in their technical capacity.

Now, what we are trying to do here is this. After going all over the thing, I'm putting it just as simple as I can. It seems to me it was a mistake

-3-

to scrap the present housing organization, which is in the process of spending 130 million dollars, and who have admittedly made a lot of mistakes, but have learned by them, and are in the process of completing about 52 or 53 different projects throughout the country. One thing they have learned is that the United States is an awful big country, and what goes for New York does not go for Atlanta or Boston or Chicago; I mean each situation is peculiar to itself. What I've attempted to do is not.....

Wagner: If I may interrupt you there, the purpose of this legislation is to decentralize all of that as far as possible.

H.M.Jr: Well, I've followed that.

Wagner: That the local architecture and tastes and all that will be considered.

H.M.Jr: Well, we've followed that principle.

Wagner: May I ask, do you mean by not scrapping the Interior - you mean not to take it out of there?

H.M.Jr: Supposing I read it. It's only a page and a half. I thought we could get a clear idea, because.... - shall I read it and question me as I go along? I think maybe I better read it.

Wagner: All right.

H.M.Jr: "Administrative Agency. The Housing Division of PWA should be made a permanent housing administration, all of the powers of the Administration to be vested in the Secretary of the Interior. The Housing Administration should be established as a separate administration, so as to facilitate its transfer at a later date pursuant to any plan which may be enacted for the reorganization of the executive departments of the government."

Set it up separately, and whenever the President and Congress decide to have a Public Works Department, it would be transferred to that.

Wagner: Of course, Henry, I've never had any too definite a

-4-

view about it. Generally, I got the view from the President that this, being something separate, ought to be in a separate department. That was originally the view - ought to have an entirely separate department with separate heads appointed by him. So that either he's changed his mind....

H.M.Jr: Well, this is I.

Wagner: Yes, this is you.

H.M.Jr: I don't see, frankly, how, in view of his reorganization, - he's going to bring all these agencies under ten departments - how he can set up a new independent agency.

Wagner: Well, I hadn't asked that.

H.M.Jr: No, but I just think it would be apple pie for Harry Byrd if the President attempted to set up.....

Wagner: Well, let's pass that.

H.M.Jr: It's not important.

"Loans and Grants - Local Contributions. Grants of not to exceed sixty per cent of the cost of the project would be authorized to be made to public housing agencies. As a condition to such Federal aid, the bill would require that the proposed project be given full exemption from state and local taxation, although not from special assessments and customary service fees. Such tax exemption (or its equivalent in the form of free services, donations or other aid) would constitute a substantial contribution by the locality toward assuring the low-rent character of the project, for full taxation of a housing project in a municipality would amount to a monthly charge per room of from \$3 to \$5.

Wagner: Well, let me ask you - that's 60 percent of the cost of construction by the Federal Government?

H.M.Jr: Yes

Wagner: Well, of course, I'd want to think about this a little.

H.M.Jr: I don't want to commit you; I can't commit you; there

-5-

wouldn't be any sense committing you, because I'm only the agent for the President.

Wagner: I understand.

H.M.Jr: I'd much rather wait until we get the President's O.K.

Wagner: And I'm not going to undertake to approve this thing unless the President is ready. Be a terrific battle.

H.M.Jr: No, no, no. What happened is this. The President, when he left, gave me this thing and I worked at it all Sunday afternoon; we worked Monday afternoon, we were here yesterday afternoon, now we're here tomorrow. Now, I've done the best I can in the time. And the President said the other day - he said, "Henry, this is the most difficult thing to solve in my administration." He said, "We've been at it three years and no one has solved it yet."

At least I'm satisfied. But I'm not trying to commit anybody. I can't commit the Department of the Interior to this either.

I want to say that the full taxation of the housing project by the municipality would amount to a monthly charge of \$3 to \$5. In other words, we'd want to get this yearly benefit that some people suggest should come from the Federal Government - we want to get that from the community instead of our having to go to Congress and get enough money to contribute \$3 to \$5 per room. I've worked it around that we should get that benefit from the community, that should be their contribution.

Wagner: We'll think about that. That looks to me like no bill. I don't see how the communities can do that.

H.M.Jr: Well, I don't see how the United States Government could make 108 percent contribution either.

Wagner: Well, maybe I don't understand it. Go ahead.

H.M.Jr: "Loans would be made to local public housing agencies, which would have the full responsibility for acquiring the land, constructing and operating the projects. Such loans would be amortized over a period of not to

-6-

exceed sixty years and at an interest rate of not less than three per cent. No loans to limited dividend companies would be authorized."

Wagner: Let me ask you about that, Henry. Supposing you get the money cheaper than that. You still want to charge the municipalities more than you're paying for it?

H.M.Jr: Well, in this thing we're going to take the bonds and attempt to sell them and have a revolving fund, and certainly over - in the history of Government financing, I mean, to have a 50- or 60-year bond, to have to try and sell it at less than three percent coupon - in the history of the Government they've never been able to do it.

Wagner: You don't think a better plan would be to sell it at the going rate?

H.M.Jr: Well, the reason it is suggested - I put it this way because I thought the housing corporations would be better off with this, because if it is the going rate and the rate went up, the rate might go up so high it might stick them. And I thought that if it was fixed they'd benefit. But I didn't - we'd be better off to take your suggestion, because then we'd never be stuck. But I think I'll take yours.

Wagner: Well, there you only say it may not be less than three percent.

H.M.Jr: Well, we suggested, talking around here, not higher than four; I'd be willing to take that.

Wagner: You mean between three and four.

H.M.Jr: Between three and four.

"Control of rentals. The Administration should have some way of assuring that public housing agencies which have received Federal assistance will operate their projects for the benefit of the low-income group. While the state housing laws contain provisions requiring public housing agencies to operate their projects in this manner, it may be advisable to obtain additional assurances that the low-rent character of such projects is maintained. Perhaps the most effective means of

-7-

control would be to authorize the Federal Administration to make all or a part of its grants through the cancellation of bonds. Thus, instead of making a loan of only forty per cent of the project cost, the Administration could make a loan of a hundred per cent. Assuming a project cost of one million dollars, the Administration could purchase one thousand bonds of \$1,000 each. It could then make its sixty per cent grant by cancelling ten thousand dollars of these bonds in each year of the sixty year amortization period (in addition to cancelling the current interest coupons on the remainder outstanding, from time to time, of the \$600,000 of bonds evidencing the proposed grant). The Federal Administration could agree that it would continue to make these annual cancellations of such bonds and interest coupons only so long as the public housing agency maintains the low-rent character of the project. Of course, these provisions for bond and interest cancellation would not apply to the actual forty per cent loan on the project, which would have to be repaid with interest."

- Wagner: We have a formula in our bill which would keep it down within the low-income group. Under our arrangement, five times more than the rent isn't in the low-income group.
- H.M.Jr: Wouldn't that be up to the housing authority?
- Foley: Well, that goes to tenant selection.
- H.M.Jr: Huh?
- Foley: That goes to tenant selection, and some such provision should be written into this bill, to assure that only people should be admitted to these projects that are in the low-income group.
- Wagner: I don't quite understand, but it's all right. We can have it later on.
- H.M.Jr: What this does is this. New York wants to build a million dollar project. They give us a million dollars worth of bonds. We keep 60 percent of those, so to speak, as Treasury stock, to be cancelled as they pay it off. The 40 percent we have a right to sell if we can in the market and put it back in the revolving fund. And then each year, as they pay off

-8-

\$10,000 amortization, we cancel \$10,000 of the \$600,000 bonds; but it is there as a lien in case they should fall down, so we could take the whole thing and not just a part of them.

Foley: You see, Senator, your formula would require that the authorities admit only people who complied with the formula, and then to see that after they were admitted that that rental was maintained - this provision here would insure that.

Wagner: Yes, that's....

Foley: That after they got them in, they didn't raise the rates.

Wagner: Well, of course, we've got to guard against that.

H.M.Jr: As to class of tenant and all that - I've tried to keep this down to a page and a half, and the President won't read more than a page and a half, and we made the pages a little longer than usual, and I read it badly because the type is small, so.... He - he always says, "Give me one page."

Wagner: I think you've given him a lot in that one page. Given me a lot too.

H.M.Jr: As I say, as to the rules and regulations, there's no difference of opinion on that as far as I'm concerned.

"Federal Projects. The Federal Government would not be authorized to construct directly any additional housing projects. With respect to the projects now owned by the Government, the Administration would be authorized to sell them to public housing agencies at a write-off of not to exceed sixty per cent of their cost and to accept the bonds of public housing agencies in payment of the purchase price."

In other words, these we already have, we put them in the same system, treat them the same way.

"The Administration would also be authorized to lease such projects to public housing agencies or to operate the projects directly. In the leasing or operation of

-9-

such projects, the Administration would be required to charge rentals which would be at least sufficient to pay the operating expenses of the project and to repay, within a period not exceeding sixty years, at least forty per cent of the initial cost of the project (making allowance for the maximum sixty per cent grant), together with interest at such rate as the Secretary of the Interior deems advisable."

Wagner: Can I ask a question on that?

H.M.Jr: Please.

Wagner: You're leasing to New York City now this colored housing project.

Foley: Yes, sir.

Wagner: You're putting all these conditions in that they can't raise the rent and all that sort of thing?

Foley: That's right. I'd be glad to send you down a copy of that lease.

Wagner: No, I'm a page-and-a-half fellow too. That's probably 20 or 30 pages.

Foley: Sixty.

Wagner: No, I just wanted to get the idea.

H.M.Jr: As a matter of fact, what they have done there - we've used that idea to really build this thing around; and I've got a book here on all these 53 projects, and I must say I'm impressed with the work.

Wagner: There is one thing there - all the group with me differ with me on that - I'm not much in sympathy with it - that is, with the Federal Government building any more demonstration projects, although there may be occasions where it would be desirable. But I think at this time it would be subject to criticism.

H.M.Jr: Well, we.....

Foley: This doesn't include.....

-10-

- Wagner: I think they're pretty enthusiastic for that. Isn't that so, Mr. Keyserling?
- Keyserling: Well, I don't think the demonstration projects are important.
- Wagner: I don't think it's important, but after they're up they want to let it stay; I think it's better out.
- Foley: I think so too. That's the only way you're going to make this plan work, because if there are loopholes where they can get the benefits of the Act without taking steps to pass legislation in order to assure long-time planning and control, you're not going to get full cooperation from all the states.
- Wagner: Oh heavens no. Some of those states ought to be in Africa.
- H.M.Jr: Five and last. "Financial provisions. It is suggested that the bill authorize an appropriation of \$ _____ for the fiscal year ending June 30, 1938; \$ _____ for the fiscal year ending June 30, 1939; and \$ _____ for the fiscal year ending June 30, 1940; all of such sums to continue to be available to the Administration until expended. By providing for appropriations over a three-year period, it would be possible for the Federal Administration and the local authorities to plan and prepare for a definite program."
- Wagner: Well, let me ask you: in effect - you know, I'm a little slow getting things - in effect, you're making this a capital grant, aren't you, instead of our system of contributions each year?
- H.M.Jr: Yes. The difference is this. *'ll tell....
- Wagner: And is that money coming out of direct appropriation?
- H.M.Jr: I tell you where the difference comes. Well, we're starting - we think we know where we can get enough money to do it two or three years without the President touching the budget.
- Wagner: And the debt?

-11-

- H.M.Jr: Well, I mean if it's got to come out of the existing funds.....
- Wagner: What about the loan for the construction?
- H.M.Jr: We make them the loan. We advance the money.
- Wagner: You advance the money how, out of the bond issues?
- H.M.Jr: No, the President's got to give us a revolving fund to do this thing.
- Wagner: It's appropriation, then.
- H.M.Jr: Yes. Isn't it?
- Opper: You may have to borrow to get the funds.
- Wagner: Well, I didn't mean that. I meant....
- H.M.Jr: But it's an appropriation. We can't - what I've been trying to do for thirty days is to lift myself by my bootstraps, and I can't do it. Now, here's the main difference between these things. This thing commits the Government to a three-year program; it doesn't commit it to a 60-year program. That's the thing I object to. Instead of the Federal Government making up this \$3 to \$5 a room and going to Congress every year for the next 59 years, we ask the community to do it.
- Wagner: Of course, I think mine is a simpler and more effective way, but I've reached the stage where I'm not going to battle. I've....
- H.M.Jr: Well, you asked me to make it simple. There's the difference.
- Now, incidentally, I had Eccles here yesterday, who is quite a houser.
- Wagner: (Throws up hands in "holy horror") Don't give me that. He was a houser.
- H.M.Jr: Well, he likes this.
- Wagner: He likes this? Does he like the subsidy feature of it?

-12-

- H.M.Jr: Well, he likes it just the way I'm giving it to you.
- Wagner: Well then, he's changed in the last few days.
- H.M. Jr: He says this is the only sound plan that he sees that he will O.K. financially.
- Wagner: Well, that's - I'm glad to see his heart change, because I was with him about a week ago and he was opposed to any Government subsidy of any kind.
- H.M.Jr: Well, this thing that I gave him at lunch yesterday - and I had Ransom there, from Atlanta, and Wayne Taylor - I worked with them alone.
- Wagner: Well, I'm glad to hear that.
- H.M.Jr: He said he'd go along on that and support it.
- Wagner: Supposing he didn't support it.
- H.M.Jr: Well.....
- Wagner: I mean some of these fellows think they've got such great influence in Congress. I don't say that for the President, because if he don't favor it you're out.
- H.M.Jr: But I'm not putting in that Eccles is opposed to it or for it. I'm just saying that he's supposed to be here looking after the credit of the country and I'm just saying - and you're also Chairman of the Banking and Currency, and I'm just saying he saw the plan and liked it and said it was all right.
- Wagner: You haven't given me much to do in Banking and Currency. It's all been done, hasn't it?
- H.M.Jr: There's plenty to do, but I don't want to do it this year.
- Wagner: Well, it's all right. I'm just joking about Eccles, but we did have quite a battle two weeks ago in the Willard Hotel, because he wouldn't stand for any kind of a subsidy. He said, "We must now get private industry going." And we nearly came to blows, don't you know.
- H.M.Jr: Well, I can repeat....

-13-

Wagner: That's fine.

H.M.Jr: ...Ransom was there, and Wayne Taylor, and they heard the thing, and the only question he raised was this question of repossession, and these boys have worked this thing out about taking all the bonds, and that would answer that.

Well, anyway I'll read a little bit more that we've got here.

"The Administration would be authorized to sell any securities acquired by it and the Secretary of the Treasury would be authorized to purchase such securities (excluding, of course, any bonds which are intended for cancellation pursuant to the foregoing alternative method of making the sixty per cent grant). That's the Treasury stock - couldn't sell that.

"Any monies received by the Administration from the sale of securities or collections of principal or interest thereon or from the sale, leasing or operation of projects, would continue to be available to the Administration until expended."

"The Secretary of the Treasury would be authorized to resell any securities which it purchases from the Administration or to hold such securities and raise additional funds equivalent to the par value of the securities so held."

Instead of going through Jesse Jones, I say let's do it direct. Instead of their selling it to Jones and then Jones comes and borrows the money from me, cut that short.

"The bonds of local housing authorities should be made exempt, both as to principal and interest, from all Federal taxation, except estate, inheritance and gift taxes. Such a provision would remove any doubt regarding the exemption of these bonds from Federal taxation and would therefore substantially aid their marketability."

Wagner: Well, let me study it a little, and you know that I'm not - when it gets right down to it, I've had several of my bills mutilated pretty much, so that I'm not - my

-14-

mind isn't closed on all these things; and I really want to get a housing bill. But I don't want to get a housing bill that just looks like a housing bill and nothing happens.

H.M.Jr: Well, we've got people here who are in this business, see.

Wagner: I know. They've done a good job. You've learned - I think you learned something in Williamsburg. I mean that was really expensively done.

H.M.Jr: Well, I want to put Gray on the witness stand a bit. Mr. Gray, if you had this and you were still in charge of this thing, see - taking the country by and large under this formula, or any locality that the Senator could ask you about, what do you think that you could build a house for under present conditions, under this formula, and the rent per room.

Gray: Well, it would bring about the same room rent that you now have in Harlem. Williamsburg would be about the same.

Wagner: Williamsburg?

Gray: Yes, sir, about the same as Harlem.

Wagner: What is the rent there?

Gray: About seven dollars a room in Harlem, and Williamsburg would be very close to it, within a few cents either way.

Wagner: I understand your rooms ran way up to \$17 per room.

Gray: Oh, the cost per room. I'm talking of the rent. The rent in Williamsburg would be within a few cents either way of Harlem.

Wagner: What's reducing it?

Gray: We went to one percent in Harlem on the interest.

Wagner: Isn't it the fact that you didn't charge any interest for the loan, the money advanced? I mean your grant

-15-

amounts to a great deal more than 45 percent.

- Gray: It amounts to 45 percent with one percent interest on the remainder, instead of three percent interest on the remainder.
- Wagner: How much does that amount to?
- Gray: That amounts to 60 percent capital grant. Turn it over from the interest side to the grant side and it works out just about the same.
- H.M.Jr: What they've done here - it's taken me a month to learn this - 45 percent grant with three percent money, and in order to get this thing down they figured the money at one percent, which is equivalent to a 60 percent grant.
- Wagner: I know what was done. I didn't know just.....
- H.M.Jr: You didn't know whether they'd admit it.
- Wagner: Huh?
- H.M.Jr: You didn't know whether they'd admit it.
- Wagner: No, I knew that. I didn't know what it would amount to as a total amount grant, by reducing....
- Gray: 60 percent on the capital grant, with three percent on the remainder. You'd have a 60 percent capital grant with three percent on the remainder, or 45 percent capital grant and one percent on the remainder.
- Wagner: Of course, I'm not much over at Treasury and I'm so tickled to death that that damn rotten swamp in Williamsburg was cleaned up, and I wouldn't care if it cost the Government a little bit, because you're going to get back in reduction of crime and disease and juvenile delinquency more than you've paid, and you've lifted the people out of the gutter into a decent place.
- Gray: Of course, I think we all want to remember that these rising material construction costs will upset almost any plan that you make based on your past experience. For instance, Williamsburg and Harlem. Naturally,

-16-

the land cost a great deal more. Then, they were built in a time when the construction cost had increased very considerably. Now, that has a tendency to throw out your fixed - with your grant fixed and your interest fixed, and your construction cost going up, you're naturally going to have to increase your grant or increase your rental.

- Wagner: Are you satisfied, with this subsidy, that you can get your rents? Now, in some communities, of course, you've got to get your rents down to an even lower low-income group.
- Gray: In Montgomery, Alabama, there is another set-up. We have a colored project there based on 45 percent grant and three percent interest, where the rents are \$1.97 per room.
- Wagner: What's that due to? Cheap land?
- Gray: Very cheap land, cheaper cost of construction - all those things go into it.
- Wagner: I know I was out in Indianapolis to make a speech and I discovered that the tax rate - I mean that the taxicab cost me about one-half what it cost me here.
- Gray: But that \$1.97 in Montgomery, Alabama, is a higher rent for the man renting than the seven dollars in New York.
- Foley: It's \$3.97, isn't it?
- Gray: Yes. \$1.97 - I should have said \$3.97. Now, that's a higher rent for them than seven dollars is in Harlem.
- Wagner: Nevertheless we've got to have these different rents.
- Gray: Now, we go in - now, as I explained before, I go into a place, anywhere, I make the survey, and I give our people the rent that they're going to pay - "That's the rent this thing must be designed for" - and everybody agrees on it before. "If you can't do it, boys, say so; say now. Don't build this building and then find it out; say now."
- Wagner: You remember the conversation we had with Dave Walls about - he wants a provision in there that as you build you also eliminate a slum.

-17-

- Gray: Then you won't build in a lot of places.
- Wagner: In a great many cases I think that is so. Yet there seems to be little justification for building and letting a slum stay there, letting people live in that slum area.
- Gray: But concrete cases show it's practically impossible to nouse those people during construction; have to build alongside that and then when you get the next project it will take care of the slum.
- Wagner: Well, I know it's practically impossible to put you into that straitjacket, but you remember that's going to be one of the contentions.
- H.M.Jr: Well, Senator, I want to make it perfectly plain that I'm not attempting to give you an ideal housing bill that's going to be good for the rest of your life or my life. All I'm trying to give you is a bill, which I call a transitional bill, to keep these things going.
- Wagner: Well, I'm not a transitionist. I like to do things for all time, don't you know. But this is going to be regarded as a very inadequate thing. I mean after all the talking the President did, some in my presence. And I was responsible for putting into the platform that we're going to do all this housing. And then we begin by this little drop in the bucket; it isn't going to be regarded that we're sincere about this thing. It will be looked on as some sort of a palliative to get something done. But, on the other hand, it may be the thing which may ignite the fuse, make us go on to bigger things. The other plan - I don't think it would hurt if you add a little bit to your debt, because after all it's a contingent liability; every dollar of that money would be repaid which you loaned.
- H.M.Jr: If Congress voted it.
- Wagner: What?
- H.M.Jr: If Congress voted it.
- Wagner: I'm speaking about the authorization to issue bonds and get your money that way.

-18-

- H.M.Jr: No, but we've got to go to Congress to get the money back. The houses will never pay the money back.
- Wagner: Oh yes, they will. They pay every dollar of the loan.
- H.M.Jr: Oh no, they can't.
- Wagner: Who said they can't? I mean if they get this grant by way of a contribution each year, which would require a payment, of course, over a long period of time, but it would be a small payment compared to the appropriation now, up to 50 or 60 million dollars, and you're getting a big housing project out of it.
- H.M.Jr: What I mean is they'll pay us back out of the contribution which we give them.
- Wagner: However they pay you back, that debt will be paid.
- H.M.Jr: If Congress will vote it each year; if they'll vote the contribution each year.
- Wagner: The contribution. Well now, if we obligate ourselves to pay a subsidy for construction, just as we do highways and all that sort of thing, I've never known Congress to repudiate an obligation once it's made.
- H.M. Jr: But it's the law, isn't it, that no Congress can bind future Congresses?
- Wagner: They can't legally, but I've never known a repudiation of an obligation Congress has made to make a contribution per year over a period of years. We passed a bill during the depression to, over a period of three or four years, make contributions to highway construction.
- H.M.Jr: One year it was.
- Wagner: No, it went over a period. George had the bill. I'm quite sure it was two or three years.
- H.M.Jr: The point I'm making on this thing, and that's the reason that I can't go along with it as Secretary of the Treasury, is purely on the financial side; that

-19-

if we loan this million dollars, the only way the Federal Government can get it back is if Congress votes the money to the housing project to pay us back, and if we don't vote the money we don't get paid back, and that's the thing that I've stuck on; that's the thing that I haven't been able to overcome. And therefore, rather than do it that way, I've come around, approached it the other way, that we'll give them a 60 percent grant, make them a hundred percent loan, to build the building, but the \$3 to \$5 that they need to bring these rents down - we'll get it from the communities as the community's contribution. I don't think that's very much to ask of the community.

- Wagner: Well, it's like a lot of these other problems. In a way, they are national in scope. I mean when you begin to house... England - I don't know - England had unemployment insurance, old-age pensions, unemployment insurance, in 1911; we didn't dare go at it until President Roosevelt came in, although I put in a bill a couple years before and I might just as well have thrown it right out the window so far as the Hoover administration. These other countries go ahead and do the thing.
- H.M.Jr: But Bob, if I may say so, I wouldn't be sitting here if what happened to Chamberlain three weeks ago happened to me. He sold five hundred million dollars - tried to, and only sold 35 percent. So that's what happened to him three weeks ago.
- Wagner: That's due to a housing program they had.
- H.M.Jr: It's due to their whole credit picture. And they keep talking about England and their credit.
- Wagner: I'm not going to quarrel. Listen, I know when my theory won't be accepted, so there's no use my talking.
- H.M.Jr: But maybe I may get thrown out of the White House on this too. It won't be the first time it has happened to me, and I hope it won't be the last.
- Wagner: If I can talk to him without you being around, I might get somewhere.
- H.M.Jr: Do that.

-20-

- Wagner: No, I won't do that. No, he knows what he wants pretty much, but he did say....
- H.M.Jr: You talked to him first last time before the meeting too.
- Wagner: But he wouldn't come into the meeting.
- H.M.Jr: But you had ten minutes with him before.
- Wagner: By the way, that's the first time I ever heard him admit to being really tired - I mean on that day - "I'm so tired, I can't think of a thing." He expressed real tiredness.
- What else did I want to ask about this? I had something in mind.
- H.M.Jr: Take your time. You've been most patient - may I say that - with me, and I appreciate how patient you've been with me.
- Wagner: That's the reason I've gotten these other bills through.
- H.M.Jr: You've been most patient, and I sincerely appreciate it.
- Wagner: Well, maybe behind the scenes I wasn't so patient. I might have called names.
- H.M.Jr: You wouldn't do that.
- Wagner: But I would like to see something started. And I do believe that the Interior Department has done good work. As a matter of fact, in my bill there is a provision to transfer to the new agency - that those who have charge of that housing go into the new division. I'm not - I have no - I don't think I'm ever too stubborn about these things.
- H.M.Jr: Well, I'm impressed with the work Mr. Gray is doing.
- Wagner: The only thing I wanted in there, and this is the way the President put it too, is a fellow with a heart as well as a head, who has some idea of what these poor people are up against. Now, I know. It's long ago, but I still remember. I lived in the slums.

-21-

I know what it is to live in the slums, and I don't know why these people haven't become anarchists already, don't you know; and they feel that the Government has neglected them, as they have.

H.M.Jr: Well, we'll put Gray under the flouroscope and take a look at his heart.

Gray: Senator, I can put this very briefly, if you can permit me a minute. Housing costs so much, you see - bricks and mortar, and your land. Now, depending on how much money you can have, you can build more or less houses, and depending on what you want to do, you can build more or less houses with higher or lower rentals. You can build a lot of houses with a large subsidy to bring a low rental, or you can build less houses with a small subsidy to bring a higher rental. And you have need for all. We have a need for housing from seven dollars down to two dollars a week.

Wagner: I'm - I want the low fellows; I'm not interested in the others. Let me tell you this: I think this is going to help in another way, because, you know, a shortage is coming again. I was boosting the rents and all of my friends boosting them up all along the line, and they wouldn't dare to do that if they didn't know there was a shortage.

Gray: In Detroit and Chicago they are on the verge of rent riots - right on the verge.

Wagner: In New York in 1921 we had to pass rent laws - may have to again - because the landlords, you know, were so damn uncivilized, just raised the rents beyond the people's capacity to pay and still eat.

Gray: I have a heart, but I haven't a heart to pay two million dollars more for a piece of land than it's worth and raise the rent a dollar per room, or to go ahead with a project on bids which I know are too high. I don't think a man's heart.....

Wagner: I know.

Gray: I get all those pressures. I get pressure - "Now, they ought to build these buildings." Well, I know that pressure, and I know they're excessive.

-22-

- Wagner: Oh, you've got to watch that. You've got the boys around Washington looking to sell property and all that. I know what you're up against. It's been remarkable how our administration has been free from any suggestions at all of....
- Gray: I took months in Nashville - I guess I took four or five months to redesign a Nashville project which, had I let it on the contract, was going to cost \$8.40 per room per month for poor niggers in Nashville. I got it down to five dollars; took four or five months of redesigning and rebidding.
- Wagner: You know, we still have these lobbyists around who still know how to work things so as to get credit for something which they didn't do at all, and get money for it - and some of our members of our own party, let me tell you.
- H.M.Jr: Well, they're going to have a good time explaining some of these tax evasion devices.
- Wagner: Well, those are the big fellows.
- H.M.Jr: Just the big fellows - we'll get some more of them down here.
- Wagner: Well, Henry....
- H.M.Jr: I'm going to ask the President for an appointment and just as soon as he tells me what he wants I'll call you and I'll come to see you whenever you like. He's back in this morning. I'm going to say that I've seen you, I've proposed the plan, you'll be glad for the chance to think it over, you haven't committed yourself in any way, and would he please give me a chance to see him.
- Wagner: They used a lot of the relief labor on some of this work. We'll leave it out of this, I suppose. Don't you (Gray) agree?
- Gray: Please get away from the relief labor, yes. You get into these rows with unions and it's terrible.
- H.M.Jr: I don't know how the hell he's going to react, but I did a lot of things he didn't tell me on this thing.

-23-

Wagner: All right.

H.M.Jr: Again, thank you for your patience.

Wagner: And he'll probably send for me after he approves your plan, say, "This or nothing."

H.M.Jr: No, he won't do that. He's never done that. And, you know, I haven't opened my mouth to the President on this thing one way or the other.

Wagner: What about today? You going to say we've had a conference?

H.M.Jr: Only if you want to.

Wagner: No, I don't want to say anything, unless - does the press know? It's bad to deny it if they know we've been together.

H.M.Jr: Well, I don't know, but unfortunately they sort of keep a watch on my door.

Wagner: Supposing we say we had a talk about the legislation generally.

H.M.Jr: If anybody wants to know, may I tell them to see you, or go to your office?

Wagner: No, why don't you - I'll refer them to you. You're the member of the Cabinet.

H.M.Jr: Wait a minute - but you're a Senator. Do you mind....

Wagner: I'm just a Senator.

H.M.Jr:waiting a minute?

(On phone) Ask Mr. Gaston to come in right away.

I don't even know - we'll find out whether anybody is around; but they've watched this thing, and....

McR: How long can the boys have to get that book over to you?

H.M.Jr: (To Kieley) Any newspapermen around?

-24-

Well, what I've had in mind ever since I've been asking is in order to show it to the President.

Gray: Your set-up is different from ours, and we have to change all our set-up to fit yours. We're all working on it now. If I get - the longer I have, the more I can get.

H.M.Jr: I mean I don't know when the President - he may not see me today.

(Gaston comes in)

Herbert Gaston - do you know Senator Wagner?

Gaston: Glad to see you, sir.

H.M.Jr: He said, in telling the newspapers - you tell Herbert what you think we ought to say.

Wagner: Well, I think we ought to say we had a general discussion on the housing legislation and the Secretary submitted certain suggestions.

H.M.Jr: Would you like to have the men come up and say it to them yourself?

Wagner: I don't want to say it. I'm not looking... The only thing is, sometimes there is a misunderstanding, and one fellow says one thing and the other....

Gaston: Do you think it would be better, Senator, to let the men come in and you talk to them?

Wagner: Well, what can we say, except that we - you made certain suggested amendments to the bill which I have introduced?

H.M.Jr: I don't like to say that.

Wagner: No.

H.M.Jr: I'd rather just say it.....

Wagner: We had a general talk...

H.M.Jr: ...on the housing legislation.

-25-

Wagner: And we'll probably meet again. Why don't you say it that way?

H.M.Jr: We'll meet again and we're making progress.

Gaston: Making progress toward an agreement on a bill that would be satisfactory.

Wagner: And practically no differences except as to the method of financing; everybody's in sympathy with housing the low-income group, and the question is, under present conditions how much of it we can do, and the method of financing. I think that's about all we need to say. What do you think?

Gaston: I should say that's all, unless we're finally agreed and want to tell what we....

Wagner: Well, we ought not go to too far.

H.M.Jr: No, because I haven't seen the President.

Gaston: Well then, I should say that's all we can say.

Wagner: Thank you very much.

H.M.Jr: Senator, you got a car?

Wagner: Yes. Goodbye.

FEDERAL PUBLIC HOUSING PROGRAM

1. Administrative Agency. The Housing Division of PWA should be made a permanent housing administration, all of the powers of the Administration to be vested in the Secretary of the Interior. The Housing Administration should be established as a separate administration, so as to facilitate its transfer at a later date pursuant to any plan which may be enacted for the re-organization of the executive departments of the government.

2. Loans and Grants - Local Contributions. Grants of not to exceed sixty per cent of the cost of the project would be authorized to be made to public housing agencies. As a condition to such Federal aid, the bill would require that the proposed project be given full exemption from state and local taxation, although not from special assessments and customary service fees. Such tax exemption (or its equivalent in the form of free services, donations or other aid) would constitute a substantial contribution by the locality toward assuring the low-rent character of the project, for full taxation of a housing project in a municipality would amount to a monthly charge per room of from \$5 to \$6.

Loans would be made to local public housing agencies, which would have the full responsibility for acquiring the land, constructing and operating the projects. Such loans would be amortized over a period of not to exceed sixty years and at an interest rate of not less than three per cent. No loans to limited dividend companies would be authorized.

3. Control of Rentals. The Administration should have some way of assuring that public housing agencies which have received Federal assistance will operate their projects for the benefit of the low-income group. While the state housing laws contain provisions requiring public housing agencies to operate their projects in this manner, it may be advisable to obtain additional assurances that the low-rent character of such projects is maintained. Perhaps the most effective means of control would be to authorize the Federal Administration to make all or a part of its grants through the cancellation of bonds. Thus, instead of making a loan of only forty per cent of the project cost, the Administration could make a loan of a hundred per cent. Assuming a project cost of one million dollars, the Administration could purchase one thousand bonds of \$1,000 each. It could then make its sixty per cent grant by cancelling ten thousand dollars of these bonds in each year of the sixty year amortization period (in addition to cancelling the current interest coupons on the remainder outstanding, from time to time, of the \$600,000 of bonds evidencing the proposed grant). The Federal Administration could agree that it would continue to make these annual cancellations of such bonds and interest coupons only so long as the public housing agency maintains the low-rent character of the project. Of course, these provisions for bond and interest cancellation would not apply to the actual forty per cent loan on the project, which would have to be repaid with interest.

4. Federal Projects. The Federal Government would not be authorized to construct directly any additional housing projects. With respect to the projects now owned by the Government, the Administration would be authorized to sell them to public housing agencies at a write-off of not to exceed sixty per cent of their cost and to accept the bonds of public housing agencies in payment of the purchase price. The Administration would also be authorized to lease such projects to public housing agencies or to operate the projects directly. In the leasing or operation of such projects, the Administration would be required to charge rentals which would be at least sufficient to pay the operating expenses of the project and to repay, within a period not exceeding sixty years, at least forty per cent of the initial cost of the project (making allowance for the maximum sixty per cent grant), together with interest at such rate as the Secretary of the Interior deems advisable.

- 2 -

5. Financial Provisions. It is suggested that the bill authorize an appropriation of \$ _____ for the fiscal year ending June 30, 1939; \$ _____ for the fiscal year ending June 30, 1940; and \$ _____ for the fiscal year ending June 30, 1941; all of such sums to continue to be available to the Administration until expended. By providing for appropriations over a three-year period, it would be possible for the Federal Administration and the local authorities to plan and prepare for a definite program.

The Administration would be authorized to sell any securities acquired by it and the Secretary of the Treasury would be authorized to purchase such securities (excluding, of course, any bonds which are intended for cancellation pursuant to the foregoing alternative method of making the sixty per cent grant). Any monies received by the Administration from the sale of securities or collections of principal or interest thereon or from the sale, leasing or operation of projects, would continue to be available to the Administration until expended.

The Secretary of the Treasury would be authorized to resell any securities which it purchases from the Administration or to hold such securities and raise additional funds equivalent to the par value of the securities so held.

The bonds of local housing authorities should be made exempt, both as to principal and interest, from all Federal taxation, except estate, inheritance and gift taxes. Such a provision would remove any doubt regarding the exemption of these bonds from Federal taxation and would therefore substantially aid their marketability.

MEETING WITH EXECUTIVE COMMITTEE OF
FEDERAL RESERVE OPEN MARKET COMMITTEE

June 2, 1937
11:00 P.M.

- Present: Mr. Taylor
- Mr. Bell
- Mr. Lochhead
- Mr. Harris
- Mr. Seltzer
- Mr. Upham
- Mr. Harrison
- Mr. Williams
- Mr. Sinclair
- Mr. Eccles
- Mr. Burgess
- Mr. McKee
- Mr. Broderick
- Mr. Goldenweiser
- Mr. Piser

H.M.Jr: Well, I think Dr. Burgess should open the meeting, because he's back.

Burgess: Put me ahead of Dan? I want to hear Dan some time.

H.M.Jr: Oh.

Bell: You've heard me.

H.M.Jr: You want to hear how much money before.....

Burgess: I think that would be very interesting. I'd feel better making predictions.

Harrison: Could go ahead as far as September if you could make the estimate.

Bell: Well, there hasn't been any material change in the figures that I gave you the last time. We estimated that we'd go out of May with 271 million and we went out with 266 million, having gotten about 15 million dollars more gold than we anticipated. If we borrow 750 million dollars in June, we'll go out of June with about 840 million, and in July....

H.M.Jr: How much did you say?

Bell: 840 - go out of June with 840 million dollars after having borrowed 750 million.

-2-

H.M.Jr: Make it 800.

Bell: 800; well, that would be about 890 million. Now, we'd go out of July with about 730, or 780 if you borrow 800.

Burgess: But that's assuming no new bills in July.

Bell: That contemplates starting a new series of bills in the last week of July.

Burgess: Decembers.

Eccles: Only 50 million would come in then.

Bell: That's right, and only 200 millions of bills in August, and you'd go out of August with about 760 million, or about 800 million if you borrow the 800 million in June. Then in September you'd borrow 500 million dollars in new cash - Treasury note - and that would be used largely to retire 350 million maturing bills, so it's really a roll-over. You'd go out of September with about 970 million.

H.M.Jr: How much money in addition to the eight hundred and eleven?

Bell: There's 817 million dollars of Treasury notes falling due, and there's 350 million dollars of special maturing Treasury bills.

Burgess: You'd have a billion 300 million of financing then?

Bell: That's right.

Eccles: Well, why not do with those bills like you're doing now with bills? In other words, you'd start issuing March bills....

Bell: Well, we will beginning in October; we'll do that too.

Eccles: I see, you're figuring 300 million new....

Bell: No, figuring 500 million of cash on Treasury bond or note, and you'd retire 350 million dollars of Treasury bills maturing.

-3-

H.M.Jr: What about the 800 million?

Bell: And the 800 million would have to be refunded.

H.M.Jr: We've got 800...

Bell:plus the 500.

Eccles: But the five would be new in those circumstances, because the 300 million of bills - of course, if you're paying those off at the time with the expectation that you would start issuing them again the first of October at 50 a week....

Bell: That's right, but we've got to keep our balance up for the time being, to pay them off immediately.

H.M.Jr: But what the financing in September would be - you'd offer the 800 million notes, a conversion, and in addition to that five hundred million more of what we call new money.

Bell: For cash, that's right.

Harrison: Of which 300 would be used to pay off bills.

Bell: 350.

H.M.Jr: Why earmark it? That's what we don't want to do. We can say the 350 we'll pay out of tax receipts. I mean I don't want to come - when it comes down to.....

Burgess: That is on the basis of present budgetary figures, which show a deficit of 400 million for the fiscal year; that is assuming that kind of range of expenditure.

Bell: That's right.

Burgess: What is that assuming about gold there?

Bell: That's assuming 125 million in June, which is about 70 million less than we got in May; 100 million in July, August, and September.

Lochhead: Probably have to increase it a little bit for June,

-4-

because you hit it pretty heavy yesterday; started off with about 40 million yesterday, and there's about another 40 on the water; that's 80 you've got in sight already. You'll have to increase - I think you'd better count pretty close to 200 for June, and then hope you can drop back again in July. From all appearances, we'll get a fairly good amount in June.

Golden.: You say fairly good amount?

Lochhead: Fairly good.

Golden.: That's a very modest statement.

Lochhead: Depends on what you compare it with.

Williams: He means "substantial."

H.M.Jr: So that's why that thing didn't click. I thought you said you'd start in June another series.

Bell: No, sir - of what?

H.M.Jr: Series of 50 million bills to mature in December.

Bell: I think I can give you the figures on that.

H.M.Jr: Well, how much did you figure on raising?

Bell: Well, there would be 250 million dollars of extra money raised in July and August of Treasury bills, which bills would mature in December.

H.M.Jr: Now do it the other way.

Bell: Carrying through the whole picture...

H.M.Jr: If you didn't do the December, but started the 90-day bills.

Bell: Well, leaving the picture as it is, but adding 50 million dollars of Treasury bills, 90-day bills, beginning, say, the 30th of June and continuing on through September, we would raise 450 million dollars of additional money, assuming, of course, that we'd

-5-

refund the bills when they mature - 450 million dollars of new money up to September 30. That would give us a balance in the neighborhood of a billion one, on the same basis.

- Burgess: That's assuming you also raised five hundred million cash in September.
- H.M.Jr: No.
- Bell: Yes, that's the same. Well, we don't need, of course, that much money.
- H.M.Jr: Let's see if we can get together. As I had the picture, Dan - you tell me if I'm wrong - if we started selling these 90-day bills, I was under the impression that we'd raise enough money that when we came to September financing we'd simply have to turn over the notes.
- Bell: That is what we can do, yes, sir.
- H.M.Jr: I see.
- Burgess: That would be increasing your outstanding bills.
- H.M.Jr: Well, after September there would be two billion six.
- Bell: Two billion six is right.
- Burgess: Compared with the present what?
- H.M.Jr: Two billion 950.
- Bell: No, it will be two billion six today, and you retire 300 million on June 15, which brings it down to two billion three.
- Eccles: Then you issue....
- Bell: Then you would issue a net of 350 million dollars in that period, making the total of two billion 650 - -53. You retire 350 million of the specials on September 15.
- H.M.Jr: But after September 15 if we did that, we'd have two billion six.

-6-

Bell: Two billion 650.

H.M.Jr: But the picture I had in mind was that if we started these 90-day bills late in June, all we'd have to do in September would be to roll over that note.

Bell: We could do that, get by with it.

Eccles: Well, that would be - of course, that would be new money; the 90-day bills would be new money. In addition to that, you'd have the nine month bills, and if you're issuing the 90-day bills and in addition to that the 50 million of December maturity, would that be 150 million a week? 50 of 90-day bills, 50 of the nine months, and 50 of the December?

Bell: No, sir. This schedule I gave you as to maturities would be rearranged now, and all of the special money would be 90-day bills from here on.

Eccles: So - I see.

Burgess: Instead of September, you'd sell 90-day bills.

H.M.Jr: We haven't clicked on this thing, and my understanding with Eccles is that as soon as this financing is over, we'd sit down with the Board and discuss what kind of bills we'd sell, and we left this thing until - we'd do it after June 8, have two weeks to discuss the bill market. But you asked us to go beyond September, and that's in the possibilities. But that was my arrangement with Eccles, that we'd do this immediately after the financing.

Eccles: As far as September is concerned, then, it may be that it would be just a turnover, it may be that you'd get some new money at that time, or it may be that if you decided on 90-day bills you'd get the money before that on a weekly basis. That is, any of those things could happen.

H.M.Jr: Now, if anybody doesn't understand - I don't think either Bell or I have explained it very well - I'll let Bell do it again if anybody doesn't understand it.

Bell: Well, it was contemplated that, beginning about the 30th of June, which is a Wednesday, or the 23d of June, which would be another Wednesday, we'd start

-7-

raising 50 million dollars of additional money on 90-day bills. That would make those bills begin to mature some time around the 20th of September. From there on and during that period, we could raise 50 million in June and 150 million in July, and 250 million in September, in addition to the 250 million dollars already in the picture. That's about 700 million dollars.

Burgess: What do you mean already in the picture?

Bell: That I gave you as the balances; I had 250 million dollars in my....

Burgess: Of December bills?

Bell: ...in my balances that I just gave you, there are 250 million dollars of extra issues of bills maturing in December.

Burgess: Maturing in December.

Bell: Now this schedule would be rearranged to be 90-day bills instead of that, and in addition 450 million dollars.

H.M.Jr: Now we're getting it. It's my fault. Usually Bell and I have dress rehearsals, but we've both been pretty busy.

Bell: I didn't know whether you wanted to discuss this today.

H.M.Jr: It means 450 million dollars more on top of your 250, because if you do....

Burgess: You mean 650 million of bills between the two financing dates, practically, in addition to the roll-over of the nine months bills.

H.M.Jr: That's right.

Burgess: Then you would simply roll over your September notes when they came due.

H.M.Jr: That's what we'd like to do.

Burgess: Yes.

-8-

H.M.Jr: That's what we'd like to do.

(Secretary has short private
talk with Lochhead)

H.M.Jr: Are we all together now on this? Have you succeeded in making a plan?

Burgess: (To Bell) But if you started selling bills again in October - no, you'd just be rolling over those 90-days.

Eccles: That's right.

Bell: That's right.

Burgess: You're assuming that you won't have to have these Treasury bill issues in October and November for any additional new money.

H.M.Jr: We haven't agreed in the Treasury yet, but just for a suggestion we're throwing it out. I mean we're trying to work it out so that, first, the 90-day bills is a move in the right direction - we don't know yet; second, we'd only like to turn over our maturing notes in September. We've thought this one out. Some of the other people have got two or three other plans around. We want to talk to you. The few people we talked to in New York are crazy to have 90-day bills, want them very badly, say it would make it much easier to arrange for excess reserves from day to day. And whether we then continue to sell additional bills on the tax dates - we haven't crossed that bridge, whether you people can handle that without our being in the market, taking out that money on that date. In fact we haven't - the thing hasn't jelled at all, and I don't want it to jell until after the financing, because there are a lot of things at stake.

Harrison: Mr. Secretary, in this tentative plan, which I understand is just a suggestion, where you propose to issue 90-day bills during the interval between June and September and also roll over the maturing ones, what maturity bills would you put out to roll over the maturing ones?

H.M.Jr: You mean in September?

-9-

Harrison: No, maturing between....

H.M.Jr: Continue the nine months.

Harrison: You'd continue. That's what I wanted.

H.M.Jr: No, continue the nine months. We're thinking of a nine months and a 90-days.

Harrison: That's what I wanted - a nine months and a 90-days.

H.M.Jr: That's what we're thinking of, but nothing has jelled yet. Seltzer gives me a new memorandum every day at bedtime. He improves his ideas every day.

Harrison: Good reason for delay.

H.M.Jr: Now, are we ready for "the" Burgess?

Burgess: Well, I can give you the results of about eight days' acquaintance with the market.

H.M.Jr: You better skip the other two months.

Burgess: Well, I think I knew more about it before I came back.

The broad picture, of course, is that the market is just getting over a big dip, the same kind of thing we went through, only worse, as in 1934 and 1935. It's the old familiar experience; you had another one in '32 and '33, and so on. And after such an experience, it takes some time before the market settles down, you know just where you're at, and before the quotations mean anything. You can have a quoted price, but you can't sell bonds at that price. You can look at the quotations and say, "Well, you can sell a five-year note at such and such, or a 15-year bond at such and such," but you can't do it because there isn't the volume there.

On those occasions in the past we have always started with something short and have worked up; we have tried to leave the market a little bit until we got it working on a longer-term proposition. Well now, the market has recovered a certain amount of the way. It's

-10-

recovered particularly in the past week, since the Supreme Court decision a week ago Monday. While the quotations aren't very much higher, they are a quarter to half a point higher on the bonds, and an eighth to a quarter point higher in the notes. The market feels a lot better; it's a lot more confident of itself than it was.

Now, as you look at the market today there are three kinds of things that you can consider on financing. One is a short-term note - one, two, or three years. The best demand is for that. That's what the banks are talking about, for adjusting their reserves. They've been talking about 90-day bills, they've also been talking about these notes - something that would have a ready and a stable market and the banks would take. Banks and insurance companies and others would take a substantial block of those short-term notes; there's no question about that.

Now, the next thing that you could consider, which the market doesn't want quite so much, is a five-year note. You've got an open date in '42. At first when I came back to New York, the dealers and the banks that I consulted there said, "Oh no, you can't go that far; that's too long. The banks won't go that far. There aren't buyers for a five-year note." Well, that sentiment has been changing a little bit in the past week or so, and I've found a good many people who would be buyers of a five-year note; some insurance companies, some banks, particularly out-of-town banks - they're more willing to step out a little further, I think, than the New York banks at least say they are.

Now, the third possible field worth exploring, which I don't think is probably fruitful right now, is an intermediate bond. The long bonds are obviously out; they haven't recovered in anything like the fashion that the other bonds have. They've had to have support much more than anything else. So that you obviously couldn't sell a long-term bond with assurance of success. But the intermediate bonds have behaved much better. They've had very little support; there has been continuous demand for some of them from banks and insurance companies and others.

So that there is a possibility that if you offered,

-11-

let's say, a ten-year bond - just to be definite, suppose you offered a 2 $\frac{3}{4}$, getting away from the other stuff, offering something a little bit different, with the single maturity date instead of a call date; you might be able to sell a ten-year 2 $\frac{3}{4}$ at this time.

H.M.Jr: Like the '41?

Burgess: The people would think about the '41, that went so well. That was a good bond. And a fixed maturity date would be a little different from these other bonds, so it would set it apart and probably react less disadvantageously on the market.

But I think the market isn't quite ready for that. There are relatively few people who seem to be interested in it. It would probably react somewhat adversely on the general bond market. Unless it were a great success, it would hinder, rather than help, the process of recovery in the new financing market, which I think is very important for the continued business recovery. You want to get a new financing market going again; it is now held up, and you couldn't be sure of the kind of success in an intermediate bond that would help that market rather than hinder it.

And also, you've got a September problem. That's one reason I was interested in seeing this reviewed first. You've got a September problem to be met that is really quite substantial, and you want to leave your hands free for that, and either in some sort of bond or in a note. That is one thing to consider with respect to the five-year note, is whether you are leaving your hands free.

Well, those seem to be the three general fields where one could consider doing something.

Now, I think there is another general consideration. The problem of Treasury financing has changed somewhat since the excess reserves were reduced. I think that under the present circumstances you want to offer something that will appeal to several different kinds of buyers. You haven't got a single big buyer that you can appeal to, with the excess reserves reduced. You want to go around to the different buyers and see if you

-12-

can offer something attractive. I think that is a reason for tailoring your offering to suit several different purses, and I think that a split offering of a very short obligation and a longer one would have something to commend it.

So my present feeling - I think that was the feeling of the meeting - is that a very short obligation would go very well, and you could sell perhaps all the obligation in that; but there is a good deal to be said for splitting it and offering a short note - let's say two and a quarter years, or somebody suggested this morning a year and a half.

H.M. Jr: You already met this morning; you've had a dress rehearsal.

Burgess: We've been talking about it a little bit. And a five year note. Now, we recognize that the five-year note won't go as well as the short obligation. There are a lot of people that say it won't go. It is a little on the "cnancy" side. I feel that it will go; there are a good many others that feel the same way. I think that splitting the offering between short and five years is very good.

Now, you may want to consider the relationship of that to the September financing, whether you want to save the five-year note for September or not. My own feeling is that the thing to do is take each financing as it comes along and do the best you can.

So that if you tried to pin me down right now, what I'd recommend would be four hundred million of a two and a quarter year note at $1 \frac{3}{8}$, and four hundred million of a five-year note at $1 \frac{3}{4}$.

H.M. Jr: Well, let me ask you - of course, the five-year at those coupon rates would be much more attractive. Be about a point in it.

Burgess: Well, I think less than a point, because the things you compare it with - the '41's are abnormally priced; there are two issues there that are below par. When an issue gets below par, nobody likes to sell, and it doesn't really find its true yield level. So that

-13-

I think you've got to figure more of the - take the Woodins as a better indication of that; you see that the Woodins are selling on a 1.63 basis; these other, 3 3/8, on a one point five....

H.M.Jr: You'll have to educate me. I don't know what the Woodins are.

Burgess: They're the '41's.

H.M.Jr: I know what the "Tombstones" are.

(Hearty laughter)

Burgess: If you compare them with that, why, the new issue wouldn't be worth more than 20-32ds.

H.M.Jr: What do they call the new two and a halves?

Burgess: I don't know; I haven't heard a nickname for it.

Harrison: Those are the "Flatfeet."

Burgess: But I think the five-year note ought to be more generous than the other, because the demand is a little less obvious and you have to attract it a little more. And at any rate, the risk involved in a five-year note is very much greater than in a two-year note, so that there ought to be more margin of profit, more margin of safety there; the fluctuation is greater.

H.M.Jr: Did everybody in the meeting that you had agree to make it fifty-fifty between the two notes?

Burgess: Well, let the others speak for themselves.

Eccles: Well, we didn't have any agreement. Just a question of an informal meeting that we had over there for, oh, about 30 minutes or 45 minutes, and we had Dr. Burgess and Mr. Piser just say what they had to say; and there was a little discussion back and forth, but there was no - there was no agreement, nobody was polled. So I think each one would have to speak for himself on that issue.

H.M.Jr: Well, let me ask Burgess this. If you have two different

-14-

notes, will the New York banks subscribe to both of them?

Burgess: I think so.

H.M.Jr: Take the full amount.

Burgess: That is, I think many of them will. I think there will be some who will subscribe solely for the short note, who will not subscribe any for the five-year note. That's the way they talk.

H.M.Jr: What are their particular worries this week?

Burgess: Oh, war in Europe, price of gold, the budget - that's a continuous worry; help you do your worrying about that.

H.M.Jr: We can use all the help we get.

Burgess: Well, of course, there's some that haven't stepped out anyway. You take a bank like the Irving - haven't got anything over three or four years.

Harrison: They never have.

Burgess: Never have, no. But I think some that in some previous issues have taken a bond or a long note would be reluctant to this time.

Eccles: I think that those banks that have no time funds at all - big commercial banks - I don't think they should necessarily be expected to take the long-term issues. The banks that do have time funds, such as a good many of them do, have taken the long-term issues.

Burgess: And very small excess reserves.

Eccles: That's true.

Burgess: So they're thinking in terms of what excess reserves they have, something that may disappear; so they'll use it only on liquid stuff that they can dispose of very quickly.

H.M.Jr: We'll sell it to them on credit.

Burgess: That's right.

-15-

- H.M.Jr: Well now, if it's agreeable to Mr. Eccles, I'd just like to go around the room.
- Sinclair: Mr. Secretary, polling in Philadelphia and also certain places outside, I have noticed, I think, a demand of two characters. I think there would be a demand for the five-year note. I also think with the larger institutions and insurance companies particularly there would be some demand for the short note, one and a half or two and three months. And I think myself it would be a mistake not to recognize the nature of both those demands.
- H.M.Jr: But you think the banks will take the five-year?
- Sinclair: I think some of the larger banks will to some extent. I think some of the outside banks will take the five-year notes; I think it will be acceptable to them. That checks pretty much with what you (Piser) and I found out and what I have done since.
- Piser: I think the five-year notes would also be bought by trustees, individuals, and insurance companies in much larger volume than the shorter notes would.
- H.M.Jr: Anything else?
- Piser: In regard to the short note, I should think a year and a half note might possibly be a little better than two and a quarter, because the September '39 period falls in between a large amount of maturities, whereas the December '38 is in more of an open period than the longer note. The December '38 could probably be sold at 1 1/8 as against 1 3/8 for the September '39 issue.
- Golden.: I haven't anything to say, Mr. Secretary. I would feel that it was probably not advisable to have it all long. I should think that would be somewhat too much of a risk. But if you split it I think that a five and a short one would be a good arrangement. I don't know just what short one; I haven't any - I haven't formed any definite opinion about that. And I do think it would be desirable to offer a five, because there are people in the market who want that kind of a security, possibly, outside of bonds.

-16-

Lochhead: I still prefer the total issue of five years - five year total issue. I think it's a compromise financing, but I think that the....

H.M.Jr: Shoot the works on five?

Lochhead: I think so. I think that the - it is certainly most preferable from the Treasury standpoint to have a five-year. It doesn't give you a lot of small issues, and I think the markets always adjust themselves to those issues. I mean some of them will swap their issues around, if they have to, to get the maturities they want. And especially if you're thinking of putting out a lot more short-term bills, you're going to give the market plenty of short-term stuff.

H.M.Jr: Professor Williams?

Williams: I have nothing to add. As I think we brought out already, you have to think about September as well as June, and I should think it would be desirable not to do anything that the market might interpret as indicating nervousness over what happens. From that point of view, I should think it would be desirable to have this five-year issue rather than confine it all to the short.

H.M.Jr: Have it all five years?

Williams: No, I didn't say all, but have some of it.

H.M.Jr: Fifty-fifty on it?

Williams: Well, that's - I should think so. I don't really know enough about how it would go to say.

H.M.Jr: Wayne?

Taylor: I was just looking at this, about 1939, at two and a quarter, as compared to two and a half years - Your December maturity is only 526 million, 1 3/8 - and the possibility of adding to that rather than filling in that September date.

Harris: That issue is selling below par.

-17-

- Taylor: That issue is selling below par?
- Harris: Yes
- Taylor: That answers itself, then, doesn't it?
- Piser: Your December, 1939, issue - that's selling at a premium of 13-32ds last night.
- Harris: Oh yes, I'm sorry.
- Taylor: Doesn't make much difference.
- H.M.Jr: Well, I'd a little rather split it up. Then we have something that we can do on....
- Taylor: ...on every tax date.
- H.M.Jr: I think so. I mean be the same amount in a year.
- Taylor: I think the longest we ought to go is to split up between two and a quarter and five years.
- H.M.Jr: Anything else, Wayne?
- Seltzer?
- Seltzer: I'd offer the two and a quarter and the five-year note.
- Is there a serious objection to putting a total limit of 800 millions on both and accepting subscriptions in any amounts for either, instead of splitting up the issue very definitely in the offer?
- Burgess: The market doesn't like that. They say they're buying a "pig in a poke." That is, quantity has a very important influence on price, so they like to know what the offering is going to be. So I think that you would lose as many buyers by doing that as you'd gain assurance by leaving it open. In fact, I think you'd lose more; you'd arouse prejudice against it rather.
- Eccles: Has that been tried?

-18-

H.M.Jr: Yes

Eccles: How did it work?

Bell: Went pretty well.

Burgess: When was the last time we did that, Dan?

Bell: Banking holiday.

Burgess: Yes, it was a six and a nine months issue - very close together.

Bell: They were both of the same character. One time it was two issues of certificates and the other time it was two issues of notes.

Burgess: The maturities were very near together, I think. Well, certificates would have to be close together.

Bell: I think within a year, yes. The last time we tried it, it was just about fifty-fifty on subscriptions, - very little difference.

Burgess: It would be an experiment. I'd be a little afraid of it. Can't ever predict that the thing wouldn't go, but I'd be afraid of it.

Lochhead: Mr. Burgess, how will the market react on bringing out the two and a quarter and the five-year, with one at a premium of 14 and the other, say, about 28; the ones that are just going in to subscribe and scalp the market - what will they do? Will there be a tendency to sell out the five-years? - I mean more of a pressure on the sale of the five-years after the original bidding, or not?

Burgess: Oh, a little, but I think the speculation would be reduced a good deal this time.

Lochhead: I mean a tendency to roll over.

Burgess: There will be some of that.

H.M.Jr: How are your dealers' positions?

Burgess: They are about 30 million higher than they were. They've gone up in the past eight days, eight or

-19-

ten days.

H.M.Jr: Bills, most of them?

Burgess: No, they've gone up some in notes. They were 20 million short in notes; they are now 2 million short. Their long position in bonds has increased. They've gone up in bills also some.

Harrison: They're up about 15 million in bills.

Burgess: That fluctuates, of course, a good deal from day to day.

H.M.Jr: McKee?

McKee: Mr. Secretary, I just can't see why this market couldn't absorb 800 million dollars worth of one issue at this time, and I would like to see that a five-year issue. I think you're feeding the market enough of short-time money, and contemplating doing it, or continuing it, that the short-time money will be well provided for. Now, there is a lot of contract money that is confined to Government securities and there is nothing provided for it in 1942. I don't know that any of us have covered that field in its entirety to see how much of that would be taken up. But personally I think it would be a sign of weakness on an 800 million dollar proposition to split it into two issues. And I think not only would you be helping yourself but you'd be helping the corporate bond market, which has a lot of backlog waiting to come out.

H.M.Jr: Harris?

Harris: I'm right in accord with what he said.

H.M.Jr: You like the five-year?

Harris: Yes, all of it five years.

Seltzer: Of course, you have this.....

H.M.Jr: We have a bunch of speculators.

-20-

- McKee: Well, one thing I'd like you to get away from is so many different Government issues.
- Broderick: John, what is contract money? You use that quite often.
- McKee: A lot of things, Joe, that have to be paid out at a particular time, which must be invested in or secured by Government bonds. There's a lot of those things all over the country - building contracts and everything else - and there isn't anything that matures at that time. Now, I don't know what it means - I mean I don't know what it means in volume. But I think if you get into the trust departments of the various banks you'd find out it would mean something in volume.
- Bell: Your contention being that they want a maturity in 1942 to meet the payments coming due at that time.
- McKee: That's right.
- Seltzer: You don't think 400 million would be enough?
- McKee: No, I just - I just don't think the Government's credit has got so low that you've got to split 800 million dollars into two issues.
- Harris: That's what I think.
- Seltzer: It is true that the fellows who bought our last two five-year note issues are out on it; that is, they're below par.
- H.M.Jr: Dan?
- Bell: I have nothing?
- H.M.Jr: Cy?
- Upham: Well, I found a good many bankers on the Coast who were quite willing to take a five-year note. Some of them even talked willingness to buy a ten-year bond. And there was a good deal of talk of too much short-dated debt. I would be inclined to agree with Mr. McKee that the Treasury is going to be fairly timid if it puts out fifty-fifty, at least of a very short term-note and a five-year note. I would have more of the

-21-

five-year than of the two and a quarter.

Burgess: How long ago did you talk to the Coast fellows?

Upham: It's almost two weeks now. When I first started out, they wouldn't talk about anything but a one-year note.

Burgess: If they were willing to talk a five-year then, they'd talk it even more strongly now.

B.M. Jr: George?

Harrison: I think you've got to recognize that the greatest difference between today and the day when we had a meeting here, about two weeks ago - if you remember, at that time, I recorded that in all of the reports that we got from the dealers and banks and others, which I admitted were confined almost entirely to the New York banks, it was almost unanimous opinion that they did not want a five-year note, although a number of them said it would go at 1 3/4. Our judgment in the Bank was that those fellows were shopping a little for a preferential issue and that we could issue a five-year note even then - at a price. I still think that you could do so, but I question whether I would issue the whole thing in a five-year note, not because it's a sign of weakness to split it up or because it's a sign of strength to put it all in one issue, but rather because, as Burgess points out, you're through a shift - you're going through a shifting period here, and there are different classes of buyers, and you might as well try to satisfy both classes as well as one class.

Now, one of the classes, and one of the larger of your customers, is the New York market, most of whom still express a very definite preference for the shorter note, and I think there is much to be said for giving them what they want.

Even though you could sell it all in the five-year note, at a period like this I don't think I would try to sell all in five-years. I think I would split it up. I don't think it's a matter of much importance whether it's four and four, or five and three - one way or the other.

-22-

Now as to the question Mr. Piser raises, whether the short notes should be one and a half years or two and a quarter, I have no preference myself at all. I think the market would be pleased to get either, and I would do whichever one suits your book the best.

I don't think that I would make it an open offering of 800 millions, giving them a choice without any limit on each of the two issues. I think I would fix an amount on both of them.

H.M.Jr: Well, if the market doesn't like it, we wouldn't do it.

Harrison: I don't think there is enough to be gained by doing it and I don't think it is necessary to do it. I am quite confident that there is a growing appreciation of the importance of financing what you put out. On the other hand, we do have reactions if you put out too much of what is not wanted. I think that if you make it half and half, the five-year and the two-year, and if one or the other is sticky, it wouldn't take much, if we let certain institutions know, to have them make subscriptions for the issue that is sticking. We've been doing that in bills quite a little; in fact, I think they've overplayed suggestions that we have given them on bills - some of them.

H.M.Jr: But the market seems to expect around seven or eight hundred million dollars.

Harrison: Yes, I should think so. And I wouldn't make it 750; I'd make it 800.

H.M.Jr: 800 million, because 300 million for bills and five hundred million more cash - take 800 million, and ten percent over will make up the difference for the gold we're getting this month.

Harrison: Only one question +ve had in mind, and that you have answered pretty well. I thought that if you adopt a bill policy which requires you to borrow a substantial amount of new money in September, then, looking at June and September together, there might be something to be said for going the other way - that is, giving

-23-

the market what the majority want, that is, a short note, now - and soaking them all with a five-year note in September, or, if the bond market picks up, half a note and half a short bond, in September.

H.M.Jr: But you don't lean that way now?

Harrison: No, I don't, not in view of what you said; I mean it appears that you won't need much new money.

H.M.Jr: I'd like to, if I could, work it out to pick up enough bill money through July and August so that we won't have to take anything more in September.

Harrison: Well then, if that is true, I would be inclined, for the reason that I am interested in giving the market some of the short notes because some of them wanted it - I'd be inclined to offer them some of the long because there is evidence that there are certain types of buyers who would prefer to have it.

H.M.Jr: Well, there's very few people I talked to that said if we gave them a two and a quarter year they'd eat it up.

Harrison: Well, I don't think there is any question that a two and a quarter note all alone would probably return you the greatest amount of subscriptions. I think that would probably, from the point of view of the subscription sale, be the most popular. But there is another factor - that is your own position - and therefore there is much to be said for not overloading those shorter issues and for putting out some of the five-year note in an empty year. That being so, I think I would try it, and I believe it will go, though I frankly, on the evidence we now have of close exchanging, think that the shorter will probably go better than the long.

I wouldn't worry about the price of 1 3/4, because, for the reason Burgess mentions, I think you've got to give them a little more gravy on that.

H.M.Jr: Marriner?

-24-

Eccles: In view of the large amount of maturities in September, it would seem to me that at this time it would be well to put out not more than half of the issue in a five-year note. I think maybe the market might take a five-year note for the entire amount. If the banks had no opportunity to get anything else, I think they would - possibly would take it, having a preference, however, for the shorter maturity. I see no reason why we shouldn't, in the circumstances, give them a preference and give the investors and the trustees an opportunity to get the five-year note, giving the banks the preference for the shorter-dated issue. At least you're taking less risk doing it that way. And in view of the large amount of the maturity in September, you may very likely want to issue some notes coming due in '42 - five-year notes - for part of that issue. It would be a good thing to try it out now in part and at least leave '42 open for some of the September refunding in a five-year issue, instead of putting the whole 800 million out now and finding that you have possibly loaded it up - loaded the market pretty heavily with that and reduced the possibility of the September refunding in that issue.

I have no particular preference as to the year and a half or the two and a quarter. One possibly would go as well as the other - slight difference in yield. The one and a half is getting in a little more competition with the nine months bill market, however, than the two and a quarter.

H.M.Jr: Yes

Eccles: The premium on the five-year note at $1\frac{3}{4}$ yield is no greater, of course, than the premium on the two and a quarter year note at a $1\frac{3}{8}$ basis - on the yearly basis, just about the same, in proportion. I think that's about all I've got to say.

Broderick: I think, Mr. Secretary, the thing of prime importance is to make the issue, whatever issue you put out, a "rip-roaring" success. That can be done by making it attractive both as to maturity and rate.

There is a feeling among the banks, particularly the smaller banks, the medium-sized banks - I mean outside of those central reserve cities - that they need

-25-

balanced portfolios. Almost every bank's got that in mind. Some feel they are loaded up too much with the longer-term securities, and it is my personal feeling they will gradually work off their longer-term securities in favor of those of shorter maturities. I think it is very desirable at this time to give them a means whereby they can take on shorter maturities. It isn't that they want to reduce the aggregate amount of United States securities that they've got, but they want to have the maturities diversified.

Personally, I favor a short-term issue for the whole 300 million dollars, not more than two and a quarter years. My secondary choice would be half and half. That would give these banks that want the shorter maturities an opportunity of getting them at a fair price, and also those who want - I mean the outside buyers, outside investors, an opportunity to get the five-years. I think the 300 million at two and a quarter would be snapped up just like that by banks.

- Eccles: Don't you think you ought to give to the market, though, an opportunity to get some of the five-year notes? I mean outside of the banks.
- Broderick: Yes, as I say, that would appeal to those aside from the banks - the five-year notes - the other investors. But as between a three and a five-year note, I think even an average investor would be more impressed by a three-year note than a five-year note, because back in their mind is the fact they will eventually have a higher rate base; they believe they'll do better later. But I think that one and three quarters, five years, will go all right. I think either one can be sold. But I do think it would be helpful to the banks to have an opportunity of getting some of these medium maturities in order to balance out their portfolios.
- H.M.Jr: Anybody got any secondary thoughts?
- Sinclair: Only secondary thought I have is that I think it would be well not to overlook the nature of the two types of demand. I know in our own territory outside of Philadelphia there seems to be quite a little interest in longer-term securities, even going so far as the intermediate bonds.

-26-

- H.M.Jr: Boston is the same way. Boston would be delighted to get a bond.
- Harrison: Get a bond?
- H.M.Jr: Yes.
- Harrison: Ten-year bond?
- H.M.Jr: Yes. Delighted to get one.
- Harrison: I think that is probably true, and I think there are others that might be.
- H.M.Jr: I talked a couple times to Governor Young.
- Eccles: Yes, but they want a 2 3/4 yield on a ten-year bond.
- H.M.Jr: No, no.
- Burgess: Ten-year, 2 3/4 - you'd have to pay that.
- Sinclair: I think, however, there was only one instance where they felt a ten-year bond would go. Isn't that so?
- Piser: As I remember.
- H.M.Jr: I don't say they want only a bond, but part of the issue - they think it would be a great mistake if we didn't issue part of the issue in the form of a bond, or take an existing issue and build it up.
- Upham: Mr. Burgess, do these country banks of which Mr. Broderick speaks bid for bills?
- Burgess: No, no, very few of them bid. Some of them do come around and buy from the dealers after the market - after the bidding is finished, but I wouldn't say very many.
- Broderick: They don't know how to do that, Cy.
- Upham: Uh-huh.
- Harrison: Mr. Secretary, I think on the question of bonds Boston is talking about - I think it is very likely that you'd be able to sell 800 millions of a bond at some price;

-27-

it might take a good deal of salesmanship; probably would go just because people wouldn't want it to fail. On the other hand, you'd have to price it at a point which would give a premium that would make it profitable for a lot of the buyers to sell right away, and you then run the risk of putting a pretty heavy burden on this patient's back, which is just recuperating now. And I wouldn't even run the risk of selling the bond, even if you could sell it, and give them an over-supply.

- Eccles: I'd wait until they're a darn sight more hungry than they are now for it.
- H.M.Jr: But it helps to know how they feel - for instance, I mean if Boston feels they'll take a bond, I know they'll take a five-year; I mean I'm glad to get it.
- McKee: Mr. Secretary, I think whatever program you decide upon is going to have a greater influence on the corporate capital market now than it has in the past, and I think you've got to consider that, and you can help that or you can hurt it.
- H.M.Jr: I don't know what kind of fellow this man Burgess is since he's got his tonsils out.
- Burgess: Don't say tonsils; it isn't tonsils. I still have my tonsils. I can show you my wound if you want to.
- McKee: We're satisfied he lost something.
- H.M.Jr: We'll discount that. Full of pep and vigor. How do I know what they operated on him for?
- Eccles: Must have got a goat gland or something.
- Burgess: Well, I tell you, before I got back to New York I would have suggested selling the whole thing a five-year note.
- H.M.Jr: Yes.
- Burgess: They tamed me down a little bit there.
- H.M.Jr: You've outlined a group for me to see, haven't you?
- Burgess: Yes.

-28-

H.M.Jr: And what I'll do is this. I'll see these people and then, as usual, I suppose, about Saturday morning we'll try to - will you (Eccles) be in town over the weekend?

Eccles: Yes, sir.

H.M.Jr: All right.

Eccles: I usually am.

H.M.Jr: All right. Well, thank you very much. We'll do the best we can.

June 2, 1937.
11:48 a.m.

H.M.Jr: I missed you Friday.

Gov. Young : Why the banks up here in New England - the banks are not working quite the same as they are elsewhere in the country.

H.M.Jr: Yes.

Y: Now the facts are that New England banks lightened their Government bond portfolio from July of last year until December,.....

H.M.Jr: Yes.

Y:and then remained stationary until the first of March.

H.M.Jr: Yes.

Y: They have increased their portfolio since March.

H.M.Jr: Nes.

Y: Now I told you the result of my talk and I talked with our Directors - we met last Wednesday.

H.M.Jr: Yes.

Y: They seem to have an interest in bonds up to 8 years and possibly

H.M.Jr. Yes.

Y: This time I've talked to one of the prominent dealers and he says that the information which comes out of New York is enough to 2-1/2 for 3 years.

H.M.Jr: Yes.

Y: But, of course, you can't fight New York very well if that's what they've got in the back of their minds.

H.M.Jr: Yes.

Y: Personally I don't like it myself - ah - it's pretty ticklish if we can't put on something beyond that.

- 2 -

H.M.Jr: Yes.

Y: Ah - are you having a conference to-day?

H.M.Jr: I'm going to have one in 15 minutes.

Y: Ah-ha.

H.M.Jr: And then we'll see what they have to say.

Y: Well - ah - would it be asking too much to have you call me back again tomorrow?

H.M.Jr: I'll be delighted to.

Y: Well all right, if I get anything I'll pass it on to you.

H.M.Jr: I'll call you definitely tomorrow.

Y: All right.

H.M.Jr: Thank you very much.

PROPOSED FEDERAL HOUSING PROGRAM

1. Administrative Agency. The Housing Division of FWA should be made a permanent housing administration, all of the powers of the Administration to be vested in the Secretary of the Interior. The Housing Administration should be established as a separate administration, so as to facilitate its transfer at a later date pursuant to any plan which may be enacted for the re-organization of the executive departments of the government.

2. Loans and Grants - Local Contributions. Grants of not to exceed sixty per cent of the cost of the project would be authorized to be made to public housing agencies. As a condition to such Federal aid, the bill would require that the proposed project be given full exemption from state and local taxation, although not from special assessments and customary service fees. Such tax exemption (or its equivalent in the form of free services, donations or other aid) would constitute a substantial contribution by the locality toward assuring the low-rent character of the project, for full taxation of a housing project in a municipality would amount to a monthly charge per room of from \$3 to \$5.

Loans would be made to local public housing agencies, which would have the full responsibility for acquiring the land, constructing and operating the projects. Such loans would be amortized over a period of not to exceed sixty years and at an interest rate of not less than three per cent. No loans to limited dividend companies would be authorized.

3. Control of Rentals. The Administration should have some way of assuring that public housing agencies which have received Federal assistance will operate their projects for the benefit of the low-income group. While the state housing laws contain provisions requiring public housing agencies to operate their projects in this manner, it may be advisable to obtain additional assurances that the low-rent character of such projects is maintained. Perhaps the most effective means of control would be to authorize the Federal Administration to make all or a part of its grants through the cancellation of bonds. Thus, instead of making a loan of only forty per cent of the project cost, the Administration could make a loan of a hundred per cent. Assuming a project cost of one million dollars, the Administration could purchase one thousand bonds of \$1,000 each. It could then make its sixty per cent grant by cancelling ten thousand dollars of these bonds in each year of the sixty year amortization period (in addition to cancelling the current interest coupons on the remainder outstanding, from time to time, of the \$600,000 of bonds evidencing the proposed grant). The Federal Administration could agree that it would continue to make these annual cancellations of such bonds and interest coupons only so long as the public housing agency maintains the low-rent character of the project. Of course, these provisions for bond and interest cancellation would not apply to the actual forty per cent loan on the project, which would have to be repaid with interest.

4. Federal Projects. The Federal Government would not be authorized to construct directly any additional housing projects. With respect to the projects now owned by the Government, the Administration would be authorized to sell them to public housing agencies at a write-off of not to exceed sixty per cent of their cost and to accept the bonds of public housing agencies in payment of the purchase price. The Administration would also be authorized to lease such projects to public housing agencies or to operate the projects directly. In the leasing or operation of such projects, the Administration would be required to charge rentals which would be at least sufficient to pay the operating expenses of the project and to repay, within a period not exceeding sixty years, at least forty per cent of the initial cost of the project (making allowance for the maximum sixty per cent grant), together with interest at such rate as the Secretary of the Interior deems advisable.

- 2 -

5. Financial Provisions. It is suggested that the bill authorize an appropriation of \$ _____ for the fiscal year ending June 30, 1938; \$ _____ for the fiscal year ending June 30, 1939; and \$ _____ for the fiscal year ending June 30, 1940; all of such sums to continue to be available to the Administration until expended. By providing for appropriations over a three-year period, it would be possible for the Federal Administration and the local authorities to plan and prepare for a definite program.

The Administration would be authorized to sell any securities acquired by it and the Secretary of the Treasury would be authorized to purchase such securities (excluding, of course, any bonds which are intended for cancellation pursuant to the foregoing alternative method of making the sixty per cent grant). Any monies received by the Administration from the sale of securities or collections of principal or interest thereon or from the sale, leasing or operation of projects, would continue to be available to the Administration until expended.

The Secretary of the Treasury would be authorized to resell any securities which it purchases from the Administration or to hold such securities and raise additional funds equivalent to the par value of the securities so held.

The bonds of local housing authorities should be made exempt, both as to principal and interest, from all Federal taxation, except estate, inheritance and gift taxes. Such a provision would remove any doubt regarding the exemption of these bonds from Federal taxation and would therefore substantially aid their marketability.

EMBASSY OF THE UNITED STATES OF AMERICA

Office of the Treasury Attache

Customs

2 Avenue Gabriel
Paris, France

MEMORANDUM FOR THE SECRETARY:

June 2, 1937.

Subject: Narcotic Smuggling - Europe.

After spending another week at Geneva, observing the League narcotic sessions, I am now back in Paris, checking up with Scharff on the current smuggling situation. The sessions are still going on in Geneva, but they had gotten to the stages which were of no particular interest to those of us engaged in actively combating smuggling, namely the stages having to do with internal regulation of legitimate manufacture, use, etc. The first week was particularly interesting, since it was all on seizures. This was a private meeting. The second week was taken up by meetings of the Supervisory Committee on Opium and other Dangerous Drugs, these meetings being public. The latter meetings were also interesting in spots, the most important events to those with our line of thought being:

(a) The efforts of Mr. Pilossian, the Iranian delegate, to defend the seizures of Iranian Opium (A & B Monopoly) made during the year. This gentleman, who was formerly a prominent official in the government monopoly of his country, and at present financially interested through being connected with a European sales agency of the same, tried to cover up the seizures in any way possible. His chief claim was that the labels were counterfeited. A significant fact was that not once did he bring out that the Iranian opium in certain cases emerged from Macao, after having been shipped there for use of the Macao monopoly, for blending in manufacture but before having been used in said manufacture. (The seizures were largely raw Iranian opium, ex-Macao, in the original A & B monopoly wrappers.) The reason that Pilossian did not bring this up was that he did not wish to scare off one of his best customers, namely the Macao monopoly.

In general, the attitude of the Committee toward Mr. Pilossian indicated that his attempts to cover up were not taken too seriously.

(b) The Japanese delegate, Mr. Yokoyama, pulled a good one before any general discussion came up regarding the inadequacy of penalties for narcotic offenses in Japan. He stated that the Japanese authorities, in view of the inadequacy, were endeavoring to have the law changed to provide suitable penalties. This could be described as "beating the

opponent to the punch." Yokoyama put it over in a rather plausible manner. I considered it a smart move.

(c) The Yugoslavian delegate took an intelligent stand. He stated that he realized there was considerable illicit traffic in narcotics in his country, and that his government wanted to do everything possible to stamp it out. This was another smart move. Privately, I attributed it, in part at least, as an endeavor to impress the American delegation, in view of the fact that Yugoslavia is concerned about her legitimate opium export to the United States. We had an unofficial talk with the above-mentioned delegate, in which he reiterated the above. He furnished us, incidentally, with some information which may be of use to us concerning a certain individual who is in the racket as a carrier, who has been able to escape detection so far because of his supposedly respectable standing. We will lay for this individual when and if he comes to the United States.

One of the smartest delegates was Dr. Huo, the Chinese Minister to Geneva. He was very adroit in showing the blame for certain conditions in the Far East over to Macao and the Japanese.

There is no question that the Geneva conferences do a lot of good in keeping down the volume of world illicit traffic. This is done through the "washing of dirty linen" in the Seizure Committee meetings, which identifies the countries at fault as sources, followed up by the publicity attendant to the discussion of the Seizure Committee's report in the public sessions, where the newspapermen have access to the various angles. In other words, the fear of publicity at Geneva should be a deterrent to such countries as Iran, Portugal (Macao), Japan, and others, with regard to tacitly or otherwise sponsoring smuggling.

The most valuable thing gotten out of attending at Geneva, so far as Wait and I are concerned, was, to my mind, the acquaintanceship established with enforcement officers of other countries with relation to a common ground of understanding concerning cooperation. There is no reason, to my mind, why we should not be able to capitalize on this in a very advantageous way.

The most impressive of the foreign enforcement officers at Geneva were Einthoven of Holland, a big husky smart Dutchman, and Sharma of Canada, who got his start as a Mounted Policeman.

While at Geneva I had a talk with Blanco, who is privately interested in the suppression of illicit narcotic traffic and production, and who is quite well known at Geneva for his efforts along these lines. I also had several talks with Herbert May, a wealthy gentleman, who has made a career along the same lines, and is a member of the Permanent Central Opium Board. I collaborated with Mrs. Moorhead frequently, she being present as usual, representing the Foreign Policy Association. Mrs. Moorhead and I were invited to dinner by Mr. Cusama, at present attached to the Japanese Embassy in Paris but who attends the Geneva

conference annually, is a member of the Advisory Board, and who is considered to be one of the smartest Japs on narcotics. All concerned are aware of the interest in narcotic smuggling taken by the United States Treasury, and know of our vigorous efforts to combat it.

In Paris, the Narcotic Unit under Scharff is functioning as reported before. One man (Vachon) has been sent to Bordeaux to look into that port. Also Brumer has been sent to Prague to investigate several angles there which indicate that vicinity as coming into the picture to some extent as a smuggling center of operations. Otherwise, the Unit is working generally as last reported, covering the seaports known to be active forwarding spots. Paris is always under what surveillance we can muster through the French Surete and our informers.

Had a talk with Sahib yesterday. I asked him why he had not brought us in some good information, and he claimed that the boys in the business were playing it very "close to the vest" due to our activity and that information is hard to get and he needed more time. We are not pressing him as he is good material and I think will produce. He now explains the scar on his face as the result of a wound inflicted by an angry husband in Shanghai. We intend to give him plenty of opportunity to produce, and are inclined to believe he is on the "up and up" as much as an informer can be. He did tell us something which was of interest. He says the principal smuggler at present in France engaged in sending stuff to the United States is Rudecke, who of course is well known to us, but not as the present big shot here. He says Rudecke hooks up in New York with Morris Salzburg, Jack Shapiro, and one other known only as "Benny." Sahib says this trio is as important a combination as the Newman mob in big-time narcotic circles in New York. Sahib feels that Rudecke is sending stuff over, but as yet he (Sahib) has been unable to uncover the angle.

We had a pow-wow with the French Surete to-day (June 2), just finished. we will have another at 11 to-morrow. They now come to our office to talk. This is distinctly a forward step.

I expect to return to Washington via the steamship WASHINGTON, leaving Havre on June 17, provided same is satisfactory, as I communicated to Mr. Graves by cable.

Best regards, Sir.

Respectfully,

THOMPSON.

June 2, 1937
2:29 p.m.

H.M.Jr: The cable you sent us

Cochran: Yes.

H.M.Jr: about your interview with Bachman.....

C: Yes.

H.M.Jr: was most unconvincing to us. I suppose you reported it juast as it was given to you.

C: That's it - just as it was given. And in the last paragraph I suggested that you would probably share my feelings.

H.M.Jr: Yes.

C: The man is frightened over this gold situation.

H.M.Jr: Yes, but he isn't telling us the truth.

C: You mean the figures are not correct?

H.M.Jr: No. No, they're not. His - his question of - his holdings of his foreign exchange, and that sort of thing isn't Now just a minute.
(Pause during which conversation is carried on in H.M.Jr's office)

Well, on his 1% of foreign exchange, he ought to only have about four and a half million dollars in foreign exchange.

C: Yes.

H.M.Jr: And in New York alone he has over 40 million.

C: The only thing he did not explain whether that included his stabilization fund.

H.M.Jr: Well, but to us, it's all the same.

C: The thing is the bank statement shows less than 1% of foreign exchange to the gold it has.

H.M.Jr: I know.

C: But his - his foreign - his stabilization fund isn't segregated so I can't tell what he has in that.

H.M.Jr: Well, I didn't feel that he was being very frank with us.

C: I did not, no.

H.M.Jr: No. Well, I wanted to know whether you felt the same way.

C: No, he was very nervous, and the is steady there, and the people even today were shipping gold from Switzerland to Paris, selling it here.

H.M.Jr: Ah-ha.

C: A little bit is being turned in at the banks every day now, and it comes from Switzerland.

H.M.Jr: Well, I'm going to ask the Department to send you instructions so that you can go also to Holland and Belgium.

C: All right.

H.M.Jr: And pick up whatever gossip there's there, you see?

C: All right.

H.M.Jr: I think it would be timely and at least we can find out what they've got to say.

C: Yes.

H.M.Jr: And - but we'll just have to watch. Now, what I - I want to ask - in the first place, I want to let you know that we didn't feel that Bachman was at all convincing. And the second thing

C: I wasn't convinced when I came away.

H.M.Jr: What?

C: I - I didn't feel the least convinced.

H.M.Jr: No. Now the other thing.....

C: You remember he was the first one of the central bank governors.....

H.M.Jr: Yes.

C:
over the dollar.

H.M.Jr: Yes.

C: And that he

H.M.Jr: Yes.

C: said to me, "Oh, I wished they had left off that word 'adequate' ". "

H.M.Jr: Yes, I remember

C: And he started bidding his dollars at once.

H.M.Jr: Ah-ha.

C: And now the fact that he is doing it, and it is known, the fact that he is selling gold against dollars

H.M.Jr: Sure.

C: .

H.M.Jr: Well, I don't know. Now I think - I wish you would arrange to go as soon as possible to both Holland and Belgium, see?

C: Yes.

H.M.Jr: And have a talk with those people.

C: All right.

H.M.Jr: Now, how does the war look over there from Paris?

C: It don't look so bad.

H.M.Jr: What's that?

C: It don't look so bad.

H.M.Jr: Not too bad?

C: No. There's quite a lot of talk going on, of course, but the reaction

And I don't think any one wants to go ahead and start an international war.

H.M.Jr: Well, what are the odds on war?

C: I think they're still against it.

H.M.Jr: Really?

C: I do, yes.

H.M.Jr: Is that right?

C: Yes, I think the odds are strongly against a real war.

H.M.Jr: Well, I hope you're right.

C: So do I.

H.M.Jr: Ah-ha. Well, just a minute. I'll ask Mr. Taylor and Mr. Lochhead if they want to ask anything.

C: All right.

(Pause)

H.M.Jr: No. Well, then we'll just ask the Department to get you off a cable so that you can go to Holland and Belgium as soon as possible.

C: If you get the wire off today, I'll get busy and I might leave tomorrow night.

H.M.Jr: The wire will go at once.

C: Beg pardon?

H.M.Jr: We'll get the wire off right away.

C: Tripp is going to have a lot of people there. He's going to be on the reception committee for the royal family in three or four days from now.

6

H.M.Jr: We have no arrangement with them.

C: I see.

H.M.Jr: We have no arrangement.

C: Yes.

H.M.Jr: You - you - the answer to the question is the way - I answered your question technically correct.

C: Fine.

H.M.Jr: Get it? Hello?

C: Yes.

H.M.Jr: I answered you technically correct.

C: I see.

H.M.Jr: Eh?

C: I understand.

H.M.Jr: All right. But you can tell them that you talked with me today and that a little bit warm as far as the weather goes, but inside the Treasury very cool and collected.

C: All right. I will be glad to pass that on.

H.M.Jr: All right.

C: And you prefer that I see the that is, the ministers in those countries?

H.M.Jr: Yes, oh, very much so.

C: Yes.

H.M.Jr: Yes.

C: I'll make arrangements then to see them all.

H.M.Jr: Thank you.

C: All right, sir.

H.M.Jr: Good-bye.

C: Good-bye.

LMS

PLAIN

London

Dated June 2, 1937

Rec'd 2:37 p. m.

Secretary of State,
Washington.

336, June 2, 8 p. m.

FOR TREASURY FROM BUTTERWORTH.

The press and the city welcome Chamberlain's decision taken last night in the House of Commons to abandon the national defense contribution proposal and to substitute therefor "a simpler tax upon the profits of industry which will produce not less than 25,000 pounds in a full year". It is described in labour, opposition-liberal, as well as conservative journals as an act of statesmanship befitting his enhanced position and in fact this volte face does not seem to have weakened it inasmuch as **opposition** to the national defense contribution was not confined to any political group but encompassed virtually the whole House of Commons.

After appeals by Lee-Smith on behalf of the Labor Party and Churchill on behalf of the conservatives to follow democratic parliamentary procedure in such circumstances and withdraw the proposal Chamberlain after explaining at some length his objectives admitted "that
there

LMS 2-No. 336, June 2, 8 p. m., from London.

there does appear to be genuine alarm in the mind of industry generally and that the anxiety and doubts which they feel about the future of the tax have held up business to an extent which is very undesirable". He said that he had been assured that industry wished it understood that it did not challenge the propriety of its finding the amount wanted out of profits and that "provided I can get what seems to me to be the important thing I never boggle over particular ways of achieving it nor allow anything in the way of amour propre to prevent my taking what I call a common-sense attitude".

The London stock exchange has been active and strong today. Heavy offerings of gold continue and although fixing was for 633 bars at one time 800 were on offer. There were also large offerings after fixing at almost 6 pence discount. It is currently rumored here that an agreement has been reached between the British and American central banking authorities as to the amount of gold purchases each will bear and this report is credited by some responsible persons.

BINGHAM

CSB

June 2 - 3. P.M.
Pope and Love -
1st National of Boston

Sept - 1939 $1\frac{1}{4}\%$
Sept 1940 $1\frac{1}{2}\%$

June 2 - 7.30 P.M.

Discount Corp
2 1/4 yrs $1\frac{3}{8}$
5 yrs $1\frac{3}{4}$

June 2 - 9.30
Levi
Sept 1939 - $1\frac{3}{8}$
5 yrs. $1\frac{3}{4}$

182

Levine

Sept 1939 - 1 ³/₈

500,

~~May~~ 5yr. - 1 ³/₄

300.

go very well

c. 7 childs.
Swihart

all in. Sept 1939 - 1 ³/₈

RB

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

PARIS

Dated June 2, 1937

Rec'd 4 p. m.

Secretary of State

Washington.

720, June 2, 5 p. m. (GRAY)

FROM COCHRAN.

Bank of France had to yield today at 110.63 and 64 sterling which exchange traders estimate at two to three hundred thousand pounds. Part of uneasiness over franc comes from gossip that tomorrow's Bank of France statement may show an increase in bank's credits to the Treasury. Bank of France has for some days past been receiving at its counters around ten million francs of gold daily. An important part of this is said to come from Switzerland but no indication as to whether it is property of Swiss or of French who have been holding it in suspense. French rentes not changed importantly. General market sentiment less apprehensive than yesterday over international political situation. Financial press gives prominence to statement of Secretary Morgenthau that no change in the administration's gold policy is imminent. London reports record number of gold bars offered there today.

Financial

- 2 -

Financial press summarizes statements from annual report of the Netherlands Bank wherein President Trip is said to favor direct international regulation of gold production perhaps somewhat along the lines recommended in 1926 by Professor Lehfeldt of Johannesburg.

Today the Bank of France invoiced to the Federal Reserve Bank of New York 30,472,000 francs gold bars on the CHAMPLAIN for account of the BIS. Also invoiced for shipment on the CHAMPLAIN were 2,476,000 francs by Jean Liamey to Johnston Matthey.

BULLITT.

EA:LWW

RECEIVED
JUN 3 1937
TREASURY DEPARTMENT
WASHINGTON, D. C.

Fin 186

June 2, 1937

Talked to the President at 4:15; asked if it was all right to announce at 8:45 Thursday morning that our financing would be 800 million. He said, "Fine, go ahead".

June 2, 1937
4:45 p.m.

H.M.Jr: Hello?
Sen.
Pope: Hello?

H.M.Jr: Sen. Pope?

P: Yes.

H.M.Jr: Morgenthau.

P: Yes, how are you today?

H.M.Jr: Fine.

P: Mr. Morgenthau, I wanted to come up to see you but I think I'll save both ourselves time -

H.M.Jr: Okay.

P: And talk to you over the telephone. Here for about two months, I've been making 15-minute transcriptions, which I send out to my state, to be played over the radio at regular times. Most of them have been made with the different officials in the form of an interview and which is linked to the work of the department or anything else that might be of interest to Idaho people. It not only covers Idaho quite thoroughly, but it covers other western states.. Secretary Wallace and Secretary Perkins and Mr. Roper and various other people. And I - it occurred to me that if you had time to do that that our people would be very much interested out there in hearing your voice and also hear you talk about things that naturally interest Idaho as well as every other state. And what we usually do is to have somebody at the department or in connection with my secretary write up the manuscript in the form of an interview, questions and answers, and I'm getting quite remarkable responses out there. They like it, and also it seems to do quite a good deal of good to hear your voice. Well, at some time within the next month, if convenient and if it strikes you, I'd like very much to do one of those with you. It takes 15 minutes to make a record, and if we listen to hear it read back - played back - it takes 15 minutes, and that is all the time it takes. Our people out there are particularly

interested - I've been getting numerous letters about the possibility of the price of silver and gold being reduced. I answer each one individually, saying that I have no information in the matter or have no intimation from any source that that situation is likely to be changed. But there is a current rumor all out there that something is on the stir about it. Well, it maybe that that particular thing is something you wouldn't want to talk about, but, any rate, your department is very naturally of interest to our people, and I'm getting very interesting letters back from listeners and from others that listen to these programs. Now if that would appeal to you so you'd take that much time to do it, I'd like very much to do one of them with you.

Then on to Twin Falls - it plays the next night at Twin Falls. The next night Boise and the next night Lewiston. Say anything you want to say only we'd like you to connect it up with Idaho just a little somewhere along the line. I thought if you would do that I'd like very much to do one of them with you.

- H.M.Jr: Well, Senator, you say you've done one of them with Wallace.
- P: Yes, with Wallace and Miss Perkins and I have one to do with Secretary Ickes this week, and Roper next week, and so we have the -
- H.M.Jr: Well, could you send me down the one with Wallace? Have you got a record or a written transcription?
- P: Well, we have the written - we have the manuscript that we used.
- H.M.Jr: Could you send me down the manuscript?
- P: Yes.
- H.M.Jr: I'd like to take a look at it.
- P: I'd be very glad to. We had him talk about crop insurance mostly.
- H.M.Jr: And then let me think it over.

3

P: All right.

H.M.Jr: And thank you for asking me.

P: I'll be very glad to do that, and if you find you can do that, I'd appreciate it and we'd have them next month.

H.M.Jr: Well, if you'll send me down just a sample, I'd like very much to look it over.

P: All right; fine.

H.M.Jr: Thank you very much.

TELEGRAM SENT

June 2, 1937

6 p.m.

AMEMBASSY

PARIS (FRANCE)

252.

Secretary of the Treasury requests Cochran be authorized to proceed earliest possible convenient time to Belgium and the Netherlands to continue investigation and report. This satisfactory to Department if Ambassador agreeable.

HULL.

RECEIVED
JUN 3 1937
TREASURY DEPARTMENT
Office of the Secretary
Room 5000, Building 12, Washington, D.C.

June 3, 1937
11:30 a.m.

H.M.Jr: Hello?

Operator: Governor Harrison. Go ahead.

H.M.Jr: Hello?

Gov.
Harrison: Hello, Henry?

H.M.Jr: Yes, George.

H: Good morning.

H.M.Jr: To you.

H: Young of the Netherlands Bank called Knoke this morning.

H.M.Jr: Yes.

H: And they have 27 million under earmark here.

H.M.Jr: Yes.

H: They're thinking of releasing that 27 million, getting dollars, buying bonds, and immediately taking gold off the London gold market in the same amount. Their idea is not to show any change in their gold statement at all because they would release it only as fast as they got it in London.

H.M.Jr: Yes.

H: Their reason is frankly for two reasons - to try to help support that market and, second, because they make a profit.

H.M.Jr: Yes, that ought to come first.

H: (Laughs) I'm giving them to you in the order they gave them to us.

H.M.Jr: Yes.

H: I told Knoke the same thing.

H.M.Jr: Yes.

H: That's the same thing other banks have done, and they were very nice about it. They didn't want to do it

if there was any possible objection here. Knoke said that he didn't think that - he didn't see any. I didn't think there would be any but he didn't know. They're planning to take it up with the Bank of England tomorrow to see whether they have any objection.

H.M.Jr: Well, of course, if we objected, that would be a sign of weakness, wouldn't it?

H: Yes. I think it would. I think you're in a hole on it, and I don't see any real objection anyway. But my recommendation would be that we shouldn't make any objection, just let them go ahead.

H.M.Jr: Ah-ha. Do you mind talking to Wayne Taylor because he's been watching this thing very closely?

H: On this subject - yes.

H.M.Jr: Yes. I'll put him on the wire now and I'll tell him how I feel about it, but I'd like him to think it over, see?

H: Yes.

H.M.Jr: But my reaction is that it would be a sign of weakness if we objected.

H: I think it would and I think they're really cooperating. True, they are making some profit out of it, but it has been done before, you know. The British did it for a while.

H.M.Jr: Yes, it's marked.

H: It's marked.

H.M.Jr: But I don't see how we could -

H: I don't see how we could object. There's one more thing before you transfer me to Wayne.

H.M.Jr: What's that?

H: I say there's one more thing before you transfer me to Wayne. Just a little thing. Sir Josiah Stamp, who is chairman of the London Limited and Scottish

Railway -

H.M.Jr: Yes.

H: - and also director of the Bank of England, was in here about a week ago.

H.M.Jr: Oh, yes.

H: And then I talked with him. I have known him a long while. He said that he is going to be in Washington on June 13 and 14. And did I think he should call on you or would that be any embarrassment to you, or what did I think. And I said that I - having in mind the day Norman was here, how you felt about it -

H.M.Jr: Well, this fellow is different.

H: I think he is. I think -

H.M.Jr: I mean is he a director of the Bank of England?

H: Yes, he is.

H.M.Jr: But he's not the Governor.

H: Oh, no. He's just a director. He's chairman of the London Limited and Scottish Railway, and he's over here on railway business.

H.M.Jr: No, if he wants to have an appointment, I'd be glad to see him, but he has to give me a little notice.

H: Well, he's going to be there on -

H.M.Jr: The 14th is a Sunday - the 14th is a Monday.

H: Yes.

H.M.Jr: I'll tell you now if he wants to come in at 3:00 on that day, Monday.

H: Well, now I'll have to check back with him. I think that will be all right, but I'll check with him right away and let you know.

H.M.Jr: Will you?

H: Yes.

H.M.Jr: Okay.

H: First rate. Eccles just wants to see him, too, so I'll try to get an appointment with him, too.

H.M.Jr: Have you heard any gossip about bonds or notes or anything?

H: Not - not this morning. The announcement has come out, but I haven't gotten any reaction at all yet.

H.M.Jr: Well, the market is frozen up; it's just dried up.

H: It's all right; it's stepped up.

H.M.Jr: No, I say it's dried up.

H: Yes; it's better than it was yesterday.

H.M.Jr: No, but it's dried up.

H: That's right.

H.M.Jr: Yes. No, if Stamp is down here I'd be glad to see him.

H: All right. Well, I'll - I'll -

H.M.Jr: I mean that other thing was different. I mean Norman -

H: Well, having that in mind, I didn't want to step into anything without talking to you.

H.M.Jr: No, no, no. This is different and he - Norman never asked to see me. He kind of - he stepped all around it, you know?

H: Yes.

H.M.Jr: Norman never came out point blank and said he wanted to see me.

H: Yes, that's quite right.

H.M.Jr: What?

H: Until afterwards and then he said that's what he meant all along.

H.M.Jr: Yes, but he said that afterwards.

H: Yes, surely.

H.M.Jr: And don't forget that I also consulted the British Embassy about it. Did you know that?

H: That you did what?

H.M.Jr: I talked to the British Embassy about it.

H: Did you, about Norman?

H.M.Jr: Oh, yes. And they said if he wants to see you he knows how to do it.

H: Ah-ha.

H.M.Jr: See?

H: Yes.

H.M.Jr: But afterwards he said he wanted to see me, but while he was here, he never I think if Stamp says could he see me - is that what he said?

H: Look - he came down to see me and he told me that he is going to Washington and he said he'd like to make his calls there, and he'd like to see Eccles and he'd like to see you - he'd like to call on you is the way he put it - he'd like to call on the Secretary if I thought it would not be embarrassing to him, or if I thought it would be all right.

H.M.Jr: The answer is yes.

H: All right. First rate. Well, I'll tell him.

H.M.Jr: Now wait a minute and I'll give you Wayne. Just a minute.

Operator: Hello.

H.M.Jr: Put Mr. Taylor on and let me listen for a minute. I want him to talk to Governor Harrison.

Operator: All right.

H.M.Jr: Hello.

Harrison: Yes.

H.M.Jr: Just a second. Hello?

Operator: Go ahead.

H.M.Jr: Hello, Wayne?

Wayne

Taylor: Yes.

H.M.Jr: George Harrison is on this wire and he's put up a proposition to me about Holland. As a curbstome opinion, I don't see any objection to what they're proposing, but inasmuch as you've been handling this, I want you to listen to it, see?

Taylor: All right.

H.M.Jr: Harrison is on the wire now.

Taylor: All right.

H.M.Jr: And if you have any objection or think of any, let me know at once.

Taylor: Yes.

H.M.Jr: But I'd like you to listen to it.

Taylor: Fine. All right.

H.M.Jr: See?

OFFICE CORRESPONDENCE

DATE June 3, 1927. 1927

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
THE NETHERLANDS BANK.

OM L. W. KNOKE

Mr. de Jong called me at 11:55 for the purpose, as he stated, of discussing with me with absolute frankness the following operation which they had under consideration but which they would not want to enter upon if we objected:

The Netherlands Bank has with us \$27,000,000 worth of gold earmarked in its name. They would gradually convert this gold into dollars and buy with these dollars gold in the London market in order to help to get rid of the discount from New York parity, at which gold is quoted in London at present, which discount they feel "creates quite a good deal of nervousness. If they could help to remove that discount, de Jong continued, it would be a good thing generally. The fact that they could switch from gold in New York to gold in London at a profit was for them only a secondary consideration. I replied that, as far as I could see at present, there were no objections, but added that I reserved the right to discuss this matter with him again frankly if we, at any future time, felt that it should be discussed further. I also expressed my appreciation of their calling us up first before doing anything. de Jong thanked me and said that he had not talked about their plans with the Bank of England, that he had not wanted to do so before consulting us, that he was now going to call them up the first thing tomorrow morning (today being too late), and expected to start his purchases of gold in London tomorrow morning. I emphasized and he confirmed my understanding that I assumed they would release gold in New York only to the extent that they managed to purchase in London and that, consequently, their net gold holdings would remain unchanged as a result of these operations.

LWK:KMG

REPORT OF SECRETARY MORGENTHAU'S PRESS
CONFERENCE, June 3, 1937:

197A

H.M.Jr.: Good morning. They're actually sailing this morning! Well, I'll be short and snappy. The offering on Monday will be \$800,000,000 in notes.

Q. On Monday?

A. On Monday, \$800,000,000 in notes.

Q. That will be five hundred new money and three hundred maturity; is that right? Is that the way it works out?

A. No, I mean it's \$800,000,000 in notes. Now what we pay off is one thing--whether you're going to pay it off out of taxes--I don't see--if you ask my advice, I don't see anything to be gained by writing the story that way.

Mr. Gaston: We never offer exchanges for bills, those things maturing the 15th.

H.M.Jr.: The bills which are maturing, you could say, would be paid out of tax money.

Q. In effect, it's a replacement of the three hundred million.

A. You can write it any way you want. I mean, expect so much money in taxes and we will take in \$800,000,000 besides. Now out of that we have got the \$300,000,000 bill maturity and interest of about 150 million.

Q. But actually it will increase the national debt by five hundred million; is that correct?

A. Yes.

Q. I wouldn't be technically inaccurate if I said five hundred million new money?

Mr. Gaston: Yes, you would be--I'll explain to you why (Freidheim).

Q. If I said eight hundred million new money, would I be accurate?

Mr. Gaston: I'll talk to you about it later.

H.M.Jr.: That's the whole story, unless you fellows have got something else.

Q. The offering will be made on Monday?

A. That's right,

Q. You wouldn't say what the rate is?

A. Just eight hundred million in notes.

ooOoo

F 198

June 3, 1937
1:52 p.m.

H.M.Jr: Hello?

Operator: Dr. Burgess.

H.M.Jr: Hello?

Dr. Burgess: Hello, sir.

H.M.Jr: Well, how is the financial world?

B: Well, I think it took that announcement very well this morning.

H.M.Jr: You do.

B: Yes.

H.M.Jr: It looked that way to me.

B: Yes.

H.M.Jr: I'd hate to have to either buy or sell five million today of bonds.

B: (Laughs) It's pretty thin.

H.M.Jr: Yes.

B: Yes. What did the boys tell you down there?

H.M.Jr: Well, Mr. Levy said if I hadn't made the announcement, he would have told me a five-year note and a bond.

B: Ah-ha.

H.M.Jr: But having made it, he told me September, '39, and a five-year. He felt pretty cockey.

B: Yes.

H.M.Jr: Then Devine came in and he feels very good on the whole picture, and he's for a '39 and a five-year, but very definitely 500 million on the '39.

B: I see.

H.M.Jr: Very definite.

B: Ah-ha.

H.M.Jr: Hello?

B: Yes.

H.M.Jr: He says that 400 million is a little bit too much.

B: Yes.

H.M.Jr: He says if we do five and three it will go extremely well.

B: Yes.

H.M.Jr: And leave a good after demand.

B: Yes. How did you like him?

H.M.Jr: I like him. He's a little nervous naturally. Naturally he was a little nervous.

B: Anybody would be.

H.M.Jr: But he - he - he talked well, and he handled himself very well.

B: He's smart all right.

H.M.Jr: Yes.

B: Yes.

H.M.Jr: Terribly young but he's smart..

B: Yes.

H.M.Jr: But he said on a five and three set very well. I tried Levine out - Levy out on March, '42.

B: Ah-ha.

H.M.Jr: And then his whole face broke out into smiles.

B: Is that so.

H.M.Jr: Oh, yes. That - that would make all the difference in the world.

B: Yes.

H.M.Jr: Devine said it wouldn't make any difference.

B: Yes.

H.M.Jr: He said it wouldn't make any difference.

B: I think he's right - yes.

H.M.Jr: But he said five and three, and he says that will go - you have nothing to worry about.

B: Yes, ah-ha. Well, there's something in that.

H.M.Jr: Yes. What have you heard?

B: Well, I talked this morning with several of the dealers. I - I got encouraged on the whole. I talked to Devine last night.

H.M.Jr: The 800 million didn't bother you?

B: Not a bit - no.

H.M.Jr: Bother them I mean.

B: I talked with Central Hanover Bank.

H.M.Jr: Yes.

B: And he talked the same - you know his attitude.

H.M.Jr: Well, I haven't talked to him in over a week.

B: Yes. Well, it's the same story.

H.M.Jr: Yes.

B: They said they had talked to a lot of out-of-town banks, and they don't any of them want a five-year note.

H.M.Jr: They don't.

B: No. I don't particularly believe that though.

H.M.Jr: Ah-ha. I think we want to study that five-year note. I mean I - I want to do it, but I think we want to study the amount.

B: Well, I think that if one made any concession, it would be along the line that Devine suggested.

H.M.Jr: Yes. As I said, Levy's face broke into a wreath of smiles when I said March, '42.

B: Yes.

H.M.Jr: Yes.

B: Ah-ha.

H.M.Jr: Well, the bonds seem to have worked up a little bit today.

B: Yes. They've done very well.

H.M.Jr: Yes. Well, I won't bother you again until tomorrow. I got one more fellow to see now.

B: Yes, he's a nice fellow. You'll like him.

H.M.Jr: All right.

B: First rate.

H.M.Jr: Goodbye.

B: Goodbye.

F202

June 3, 1937
3:58 p.m.

H.M.Jr: Hello?

Operator: Governor Schaller.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello?

Governor Schaller: Hello, Mr. Secretary.

H.M.Jr: How is Chicago?

S: Chicago is bright and sunshiny today.

H.M.Jr: I see.

S: I've tried to canvass this situation for you since your announcement came out this morning.

H.M.Jr: Yes.

S: The balance of weight here seems to be for a two-year note.

H.M.Jr: Two-year what?

S: Two-year note.

H.M.Jr: Two-year

S: 1-3/8s to 1 - from 1-1/4 to 1-3/8s.

H.M.Jr: Ah-ha.

S: There's not very much interest in a five-year note.

H.M.Jr: There isn't.

S: Several of the fellows tell us that they're not interested at all in the five-year note.

H.M.Jr: Ah-ha.

S: I discussed three-year note with them, and 1-3/4s, 1-1/2, 1-5/8s. Along 1-1/2 to 1-3/4s.

H.M.Jr: Ah-ha.

S: They all seem to feel that on account of the size of it, we shouldn't take any chances on the small differential in rate of interest.

H.M.Jr: Yes.

S: They - they - that's simply the feeling I get from the fellows on the street here.

H.M.Jr: Well, do they think 1-3/8s is all right for 2-1/4?

S: 2-1/4 years?

H.M.Jr: Yes.

S: Let's see - I got one, two, three - three, four - yes, about half of them were willing to go 1-3/8s. The rest of them 1-1/2.

H.M.Jr: 1-1/2.

S: Yes - about one-half of the fellows interviewed. I called Detroit, Milwaukee, and Indianapolis besides the fellows in Chicago.

H.M.Jr: Ah-ha.

Most of the people I have been talking to said a 2-1/4-year, 1-3/8s. Nobody has talked about a 1-1/2.

S: Yes. Well, I think here - I think that would go out here as it stands right now.

H.M.Jr: You do?

S: Yes.

H.M.Jr: But would you have any customers for a five-year note?

S: Well, let's see. A five-year note. No, I - I have one here, and that was one of the smaller - I have two here that thought a 1-3/4s for five years would go.

H.M.Jr: Ah-ha.

S: It might be a good - that might give some of our smaller banks a little better yield and keep them out of the poorer investments that they have to make with the money on hand.

H.M.Jr: Ah-ha.

S: If we could give - if we could give them a choice.

H.M.Jr: Well, we're thinking of dividing it up. Either 400 and 400 -

S: Subscribe to either one.

H.M.Jr: No, make it fifty-fifty, or make it five and three.

S: Yes.

H.M.Jr: 500 and 300.

S: And then make the allotments under the subscriptions.

H.M.Jr: Yes.

S: Yes.

H.M.Jr: Either 400

S: Now I don't know if there is anything else I can add out here that would be of interest to you.

H.M.Jr: Ah-ha. How's the feeling on the Government bond market?

S: Well, of course, it was a little weak today.

H.M.Jr: Ah-ha.

S: I see the list has kind of recovered, but - Oh, I think, they'll come through all right.

H.M.Jr: You think so?

S: Yes, I think they'll come through on a note. I think that's a very good choice and I think our fellows will go along.

H.M.Jr: Good. Well, I'm very much obliged to you.

S: You're entirely welcome, I am sure.

H.M.Jr: Thank you.

S; Anything else, let me know.

H.M.Jr: Thank you.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: June 3, 1937, 4 p.m.

NO.: 341

FOR TREASURY FROM BUTTERWORTH.

I met with Waley at the British Treasury by appointment this morning; he said that he also had an appointment with Arakawa for this afternoon.

I gave Waley the substance of your telegram No. 212. Waley replied that in that case if Arakawa attempted to raise the question of the tripartite monetary arrangement he would "head him off". He hoped that in the meantime the American Treasury might give further consideration to the question, because it seemed inadvisable from every point of view to place the Japanese in the position of asking for something which might not be given to them. The Japanese approaches had been tentative, he believed, because they wished to avoid any possible rebuff. Having regard for Japanese psychology and the condition of Far Eastern affairs, it was highly desirable to take all reasonable precautions not to offend Japanese sensibilities and also not to make Arakawa lose face. In the British Treasury's view, therefore, the sensible course had been to consult the United States before any action was taken in London, particularly since London is not especially concerned due to the fact that it had a free gold market and that

- 2 -

that they could consequently easily effect ear-marking arrangements.

Reference was then made by Waley to the negotiations which Kung had been conducting in London with a view to raising a loan for China. Waley said that the Japanese in any case probably would not like the fact that financial aid was going to be made available to the Chinese, although it was hoped a hostile attitude would not be adopted by the Japanese. Apparently a compromise is in the process of being reached between Kung's desire for a loan of 20 million pounds and Leith-Ross's opposition to such a large sum which will take the form of an authorized loan of 20 million pounds for China, only 10 million pounds of which will shortly be issued, and the other 10 million pounds are to be issued "one day". According to Waley the loan will be long term. Its main purpose was to strengthen the resources of the Chinese Central Bank in the belief that one should start with the fundamental factor, that is, the monetary system, and that other things would tend to fall into their proper places if that could be made entirely sound.

I asked Waley if the British planned to give gold to the Chinese. He said that that had likewise been the initial query of Phillips, but that such a definitive stage in the matter had not yet been reached.

Waley

- 3 -

Waley said that at the same time the Minister of Railways wanted similar sterling feathers in his cap, and that while there was every disposition here to help the railway development in China, it seemed desirable at the same time that Kung's loan should receive first ~~con-~~ sideration on the London money market.

There was obvious concern on the part of Waley about how the Japanese would take this matter. He hoped for a not too unfavorable reaction, but he added that the Japanese themselves would like to borrow money in London, and the fact that their credit in the City of London was not as good as China's was bitterly resented.

BINGHAM.

RECEIVED

JUN 1 1931

INTERNATIONAL BANKING CORPORATION

60 WALL STREET, NEW YORK

CORPORATION OF THE STATE OF NEW YORK

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: June 4, 1937, 10 a.m.

NO.: 343

FROM BUTTERWORTH FOR TREASURY.

At a reception last evening I saw Waley, and I gathered that he had "headed off" Arakawa without difficulty.

Arakawa had inquired about gold, Waley said, and he (Waley) had confined his remarks to discussing the report made by the Bank for International Settlements. Waley told me that he then took the bull by the horns, and explained the Chinese loan position to Arakawa - hoping that frankness would prove a virtue. Arakawa seemed not unsympathetic, as far as could be gathered, but he merely made the reply "I do not know (omission) I can quite say" when he was asked directly what he felt about it.

BINGHAM.

EA:LWW

June 4, 1937
10:00 a.m.

H.M.Jr: Hello?

Operator: Dr. Feis.

H.M.Jr: Hello?

Dr.
Feis: Good morning, Henry.

H.M.Jr: Hello?

F: Good morning.

H.M.Jr: Good morning, Herbert.

F: There's a cable in from Paris that I thought you'd want before you spoke to the Chinese Ambassador.

H.M.Jr: Go ahead.

F: It relates a conversation between Bullitt and Kung, and this is quoting Kung. Ready?

H.M.Jr: I'm all right.

F: He said that on his arrival in London, the British had indicated their willingness to finance various railroad building projects in China

H.M.Jr: Yes.

F: through long-term loans, the proceeds of which should be spent in England.

H.M.Jr: Yes.

F: Kung had replied that he was not interested in such loans; that he could buy in many places in the world materials necessary for the building of railroads on the basis of installment payments. If the British would be ready to offer better terms than any one else, he would be glad to buy in Britain but not otherwise. And then in a conversation with Eden, Chamberlain, Leith-Ross and Montague Norman, stated that he believed there was one loan which would be greatly to the advantage of China and Great Britain. That was a loan which would enable him to retire the outstanding internal Governmental obligations of China. It would be necessary to

have approximately two billion (b-i-l-l-i-o-n) dollars, Chinese. If you translate it, it's 120,000,000 English pounds. He said that by paying off the outstanding Government bonds, which, on the whole, carried 8% interest, since they bore interest at 6% and have been sold at 80, and issuing such internal bonds as might be needed bearing 4% interest, he could balance his budget. I think that must be an error; it must mean external bonds. This would greatly strengthen the position of the Chinese Government, which obviously would be an advantage to the British Government. Kung said that he had asked the British Government to persuade British bankers to lend him 120,000,000 English pounds for this purpose. He is prepared to promise the money should not be taken out of England. So long as he should have such a credit in England, he could issue notes which would serve the same purpose as cash. Kung asserted that Chamberlain, Eden, Leith-Ross, and Montague Norman had all agreed in principle that a loan of this nature would be of great advantage to Great Britain as well as China, but they said that in view of the present financial situation in Great Britain and the uncertainties of the European situation, they did not wish to commit China to borrow more than 20,000,000 pounds in the London market. They have proposed an interest rate of 5% on this 20,000,000 loan. He had suggested 4%. The British Government furthermore had said they did not wish the loan to be floated at the present time, but wished it to be floated in September. They requested him to return to England after his visit to the United States in order to sign the agreements for this loan. He expected to return to England in the month of July. Kung added that next week he would visit Brussels and Berlin, and sail for the United States on June 16, and visit New Haven, Connecticut, to obtain a degree from Yale. Then visit Washington. He said that he was looking forward with the greatest eagerness to seeing the President and Secretary Morgenthau. Kung said that when he reached the United States, he hoped to be able to interest American bankers in making a loan to China which would fill the gap between the 20,000,000 that the British Government is ready to have British bankers advance, and the 120,000,000 pounds which he wants.

He considered the 20,000,000 million loan from Great Britain an established fact and a settled transaction. But China's position would be enormously strengthened if he could add to it 100,000,000 pounds from the United States. Now, just this one comment. We haven't been able to get, despite the fact that our Embassy in London is patrolling the British Government, they haven't given us nearly that detail.

H.M.Jr: Ah-ha.

F: The only thing they've told us is that Kung was trying to get a great deal of money and that they warded him down.

H.M.Jr: They did what?

F: They warded him down was their expression.

H.M.Jr: I see.

F: I think you got that in Butterworth's cable, didn't you? It's in some cable that went across.

H.M.Jr: That's possible.

F: What?

H.M.Jr: Possibly. It just doesn't click.

F: We've got this from the Chinese and not from the British, and

H.M.Jr: Well, do you ever get anything out of the British?

F: Well, sometimes. But we didn't get this.

H.M.Jr: No.

F: It was certainly not - not

H.M.Jr: Well, I'm glad to get it.

F: Now, just a minute. Oh - Butterworth's cable this morning which I haven't yet read.

H.M.Jr: Yes.

F: Well, he apparently told Butterworth about the loan. Should I read that aloud?

H.M.Jr: No, I'd rather have the cable.

F: Well, it's on its way to you. But they did apparently tell us something about it.

H.M.Jr: How about this - how about what you just read me from Bullitt? Do I get that?

F: Would you take a rather rough paraphrase?

H.M.Jr: Will I take one?

F: A rather rough paraphrase?

H.M.Jr: Sure.

F: All right.

H.M.Jr: Well, I'd like - I think it's

F: You'd like a copy now to send back to us?

H.M.Jr: Well, what were you reading me?

F: I was reading you this Bullitt cable.

H.M.Jr: Well, you send me

F: Suppose I shoot you over a copy of that, will you shoot it back to us?

H.M.Jr: Yes.

F: Right. I'll shoot it right over by messenger.

H.M.Jr: Yes. Now, look - this I consider very important. Tomorrow morning before my financing - I've got to settle it at 11:00 - I'd like to know what the chances are for any disturbance over the weekend, see? Are you going to be in tomorrow morning?

F: Yes, I'll be in tomorrow morning. But, gosh ! My poor human judgment !

H.M.Jr: Well, I'll ask Mr. Hull at Cabinet.

5

F: I mean I'm completely at your disposal, but whether it's my judgment you want or some one else's judgment

H.M.Jr: Well, I'll ask him and tell him I'll call him up tomorrow morning.

F: All right.

H.M.Jr: I appreciate your calling me.

F: I'll shoot this over to you. You'll shoot it back, will you?

H.M.Jr: Yep.

F: Right.

H.M.Jr: Thank you.

Fin

June 4, 1937
10:15 a.m.

H.M.Jr: How are you?
Dr.
Burgess: Good morning, Mr. Secretary, how are you?
H.M.Jr: Oh, I'm all right.
B: That's good.
H.M.Jr: What do you know?
B: Well, I don't know anything different really. I think the only question is whether to divide it fifty-fifty, or whether to put 500 in the two-year, and 300 in the five-year. My personal information is toward fifty-fifty.
H.M.Jr: Fifty-fifty.
B: But I think that's something you can leave until the last minute.
H.M.Jr: Ah-ha.
B: And then see how it goes. I like that better than I do dating it in March.
H.M.Jr: You do.
B: If one must make some concession, I think that's more important than the March dating. The March dating looks kind of weak, I think.
H.M.Jr: Well, your friend down here - the last fellow we saw from Childs

B: Yes.
H.M.Jr: He was awful weak-kneed on this five-year business.
B: Yes, I know he was.
H.M.Jr: Now what he said was - the only people he talked to who would take the five-year and would recommend it is the First National of New York. Did you know that?
B: Well, I know that he said that they said that.

H.M.Jr: Well, now, look

B: He's not right about that, of course, There're other banks here. There's the Guaranty who is prepared for it, and the City.

H.M.Jr: Yes. Now, have you talked to the following? I mean I don't want to call up anybody direct, see?

B: Yes.

H.M.Jr: I mean have you talked to National City today?

B: Not today, no.

H.M.Jr: Well, I wish you would.

B: Yes.

H.M.Jr: Will you talk to Rentschler?

B: Yes.

H.M.Jr: And I wish you'd talk to Davison at the

B: I talked to Davison yesterday.

H.M.Jr: Well, what did he say?

B: Oh, he prefers to see it short.

H.M.Jr: Yes, but will he buy - if it was a five and three, would he buy the five-year?

B: Oh, I think so. I had his man over here yesterday, and spent half an hour with him.

H.M.Jr: Yes.

B: He said he thinks the five-year would go.

H.M.Jr: Ah-ha.

B: But he thinks there would be more subscriptions for the short one, and he thinks that's not very good for the market.

H.M.Jr: Ah-ha. Now, what about the Chase?

B: Well, I talked with Shelton Green a few days ago.

H.M.Jr: Ah-ha.

B: They're pretty conservative about it.

H.M.Jr: Well, would you talk to them today?

B: Yes, I will.

H.M.Jr: All right. Now, ah - and how about the First National crowd?

B: Well, I had in mind to talk to them - oh, you mean the First National Bank?

H.M.Jr: Bank.

B: I had planned to talk to them today.

H.M.Jr: Ah-ha. And the Guaranty?

B: Yes, I talked with them just a day or two ago.

H.M.Jr: Ah-ha.

B: They - they say it will go.

H.M.Jr: They say it will go.

B: Yes.

H.M.Jr: They're - they're more bullish than some of the others, aren't they?

B: That's right, yes.

H.M.Jr: Ah-ha.

B: Well, -

H.M.Jr: Well, how about J. P.

B: Well, I've got a call in now for Barton Hubert. I thought I'd try to get him to lunch.

H.M.Jr: Good.

B: And go over it with him.

H.M.Jr: Good. Well, I'll tell you. Before I go over to Cabinet, which is 2:00, I think I'll call - which is 3:00 your time - I'll call you just about ten minutes of three.

B: All right.

H.M.Jr: See?

B: Yes.

H.M.Jr: Okay.

B: Very good.

H.M.Jr: Now down here, we're leaning a little bit toward the five and three - in the amount.

B: Yes.

H.M.Jr: Has the $2\frac{1}{4}$ year note flipped enough that we have to pay $1\frac{1}{2}$ coupon?

B: Oh, no. Oh, no. That's all right.

H.M.Jr: Is that all right?

B: Oh, yes. The $1-3/8$ s is all right on that.

H.M.Jr: It is.

B: Yes. And it's very important to keep that yield down so that the other will be attractive.

H.M.Jr: Yes. Well, the bonds today are up a little bit, aren't they?

B: Yes.

H.M.Jr: Yes.

B: Yes, this thing did the bonds a little good, you see.

H.M.Jr: Yes, well -

B: That's a good sign, too, you know.

H.M.Jr: Yes.

5

B: It's a sign that somebody wants something.

H.M.Jr: Righto. How are you feeling physically?

B: I'm fine.

H.M.Jr: Good.

B: A little bit tired from the Washington trip, but I'm all right.

H.M.Jr: Good. Take care of yourself.

B: Very good.

H.M.Jr: Thank you.

B: Good.

F-220

June 4, 1937
1:56 p.m.

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

Operator: Dr. Burgess.

H.M. Jr: Hello, Burgess.

B: Well, the First National Bank thinks we can do it all in five years if we wanted to.

H.M. Jr: They do.

B: They think it would be wiser to divide it.

H.M. Jr: Yes.

B: Between the 2½ and the 5.

H.M. Jr: Yes.

B: They think there wouldn't be as much demand for the longer note, but it will go all right.

H.M. Jr: Yes.

B: The Chase National will take some of each. They'll be glad to have a five-year note themselves. They're not as enthusiastic about it. They -

H.M. Jr: They will take a five-year?

B: They will take some themselves.

H.M. Jr: Yes.

B: And they say that their observation is that the inquiries for new obligations tend to cut off at the end of three years, so they think the five-year will not go as well, -

H.M. Jr: Yes.

B: - as the other, although they think it will go.

H.M. Jr: Yes.

B: Rentschler of the City Bank says he thinks the 2½, 1-3/8s and 5-year, 1-3/4s are all right.

H.M.Jr: Yes.

B: He thinks they will both go.

H.M.Jr: Yes.

B: He thinks there wouldn't be as much enthusiasm for the 5-year as for the other, -

H.M.Jr: Yes.

B: - particularly in the Middle West.

H.M.Jr: Yes.

B: He thinks it might possibly be well to take a larger amount of the short ones, although he thought it would go all right.

H.M.Jr: Yes.

B: He said they will take their - the full amount that they are allowed to for each one.

H.M.Jr: Good.

B: I understand - I haven't been able to get in touch with Morgans myself - I understand though that they think it will go all right.

H.M.Jr: Yes. Well, now I tell you. I didn't realize it was so late. I'm going on over to Cabinet.

B: Yes.

H.M.Jr: And then we'll start in tomorrow morning early and do nothing but this.

B: Now George wanted to know - George has just gone to his train - what time he should meet with you.

H.M.Jr: Oh, if he gets in here at 10:00, Washington time.

B: 10:00 Washington time.

H.M.Jr: Yes.

B: That's very good because I think we oughtn't to - it ought to get on the wires by about 12:00, our time. That's 11:00 your time.

3

H.M.Jr: Good. - If he's in here at 10:00 -

B: Very good.

H.M.Jr: And then - but, no one has talked to you, have they, about - ah - ah - pessimistically?

B: What's that?

H.M.Jr: No one has talked pessimistically?

B: Not really, no. They - they don't think there will be a very large demand - some of them, you know.

H.M.Jr: Yes. All right. Well, then I've got to be at the Cabinet, and I'll talk to you in the morning.

B: All right; that's fine.

H.M.Jr: Goodbye.

B: Goodbye

JR

PLAIN

London

Dated June 4, 1937

Rec'd 3:55 p.m.

Secretary of State,
Washington.

350, June 4, 8 p.m.

FOR TREASURY FROM BUTTERWORTH.

The process of dehoarding continues its snowballing course aided by rumors galore. Uneasiness is growing more widespread and the view is now frequently expressed that if apprehension is allowed to bear fruit the process of recovery may definitely suffer. The following excerpts from today's financial press may convey something of the feeling in the city. FINANCIAL TIMES: "Apologists from all parts are uniting in defense of the theory that the price of gold is not likely to go lower to any material extent or to suffer disability from the outpouring of the metal from producers and hoarders. But their arguments avail little to stem the tide of uneasiness which is creeping into the minds of holders of gold or gold shares, causing a feeling of nervousness whose effects are felt in nearly all the markets around the house. No matter how weighty the authority that speaks, the organ of publicity through which it broadcasts or the titles of the defenders, anxiety in regard to the outlook for the price of gold still spreads.

A

-2-

JR #350, June 4, 8 p.m., from London.

A kind of mob-psychology is infecting the minds of holders of gold shares. If this is permitted to continue unchecked the result will become -- we will not say disastrous -- but at any rate a serious matter. Practically every expert from whatever angle he approaches it answers the question by saying that the price of gold must be maintained for this, that and the other legitimate reason. Yet each assurance so far from fortifying the spirits of those who hold gold shares appears to add to the nervousness which discussion of the gold price has aroused".

FINANCIAL NEWS: "Those who believe in the providential wisdom of Whithall and Threadneedle Street are satisfied that the authorities are in possession of all the facts and know what they are doing but the number of those trustful souls is declining rapidly. Most of us are not at all satisfied that the Treasury and the bank can do no wrong and would like to know the explanation if there is one of the strange and mysterious behavior of the exchange equalization account. It is suggested in some quarters that the object is deliberately to bring out the hoarded gold so as to get over the process of dishoarding as quickly as possible. But then, from the point of view of a solution of the present gold problem the worst thing that can possibly happen to hoarded gold is that it should

be

-3-

JR #350, June 4, 8 p.m., from London.

Be rapidly dishoarded. To force the process in order to get over the uncertainty caused by the existence of large hoards is therefore somewhat similar to committing suicide in a war in order to avoid having to go to the front. But it is easier to reduce to absurdity this and any other explanation put forward than to offer one which is acceptable. It is as good an explanation as any to suggest that the 'control' authorities have simply mistaken 1937 for 1927 and think it their urgent duty to reinforce the gold reserve and to induce hoarded gold to leave its hiding place in order to cope with the burning problem of the scarcity of gold".

Contrary to recent practice the British authorities started selling dollars before fixing which incidentally prior to certain withdrawals at one time had at offer 2500 bars. Nevertheless the discount widened further today to 7-1/2 pence. Naturally the amount of dishoarding has created a great interest in estimating the amount of gold which remains in hoarding. Several banks which conducted a joint informal inquiry report their results as indicating (1) foreign banks in London exclusive of French have already sold on behalf of their customers about 80 per cent of the gold held; (2) British joint stock banks about 75%; (3) French banks about 60%. In this connection reference is made to the penultimate paragraph
of

JR #350, June 4, 8 p.m., from London.

of my 301, May 21, 7 p.m. I shall attempt to obtain an up to date figure at the next meeting at the British Treasury.

BINGHAM

KLP

RECEIVED

JUN 5 1951

RECEIVED
JUN 5 1951
U.S. DEPARTMENT OF STATE

LMS

GRAY

Paris

Dated June 4, 1937

Rec'd 4:23 p. m.

Secretary of State,
Washington.

733, June 4, 5 p. m. (SECTION ONE)
FOR TREASURY.

There has been a considerable demand for sterling on the exchange market today. The exchange fund has lost considerable at 110.65 and 110.67 and is now paying out at 110.68. The dollar is firm at 22.46 $\frac{1}{4}$.

The security market was nervous and rentes lost from 30 to 40 centimes. On the other hand internationals showed strength.

Blum's interview with LONDON DAILY HERALD on anniversary of Popular Front Government is widely quoted in French press. In brief summary of his reference to French financial and economic situation Blum recalled the anemic situation when he took office and held that his Government had succeeded in bringing about a revival. If the upturn was slower than in other countries it was because of the burden of social reforms initiated. The financial difficulties facing France were due to the fact that France had given precedence to social questions over economic questions

LMS 2-No. 733, June 4, 5 p. m., Sec. 1 from Paris.

questions and was obliged to spend large sums for armament.

BULLITT

SMS:NPL

LMS

GRAY

Paris

Dated June 4, 1937

Rec'd 5:02 p. m.

Secretary of State,
Washington.

733, June 4, 5 p. m. (SECTION TWO)

Blum said he was optimistic about the financial future and the possibility of balancing budget. The principal difficulties, he said, arose from expatriation of considerable volume of capital and hoarding and reluctance shown by investors to purchase short term Treasury bills, adding that only about 5,000,000,000 francs of such bills were in circulation whereas the British Treasury had 67,000,000,000 francs in circulation. As regards the future, the Government counted principally on general prosperity to influence the return to France of exported capital but in any case the French Government would not modify its monetary policy and the principles laid down by the tripartite arrangement of September last.

Writing in today's CAPITAL, Marcel Regnier, former Minister of Finance, associates himself with Flandin's predictions made in the Chamber on May 25 that the Government will be faced with a financial crisis at the end of June. Turning to the intention of the Government

to

LMS 2-No. 733, June 4, 5 p. m., Sec. 2, from Paris.

to increase certain taxes as a measure of salvation, Regnier reports that first of all the capacity to pay taxes must be increased and economic activity be restored. He concludes that in any case such an expedient could not possibly provide a remedy for the present situation.

Announcement is made of the opening today of subscriptions to a 300,000,000 franc bond issue by the Paris Orleans Railway. The issue price is 820 francs for each 1000 franc bond nominal value and the interest rate six per cent. It is also announced that the state railway will proceed today to a bond issue under similar conditions but the amount is not stated.

END OF MESSAGE.

BULLITT

SMS:RGC

June 4, 1937

To: Secretary Morgenthau
From: Mr. Magill

Re: Tax Investigation

Mr. Doughton and Mr. Cooper called me at 3:15 to give me the results of their discussions with the Rules Committee regarding the joint resolution. After two conferences, this morning and this afternoon, the members of the Rules Committee, including Mr. O'Connor, agreed to leave the provisions for public hearings and the disclosure of information obtained by the investigation in substantially the form in which they appeared in the Senate resolution. Section 5, which reads "The joint committee may authorize any one or more officers or employees of the Treasury Department to conduct any part of such investigation ... " etc., was amended to read "The joint committee may authorize any person or persons to conduct ... " etc. A sentence was added at the end as follows: "Nothing in this section shall be construed as authorizing the holding of public hearings". Mr. O'Brien of the House drafting service is now preparing the formal changes in the joint resolution.

The Rules Committee will hold a formal meeting Monday morning at 10:30 and Mr. Doughton says there is no question that the Committee will approve the new amendments. The resolution will then be taken up on the floor of the House either Monday or Tuesday. If we are agreeable Mr. Doughton would like to make it Tuesday, since he has another engagement on Monday.

If the Senate agrees to the House amendments the resolution will then, of course, be sent to the President. If the Senate does not agree the resolution would go to conference and unfortunately Members of the Rules Committee will represent the House.

Needless to say, I don't like the new amendments. While they give the committee power to make use of Treasury officials they form a good basis for turning the investigation into a purely Congressional investigation. I wonder therefore whether we can get the Senators to insist on the resolution in its original form and put it through the Conference Committee that way.

Rm

June 4, 1937

232

To: Piles

From: Mr. Magill

Re: Conference with Mr. Halvering.

1. Income tax liability of aliens for capital gains for past years

Mr. Halvering stated that the Bureau tried from time to time, without much success, to collect these liabilities. His conclusion is that it is best to leave the question alone but so far as inquiries from representatives of the foreign countries are concerned to tell them simply that the law provides for tax liability in these cases.

2. Extensions of time for filing returns

Mr. Halvering assured me that instructions had gone out to the different collectors to stop extensions of time for filing income tax returns beyond June 15th. He stated that the collectors had also been requested to make suggestions with a view to cutting down extensions of time in the future. He made note of the Secretary's recommendation that Messrs. Annenberg and William Randolph Hearst should be given no further extensions beyond June 15th.

3. Exempt corporations

Mr. Halvering stated that every two years the local collectors were instructed to examine the records in the various states to ascertain whether there had been any change in the legal status or organization of exempt organizations. I asked Mr. Halvering to have some one in Rules and Regulations here examine the statutory provisions regarding exemptions carefully to see whether they are too broad, and in addition, to check through the list of exempt organizations to see whether or not an investigation of the present status of some of them should not be made.

4. Tax investigations

He revised the Commissioner's letter to his representatives in the field directing that they send to this office, at once, any information which they may have of tax avoidance devices. The letter will go out at once. A similar letter is being sent out by Mr. Gilphant.

- 2 -

5. Settlement of Heard Cases

Mr. Helvering has a draft memorandum embodying his ideas as to a division of responsibility between his office and the General Counsel's office. I told him that it went too far in requiring his approval of settlements reached by the General Counsel's office and also in requiring that cases involving more than one issue of law should be sent to the Technical Staff. Mr. Helvering is seeing Mr. Shafroth today and will attempt to arrive at an agreement upon the settlement policy. I told him that I wanted an agreement reached at once to eliminate the present difficulties.

RM/mr1

H161 -
Summaries of Conferences with Representatives of Local
Housing Authorities Respecting the Housing Financing
Formula Suggested by the President

1. Mr. Bleecker Marquette, Cincinnati Metropolitan Housing Authority

This Authority has no funds at its disposal. It has the power to borrow against its own property, but is not empowered to pledge the credit of the State, City, or any political subdivision. Consequently, no action could be taken under the proposed formula, unless the State or City would provide the land. The State Board of Housing could furnish no assistance, because it has no power to raise funds. There is considerable doubt respecting the power of the City to engage in this work; and even if the legal doubts were dispelled, the willingness of the City to enter into such a housing program would remain questionable. A strong deterrent would be present in the possibility of an increase in taxes. The City would probably be willing to make the same substantial contributions it has made in the case of its PWA housing project: Park and playground area, changes in utilities, street pavings, dedication of vacated streets, and acceptance of service charges in lieu of taxes.

Mr. Marquette stated that enabling legislation would require at least two years, inasmuch as the State Legislature will not convene again until 1939.

2. Mr. Miles R. Frisbie, Schenectady Municipal Housing Authority

The Authority is empowered to build, operate, and maintain public housing projects. It has the legal power to acquire sites through condemnation or purchase, and it may issue bonds, although they are not charged against the credit of the City or the State. The City has the power to transfer land to the Authority, but there is some legal doubt as to the City's power to acquire land for this purpose. The spirit of the Housing law of New York State was that housing should stand on its own feet, and the only assistance provided local housing authorities by cities consists of loans and grants for administration.

Mr. Frisbie stated that the suggested program would probably result in such resentment that the Schenectady Authority would be abolished. Mr. Frisbie suggested that a workable program would be provided if the Federal Government made a capital grant of 45 percent and accepted the bonds of the Housing Authority for the remaining 55 percent at the going Federal rate of interest, amortized in 30 or 40 years. The idea of local participation is well received in New York State, and grants consisting of tax remission and the like will willingly be made whenever possible.

3. Mr. Charles Abrams and Mr. Nathan Straus, New York City Housing Authority

The New York City Housing Authority has funds available for operating expenses, but none for the purchase of land. Mr. Abrams expressed the opinion that the City of New York has the power to purchase land and give it to the Housing Authority; and that the City of New York could loan money to the Housing Authority, although he doubted the feasibility of the City extending any considerable amount of money in such loans, inasmuch as it might soon exceed its debt limit.

Mr. Abrams thought New York City might get some public housing under the proposal, but certainly no slum-clearance. Both he and Mr. Straus felt that the plan would make it impossible to provide dwellings at rents low enough to be successful in terms of ameliorating existing bad housing conditions. Mr. Abrams said that the proposed formula would result in a monthly room rent of \$9.61 under the following assumptions: (1) construction cost of \$1,400 per room, (2) financing in 42-year $3\frac{1}{2}$ percent bonds under an FEA guarantee, and (3) tax exemption. Without tax exemption, rent would be increased about \$1.66.

One of the principal difficulties of selling the Authority's bonds arises in uncertainties respecting Federal tax exemption. The Bureau of Internal Revenue has indicated housing bonds would not be tax-exempt.

4. Mr. John Carroll, Boston Housing Authority

Mr. Carroll stated that there is no way in Massachusetts for the land to be contributed for a low-rent housing project. The local governments are not empowered to contribute to the housing authorities, and the housing authorities have no funds of their own. At present, it is not possible under Massachusetts law to provide tax exemption for housing projects. Mr. Carroll said there would be no housing in Massachusetts under present law if any local contribution were required, or if any local financing were necessary. He contended that the use of relief labor would result in no housing because of the opposition of labor unions.

5. Mr. Ernest J. Bohn, Cleveland Metropolitan Housing Authority

The Authority has no funds whatever, but is authorized to issue bonds. Cities in Ohio cannot raise funds for housing; hence, no assistance to the Authority can be obtained from the City of Cleveland. The Attorney General has ruled that properties held by the Authority are tax-exempt; and a county official has ruled that bonds of the Authority would not be tax-exempt. Together, the legal and financial difficulties would result in serious obstacles to the proposed program.



DEPARTMENT OF STATE
WASHINGTON

June 4, 1937.

My dear Mr. Secretary:

I attach a paraphrase of telegram No. 724 of June 3 just received from our Embassy in Paris, containing a report on Chinese loan negotiations with Great Britain. It is my impression that there is a chance that Mr. Kung might not be ready to have it known to the Chinese Ambassador at Washington that he, Kung, has given us this information, and you may wish to guard Mr. Kung in this matter.

Sincerely yours,

Enclosure:
No. 724 from Paris.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

PARAPHRASE OF NO. 724 of June 3, 1937, from the American Embassy, Paris.

STRICTLY CONFIDENTIAL.

Last evening Kung, Chinese Minister of Finance, made a number of statements to me which he asked that I regard as of a highly confidential nature.

On his arrival in London, he said the British had indicated their willingness to finance various railroad building projects in China through long term loans, the proceeds of which should be spent in England only. He was not interested in such loans, he had said, for he could buy in many places in the world the materials necessary for the building of railroads on the basis of payments by installments. Should the British be prepared to offer better terms than anyone else, he would be glad to buy in Great Britain, but not otherwise.

In a conversation with Eden, Chamberlain, Montague Norman and Leith-Ross he had then said he believed there was one loan which would be greatly to the advantage of both countries - Great Britain and China; this would be a loan enabling him to retire China's outstanding internal government obligations.

Approximately two billion dollars Chinese (which he translated as 120 million English pounds) would be needed for such a transaction. By paying off the outstanding internal Chinese Government bonds, he said, (these on the whole carried 8 percent interest, since they bore interest

at

- 2 -

at 6 percent and had been sold at eighty) and issuing such internal bonds as might be necessary at ^{interest} ~~an~~ rate of 4 percent, the budget could be balanced. The position of the Chinese Government would be greatly strengthened thereby, and the British Government would obviously be benefited also.

The Chinese Finance Minister then said he had asked the British Government to persuade the British bankers to lend him 120 million English pounds for this purpose, and he was prepared to promise that they would not take the money out of Great Britain. He could issue notes which would serve the same purpose as cash as long as he could have such a credit.

According to Kung, Chamberlain, Leith-Ross, Eden and Montagu Norman had all agreed ~~with the Chinese Government~~ ~~like this~~ in principle that a loan like this would be of ~~great~~ advantage to Great Britain as well as to the Chinese. However, they had said that in view of the present financial situation in Great Britain and the uncertainties of the situation in Europe, a loan of more than 20 million pounds on the London market to China was not desirable. On this 20 million loan they said they wanted a 5 percent interest rate; the rate of 4 percent had been suggested by Kung. Furthermore the British Government had said that at the present time they did not want the loan floated, but they suggested September for the time of the transaction.

- 3 -

transaction. The British officials requested him to return to England after he visited the United States, in order to sign the loan agreements. In July he expected to get back to England.

Next week, Kung said, he would visit Brussels and Berlin. On June 18 he would sail for the United States and would go to New Haven, Connecticut, to get a degree from Yale University. After that he would visit Washington, and he said he is looking forward with the Greatest eagerness to seeing the President and the Secretary of the Treasury.

When he reached the United States he said he hoped to be able to interest American bankers in making a loan to the Chinese which would fill the gap between the 20 million that the British Government is ready to have British bankers advance, and the 120 million pounds asked for by Kung. The 20 million loan from Great Britain was considered an established fact and a settled transaction, in Kung's mind. But if he could add to this loan 100 million pounds from the United States he believed China's position would be enormously strengthened.

BULLITT.

EA:BWV

June 4, 1937
4:59 p.m.

H.M.Jr: Hello, Guy?
Guy
Helvering: Yes.

H.M.Jr: Did you get off something on these fellows with the farm blanks -

H: Yes.

H.M.Jr: Did - did you get off a telegram to -

H: Well, wait until I ask. (Aside: Did that telegram get off to the agents about this farm business?)
Yes, they're gone. Hello?

H.M.Jr: Yes.

H: I say they're gone - the telegrams are gone to all the agents in charge.

H.M.Jr: Ah-ha. They have.

H: Yes.

H.M.Jr: About how did - how did the telegrams - could you send me a copy of it up to the house?

H: Yes.

H.M.Jr: Will you send me a copy?

H: Yes, I'll send it right over to you.

H.M.Jr: Well, now, send it to my house, will you?

H: Oh, to R Street?

H.M.Jr: 2201 R Street.

H: Yes. All right.

H.M.Jr: Ah-ha.

H: Just a copy of the telegrams we sent the agents.

H.M.Jr: If you please.

H: Yes. All right.

H.M.Jr: Thank you.

H: Say, I wanted to tell you. The court cases are all open yet.

H.M.Jr: They're all open?

H: Yes, they - I have a very interesting situation in that.

H.M.Jr: How far back are they open?

H: Well, they're open back until '29.

H.M.Jr: No.

H: in '29, -

H.M.Jr: What's that? I don't hear you very well.

H: I say the income tax here in '29 disallowed the loss, and that's been disallowed ever since.

H.M.Jr: On the farms.

H: But the general counsel gave a ruling upholding the loss. It wasn't censored by any of our boys around here. It was done in '29 and '30.

H.M.Jr: Well, what do you know about that.

H: But we haven't closed any of those years on that proposition as yet.

H.M.Jr: Well, ah - it goes back to '29?

H: Yes.

H.M.Jr: Well, how many years is that? I mean have you had this farm loss right along?

H: Well, I haven't checked as to whether the farm loss continued. I have an idea it did because they asked for the ruling in '29.

H.M.Jr: Ah-ha. Asked a ruling of the general counsel.

H: Yes.

H.M.Jr: I see.

- H: And I'll get you a copy of that ruling with all the citations they cite, and everything else about it.
- H.M.Jr: But, are we - is he willing to close? Ford?
- H: Oh, no, he's claiming that loss. He's not willing to -
- H.M.Jr: Well, why shouldn't we bring that to an issue?
- H: How's that?
- H.M.Jr: Why can't we bring that to a head?
- H: Well, we - the - we can bring it to a head all right, but, of course, that is by making an assessment, and he'd appeal to the Board of course.
- H.M.Jr: Well, we don't want to go off half-cocked on that, do we?
- H: No. But I'll get further information and give you the whole detail of it. Are you going to be here the first of the week?
- H.M.Jr: Yes.
- H: Yes, all right.

MEETING RE ANSWER TO SIR JOHN SIMON

June 4, 1937
8:30 P.M.

Present: Mr. Taylor
Mr. Gaston
Mr. Lochhead
Mr. White
Mr. Feis

H.M.Jr: Another cable came in from Butterworth - not important, just a new report; I haven't read it myself.

Feis: Wayne - does he do the recitation?

H.M.Jr: We've got all the candles down his way.

Taylor: "The process of dehoarding continues its snowballing course aided by rumors galore. Uneasiness is growing more widespread and the view is now frequently expressed that if apprehension is allowed to bear fruit the process of recovery may definitely suffer."

I don't think that apprehension can bear fruit, but that's neither here nor there.

"The following excerpts from today's financial press may convey something of the feeling in the city.

"Financial Times: 'Apologists from all parts are uniting in defense of the theory that the price of gold is not likely to go lower to any material extent or to suffer disability from the outpouring of the metal from producers and hoarders. But their arguments avail little to stem the tide of uneasiness which is creeping into the minds of holders of gold or gold shares, causing a feeling of nervousness whose effects are felt in nearly all the markets around the house. No matter how weighty the authority that speaks, the organ of publicity through which it broadcasts or the titles of the defenders, anxiety in regard to the outlook for the price of gold still spreads. A kind of mob-psychology is infecting the minds of holders of gold shares. If this is permitted to continue unchecked the result will become - we will not say disastrous - but at any rate a serious matter. Practically every expert from whatever angle he

-2-

approaches it answers the question by saying that the price of gold must be maintained for this, that and the other legitimate reason.'" "

H.M.Jr: Is this still in the newspaper?

Taylor: Yes

"'Yet each assurance so far from fortifying the spirits of those who hold gold shares appears to add to the nervousness which discussion of the gold price has aroused.'

"Financial News....."

H.M.Jr: Financial News is Einsach speaking, huh?

White: Paul Einsach.

Taylor: "'Those who believe in the providential wisdom of Whithall and Threadneedle Street are satisfied that the authorities are in possession of all the facts and know what they are doing but the number of those trustful souls is declining rapidly. Most of us are not at all satisfied that the Treasury and the bank can do no wrong and would like to know the explanation if there is one of the strange and mysterious behavior of the exchange equalization account. It is suggested in some quarters that the object is deliberately to bring out the hoarded gold so as to get over the process of dishoarding as quickly as possible. But then, from the point of view of a solution of the present gold problem the worst thing that can possibly happen to hoarded gold is that it should be rapidly dishoarded. To force the process in order to get over the uncertainty caused by the existence of large hoards is therefore somewhat similar to committing suicide in a war in order to avoid having to go to the front. But it is easier to reduce to absurdity this and any other explanation put forward than to offer one which is acceptable. It is as good an explanation as any to suggest that the "control" authorities have simply mistaken 1937 for 1927 and think it their urgent duty to reinforce the gold reserve and to induce hoarded gold to leave its hiding place in order to cope with the burning problem of the scarcity of gold.'" "

That's the end of the quote.

-3-

H.M.Jr: And I pay cash for that.

Taylor: "Contrary to recent practice the British authorities started selling dollars before fixing which incidentally prior to certain withdrawals at one time had at offer 2500 bars. Nevertheless the discount widened further today to 7-1/2 pence. Naturally the amount of dishoarding has created a great....."

H.M.Jr: Is this still a newspaper?

Taylor: No, that was....

H.M.Jr: Oh, I see.

Taylor: ...when I said "end quote."

White: That's not the same newspaper.

Taylor: This isn't a newspaper at all.

Lochhead: May be a reporter - not a newspaper.

White: Excuse me.

Taylor: "Naturally the amount of dishoarding has created a great interest in estimating the amount of gold which remains in hoarding. Several banks which conducted a joint informal inquiry report their results as indicating (1) foreign banks in London exclusive of French have already sold on behalf of their customers about 80 per cent of the gold held; (2) British joint stock banks about 75%; (3) French banks about 60%. In this connection reference is made to the penultimate paragraph of my 301, May 21, 7 p.m. I shall attempt to obtain an up to date figure at the next meeting at the British Treasury."

Lochhead: Well, we got word that Rothschilds had estimated that 75 percent of the gold had been dehoarded; that must be a part of this same group. The Bankers Trust Company passed that along today. That doesn't hardly click, but if it is so it is less gold than we figured on.

H.M.Jr: What are you mumbling about, White?

White: No, there's much more than that left.

-4-

H.M.Jr: How much?

White: Well, my guess would be about - between France and England, about a billion.

Lochhead: Well now, when you (White) say hoarded gold you're including France - including what you might call the individual holders.

White: Yes.

Lochhead: Well, I don't think the banks are figuring - they're figuring on call gold hoarded in the banks and held in the banks in London.

H.M.Jr: When you say individual hoarders you mean fellows who have got gold down in their sock.

Lochhead: Yes.

White: They'll sell when it begins to gather momentum - more momentum.

Lochhead: A lot of that will have to go into the French Treasury if they sell, and that won't do so much harm. They've been gaining gold.

H.M.Jr: Now, the reason that I did this tonight instead of tomorrow is that I've just got to concentrate tomorrow morning on how we should price our 800 million dollar issue. I just couldn't do this tomorrow. I need a little peace and quiet tomorrow morning to think.

I'll read this thing. This is cable 349, Butterworth, June 4.

"I was asked to call.....

Incidentally, when we get through, if anybody isn't too tired, we've got a draft of an answer to Chamberlain. You (Feis) haven't seen Chamberlain's letter to me, have you? Put him in a good humor; let him see that.

(Gaston gives Feis copy of letter)

I'm like a child, crowing; I got a real thrill out of that.

-5-

White: I should think you would.

Feis: Yes, that's very, very nice.

H.M.Jr: Isn't that pretty nice?

Feis: And very sound.

H.M.Jr: Huh?

Feis: And very sound. That's quite so.

H.M.Jr: Amusing thing is, for three days before that came I had a letter to him and I couldn't make up my mind whether I should send it. Then this came. Now we've drafted a reply and after we get through I'd like your help.

I don't know what the President meant today, but he was quite sarcastic and I didn't get it. He said that Norman Davis was such a good fellow in London that within the last few days the President has had word from three different members of the British Cabinet that they want to come over and see him, including the Prime Minister; so he thought that the easiest way to do was to invite the whole British Cabinet to come over here.

Feis: Uh-huh.

H.M.Jr: What?

Feis: Uh-huh.

H.M.Jr: Uh-huh (laughs).

Well, anyway, here's question One: "The Chancellor of the Exchequer....." Herbert, I take it that in Parliament they submit the questions in advance?

Feis: Yes, these are written questions, and the questions are usually so put as to find something in the answer to give them an opportunity to proceed further.

H.M.Jr: I must say that the answer he gave today or yesterday to some question on gold - I don't know what - was pretty vague and not to the point. They asked him

-6-

something yesterday.

- Lochhead: I liked the one they asked the other day, when they asked if they ought to put out gold coins instead of the 10-shilling notes, and he didn't think that any useful purpose would be served by that. I should say not. Under the present price of gold - statutory price and the market price - I don't think any useful purpose would be served by that.
- White: There would be a rush for the gold coins.
- Lochhead: There should be. The gold coins would be worth \$3.75 or \$4, and they could be bought for \$2.50.
- H.M.Jr: "The Chancellor of the Exchequer is to be asked 'whether he will continue to borrow in order to buy and neutralize gold so as to prevent credit inflation, or whether he will propose revision of the tripartite agreement before the inflow of unwanted gold reaches uncontrollable dimensions.' The proposed answer is 'there is no indication of any unhealthy credit condition at the present time and no such condition will be allowed to develop. I am not clear what revision of the tripartite agreement my honorable friend had in mind but I have no intention of departing from that agreement.'
- "The Chancellor of the Exchequer will be asked 'whether there have been any negotiations with the United States of America concerning a common policy in connection with the purchase of gold.' The proposed answer is 'there has been no occasion for such negotiations. The arrangements under the tripartite monetary agreement in regard to which there is close consultation between the two Treasuries are working to the full satisfaction of the governments concerned.'"
- Well, there can't be much argument about that, can there?
- Taylor: He doesn't answer the fellow's questions, but that's....
- H.M.Jr: No, he doesn't, but that isn't - I mean I would say that was... Well, let's see, there are two questions there: whether he will continue to borrow in order to buy and neutralize gold so as to prevent credit

-7-

inflation. That's one question, isn't it?

Taylor: Yes, and he doesn't answer that.

Lochhead: He says there is no unhealthy credit condition and no such condition will be allowed to develop.

Taylor: But he doesn't answer the question.

White: Well, he answers it the way he should answer it.

Taylor: O.K., but I say he doesn't answer.

H.M.Jr: I agree that he doesn't.

Or will he propose revision of the tripartite agreement before the inflow of unwanted gold reaches uncontrollable dimensions. Well, of course, will he continue to borrow or to buy - that's Question One; and, of course, the direct answer is, "I will" or "I won't."

Taylor: And he doesn't answer.

H.M.Jr: That is, "I will continue to borrow" or "I won't."

And the next thing, will he propose revision of the tripartite agreement - the answer to that is, "I will" or "I won't."

Now let's just see what he says. "The proposed answer is 'there is no indication of any unhealthy credit condition at the present time and no such condition will be allowed to develop.'" Well, after all, whether he continues to borrow or not - that's his business.

"I am not clear what revision of the tripartite agreement my honorable friend had in mind but I have no intention of departing from that agreement."

Lochhead: I imagine that the man that's asking that question may be trying to smoke them out to find out whether there is a fixed price between the dollar and the pound sterling fixed in the tripartite agreement and whether they will allow the pound to drop - I mean whether they will alter the pound so as to stop

-8-

the gold coming in.

White: Let me raise a different kind of question; merely all aspects of it.

It is perfectly clear that they can have any questions asked them that they want to. I don't say that this has been done that way; I say they can, that it is a simple matter. If he is going to establish a precedent of asking you whether his answers on questions of that sort are satisfactory to you, I don't say they will - I say they can - there can be a means of getting your reaction in a kind of backhanded way on matters of policy. He can put - that is an easy question; you couldn't have much doubt about that. Supposing next week - since this is an unimportant question, next week he gets a more important question. If he asks you about this, he certainly would be fair in asking you about a more important question. And the first thing you know, you'll be passing judgment on everything that relates to gold that he wants to ask you. Instead of writing to you and - in other words - and saying, "What is your opinion on this?" he'll say, "I've been asked this question and this is my answer; do you find it satisfactory?" I don't say he will, but I think this establishes the precedent.

Taylor: I think it is extremely unusual that they should submit this thing to you.

H.M.Jr: Well, Herbert Feis over the phone said that he had had a chance to see Mr. Hull and had a reaction from him. Maybe Mr. Hull thought I shouldn't attempt to answer this?

Feis: No. On the contrary, he was quite calm about the whole thing, didn't seem to fear that it would give rise to any significant comment, unless you wanted to use it as an occasion for significant comment.

H.M.Jr: Well, that's what I want to come around to. I want to discuss this thing. I realize that they could gradually edge me into the corner if they wanted to. But the reason I showed Herbert Feis that letter before we started this thing was that I'm going to go along on the assumption - and this man says he ardently wishes to continue - I'm going to take that attitude. And

-9-

in this thing that I'm making, if you people agree - and before this goes I'm going to show it to the President at 11 o'clock tomorrow, because he's so interested - in the thing, when I get through analyzing it, I may put a little something in here, I may use this device, see?

White: He has you at a disadvantage. I'm trying to present the other side.

H.M.Jr: That's right, I'm used to that - from you.

White: Once you have established a precedent to comment on his answer, no matter whether your answer is non-committal next time or "yes" or "no," he has placed you in a position where you have to comment on questions that he wants to write you. The fact that he gets it from the House of Commons is nothing at all.

H.M.Jr: That's all true, but...

White: And then supposing the next time he says that he is being asked, as well he might be, whether we intend doing anything about the price of gold, and he's going to answer, "No, he's not" - something of that sort. Now, it may be just the answer that you want, but it may not be the answer.

H.M.Jr: But this can work both ways.

White: I'm not sure how it can work the other way.

H.M.Jr: Well, take, for example, this Japanese thing. It is quite obvious, from the way they treated this thing, that they didn't get the answer from us they wanted. And that's another thing I want to take up, because in the cables they now say they don't want to talk with the Japanese and they're avoiding it; that doesn't make sense.

If I may just say this, Harry, I think that all of us - well, I'll talk for myself - are timid on account of the past reputation that the British enjoy. I don't think that they're so damn smart. Archie and I see things every day. We were talking today about - here it takes the Dutch ten days to wake up to the fact

-10-

that they can do an arbitrage in gold - having gold here. It takes them No, I mean you think, you go on the assumption that these people are such - just super-smart. And as a matter of fact, the impression that I get, reading the thing, is that this fellow is nervous - that he's nervous.

White: Very clever.

H.M.Jr: That he's nervous, and he's going up on this thing, and he isn't sure of his ground. Now, I get this beautiful thing from the Prime Minister of England, then this man says he wants my idea on this. The British haven't done anything tricky since I've had this agreement. They've played square with me. Why not go along? And listen, old man, if I get up to the point that I don't want to answer, I'll just say, "Listen, I'm very sorry, I'm not going to answer any more of your questions," and then what? I don't have to answer the questions.

Lochhead: Well, granting, Harry, that this may establish a precedent, that doesn't mean that it may not be desirable to establish this precedent. After all, we have been trying to get so we do talk to each other a little bit more, and if this is an opening so that in this way we can talk to each other, it should be encouraged.

H.M.Jr: The State Department would hope that before Sir Walter Runciman made some of his statements on the floor, he'd submitted his questions. What?

Feis: This looks quite simple. These fellows have a sense of good relations, a sense that this gold problem is genuinely a common problem, and he is being asked a few questions upon it at a difficult time. He has formulated his answers. Those answers will have effects not only in Great Britain but in the United States. He sends them to you in the sense - with two things in mind, I should think. First, it is an opportunity to pass on the judgment - "We think you hit it about right" or "We think you've gone a little too far" or "We think you haven't gone far enough." Secondly, so that if these answers are going to have any effects in the United States that he mayn't see, he gives you a chance to point them out to him. So

-11-

that you have the sense that the thing is being carried along jointly. I haven't the faintest shade of suspicion about the communication.

Gaston: I was just going to say practically what you said; that, taking the thing at face value, coupled with Neville Chamberlain's very cordial message to you, and this expression by Sir John Simon in this later cable here - this is just going to the fullest possible lengths to show on this man's entry into office his desire to cooperate fully. I should say that is certainly the prima facie appearance of the thing, and I don't know why it should be questioned.

Feis: I'll just add one other bit, if I can, Henry, before you go on, about Simon. I think you'll find Simon, within the limits of his nature, which is a complex nature in comparison with Chamberlain's very simple nature - within the limits of his nature, making the utmost possible effort to keep in close and constant understanding with you. Because the one great difficulty in his career, the one great reproach that books bring home....

H.M.Jr: That who does?

Feis:that books, magazines, articles bring home to him and continue to bring home to him is that in the Manchurian crisis of '31-'32 he failed to carry over cooperation with the United States, and a repetition of that mistake will kill him before British opinion. Absolutely so.

H.M.Jr: What's-his-name gave me an excellent summary of this. What did you (White) mean by the two pair? That I didn't need all the....

White: When you spoke of the two pair of pants?

H.M.Jr: Yes. That I would or wouldn't need them?

White: That you would.

May I take the other side, for two reasons; partly that I am not wholly convinced, and I don't think both sides have been given.

-12-

I do think the policy you are pursuing of thinking that the other man is reasonable and aboveboard is the best one to assume. But let me consider two points.

In the first place, Sir John's character. He is extremely tricky. I don't think that the British are clever. They made mistake after mistake after mistake of major importance. But in certain types of negotiations they shouldn't be underestimated. And this isn't a technical matter; this is a kind of diplomatic answer to John Simon. He is extremely clever; he is extremely - he is one of the most brilliant of the lawyers, and he is extremely oily. He is smooth.

Now, with that little background, let me examine - let me go over the first question. Here is a man just come into office and he's asking you a question which I think you will agree there is no need to ask you unless he wants to create a certain impression. He says that the Chancellor of the Exchequer is to be asked whether he will continue to borrow in order to buy and neutralize gold so as to prevent credit inflation. Now, that question he certainly doesn't have to ask you to answer, and you have no concern about it.

"Or whether he will propose revision of the tripartite agreement before the inflow of unwanted gold reaches uncontrollable dimensions." That's a question that concerns him. He is being asked whether he proposes to revise the tripartite. Now, does he have to ask you whether he proposes. It's all right to say that he doesn't propose to depart from that. But I mean on what ground should he even suggest that that is in the offing? Why should he ask you whether it is all right for him to say that he's not?

H.M.Jr: Now just a minute. I don't want to answer that because he answers - he takes it up in a different form in the next question and in a form which I don't think is correct. Now just let's hold everything and take the next one.

White: Yes, I don't ask you to answer it. I mean....

-13-

- H.M.Jr: No, I wasn't - you didn't let me get the second. Just read the next - his second one.
- Taylor: "The Chancellor of the Exchequer will be asked 'whether there have been any negotiations with the United States of America concerning a common policy in connection with the purchase of gold.'"
- H.M.Jr: Well, the answer to that is "No," but I mean the next one. What comes after that?
- Taylor: That's the second question.
- H.M.Jr: No, what comes after that?
- Taylor: The proposed answer is....
- White: The answer comes after that.
- H.M.Jr: Yes, what's the answer?
- Taylor: "There has been no occasion for such negotiations. The arrangements under the tripartite monetary agreement in regard to which there is close consultation between the two Treasuries are working to the fullest satisfaction of the governments concerned."
- H.M.Jr: Now wait a minute, just a second. The part that bothered me - they don't paraphrase a direct quote, do they, like this?
- Feis: I beg your pardon?
- H.M.Jr: They don't paraphrase a direct quote.
- Feis: Oh, you have the original cable here.
- H.M.Jr: Oh, it is?
- Feis: Yes. He had to send it as "rush," and that means he didn't have a chance to - had to take a chance and put it in simple code, so there is no necessity for paraphrasing.
- H.M.Jr: Just a second. This was the part I had in mind. "The arrangements under the tripartite monetary

-14-

agreement in regard to which there is close consultation between the two Treasuries are working...." No, where in the devil....

Gaston: Are you thinking of that reply to the second part of the first question - "I am not clear what revision"?

H.M.Jr: Just let me read it. The part that had me stuck - just a second. I read it different from before; this is all right. "There has been no occasion for such negotiations. The arrangements under the tripartite monetary agreement in regard to which there is close consultation between the two Treasuries are working to the full satisfaction of the governments concerned."

Well, that answer in relation to the question "whether there have been any negotiations with the United States concerning a common policy in connection with the purchase of gold," and then the next answer, that we are in close consultation, would lead one to believe you are in close consultation about the purchase of gold, which we're not.

Taylor: I don't think so.

H.M.Jr: Well, that's why I.....

White: I didn't see that.

H.M.Jr: That's the thing that bothered me; I don't care how he answers the other thing. But "any negotiations with the United States of America concerning a common policy in connection with the purchase of gold." "There has been no negotiation - no occasion for such negotiations. The arrangements under the tripartite monetary agreement in regard to which there is close consultation between the two Treasuries are working to the full satisfaction of the governments concerned." It certainly is - his answers to those questions are pips.

White: That's the way they usually are. Most of their answers to questions that are put on the floor are of that very evasive type.

H.M.Jr: The simple thing to do would be to simply say in the answer: "I appreciate the courtesy of Sir John Simon in submitting the questions and the answers, and the

-15-

United States Treasury has no objection to the answers." That would be the simplest way. And then something about the - that we also - "I also look forward to working as closely with him and under as pleasant circumstances as I have with his predecessor, Mr. Neville Chamberlain." Now, that would be the simplest way. "See no objection to it." That would be the simple way.

Feis:

I might say I see nothing to arouse my apprehensions or suspicions in that second reply. Someone asked him a question. He's not interested particularly in giving the person the information the person is wanting. He is interested in taking this occasion for creating a certain impression. Now, the impression he seeks to create by a second answer that "there has been no occasion" - the questioner is implying that there is something in the contemporary situation so unusual, so difficult to manage, that he ought to be in special negotiation with the American Treasury, which would be construed to be negotiation looking forward to a change from present arrangements either as to the methods of buying or the price of gold or something else. Therefore, first he creates the impression that he doesn't see anything in the present situation requiring negotiations out of the ordinary.

Then he wants to further strengthen the impression that whatever is happening is within the manageable area of the agreement already in existence, so he takes the occasion to reiterate that there is close consultation and the agreement is working satisfactorily, hoping thereby to slow up the disbanding, to still rumors of which the press is full; that is his objective.

At the same time, and this - if he's got any unapparent motive, I suggest it is of a very different nature than the ones that have been mentioned. He's going to answer these questions on Monday; suppose you, sitting here, should happen to be really worried about this gold situation and discussing it with the President and maybe on Thursday are planning either to inform him of some intended change in your policy, or to go ahead and change your policy. He by these answers puts himself into a very exposed position, and he's asking you to protect him against an immediate change in policy on your part.

-16-

In that sense, this reference is intended to draw you out; but that's what we mean by consultation, one person drawing the other person out. Now, that's the way - he's looking for a little protection from you.

- H.M.Jr: But just a second. But this part here - now, there's another thing, you see - this sentence here: "Have there been any negotiations with the United States concerning a common policy in connection with the purchase of gold?" Answer: "There has been no occasion for such negotiations." That isn't so.
- Feis: No, that's right.
- H.M.Jr: There is no occasion?
- Taylor: Because there is consultation, you see. Of course there isn't any occasion for negotiations, because under the arrangements we have close consultation.
- H.M.Jr: I would say that this statement given out Monday would be a reassuring statement.
- Feis: I would certainly say that he intended it to be a definitely reassuring statement.
- Lochhead: Do you think it might be that he is figuring that we may be worried over here in a way? In other words, reassurance to us.
- Feis: I rather think that probably some of these rumors - bankers have come into the Treasury and told them, "You don't know what this man Morgenthau may do on Thursday," or something of that sort.
- H.M.Jr: Why do you pick Thursday?
- Feis: I pick it at random.
- Taylor: Friday's a good day.
- H.M.Jr: There is another thing, Herbert. He says to himself, "Now, if I put this up to Morgenthau and show what a nice fellow I am and set the example, then Morgenthau is under obligation to do the same by me."

-17-

Feis: True, and you are.

H.M.Jr: Yes.

Taylor: There's no question about that.

H.M.Jr: I couldn't - I didn't even ask you - which I thought was an enormous impertinence and I had to answer, but I didn't want to make any trouble - when Butterworth said if we were thinking of increasing taxes on aliens it'd be nice to let the English know. Well, they increased their tax on foreigners and they didn't let us know. They increased it what - from 20 to 22½ percent recently, didn't they, within the last three months, and they didn't say anything.

Lochhead: We didn't have a tripartite....

H.M.Jr: No, since.

Lochhead: On taxes?

Taylor: That's when they boosted the whole income tax.

H.M.Jr: But there's no reason why, if we want to tax the world, all foreigners, 35 percent - there's no reason.....

Taylor: No, no.

Feis: None at all.

Taylor: Here's what I think this is all about, and it's the last sentence in his answer to Question One: "I have no intention of departing from that agreement."

Feis: That is important.

White: I don't like it for the reason that he is asking you questions that he can answer perfectly well himself. They are not the questions which he needs to get your comment on. If they were, it would be most welcome. And he may be doing either one of two things. Maybe he is eager to show at first opportunity that he wishes to collaborate; that is quite possible.

But the nature of the questions, the implement he is

-18-

using, the vehicle he is using - these kind of questions may also be a vehicle for something else. I'm not sure you can give any other kind of answer than the one you indicated.

- H.M.Jr: What? O.K., Harry, I'm not going to answer the man?
- White: No, I don't think you can do otherwise. But he's asking questions that he doesn't need your comment on at all.
- Taylor: Well, now....
- H.M.Jr: I'd just like to answer Harry's question. You wouldn't advise me tonight not to answer the fellow, would you?
- White: I don't know; no, of course not.
- H.M.Jr: The worst that can happen is that the fellow boxes me into a corner, then I can tell him to go to hell; I've done it before.
- White: Well, as long as the answer is given with the thought in mind that there may be more than meets the eye there, fine; then you can phrase the answer accordingly. But I don't think you have to be completely naive about it; for all you know, he may have Chamberlain at his right hand. And they've never asked questions before and they've answered much harder questions, and therefore he's not seeking an answer; there is something else that he seeks. It may be he is seeking to convey the impression that he wishes to collaborate. Possibly. It may be that he merely wants to develop that means of getting questions and information, of conveying information and getting answers. Possibly. If so, I think it is not the kind of vehicle that should be used.
- Lochhead: I don't know if he's asked harder - had to answer harder questions before on the tripartite.
- White: If Chamberlain hasn't?
- Lochhead: No.
- Gaston: They both are questions relating to the tripartite.
- White: They are very simple questions to which there can be no different answer.

-19-

- Taylor: The answers - why, the first question he doesn't answer the way they ask him, but he uses that as a springboard to say, "I have no intention of departing from that agreement."
- White: Does he have to ask the Secretary's permission to say that?
- H.M.Jr: Wait a minute. He may also know that I'm trying to sell 800 million dollars on Monday and that he might say something on Monday that might upset that. Don't you think that they - they know we've got a flotation on Monday. And he might say, "I'm going to do this thing," but he wouldn't be impertinent enough to say, "My dear Mr. Morgenthau, I, the Chancellor of the Exchequer, am afraid that I'll say something which will upset your financing." Now, that would be impertinent. What?
- White: Quite.
- H.M.Jr: Incidentally, I didn't like at all that movie of Neville Chamberlain. Did you see that or hear about it?
- Gaston: No.
- H.M.Jr: They have a picture - Movietone - and he's talking about the budget. He says, "Of course, we do the best we can, but the Americans, who are fond of saying they do everything bigger and better than anybody else, of course have the biggest deficit of the budget of any country in the world."
- Feis: Silly.
- H.M.Jr: America does things bigger and better than everybody else, had the biggest deficit. I saw it last night. Did you....
- Lochhead: I saw that.
- H.M.Jr: It's the first time I've ever seen him in a movie that way; he didn't seem to be very much at ease at that.
- Now Harry, have you got all your suggestions out?

- White: Yes, just wanted to voice them.
- H.M.Jr: You got them all out.
- There are two ways to answer it. The way I said first - "How do you do, my dear colleague - very nice - and I also wish for the same cooperation," and so forth, "and there is no objection." That's Number One. And the other way to answer is to say - is to drop a hint that sooner or later we'll have to consult about - that sooner or later we may have to bring into the tripartite agreement the question of handling the world gold supply. Now, what good does it to do say this, and do we want to wait and sit here and sweat it out?
- White: Wait, definitely.
- H.M.Jr: Herbert?
- Feis: My inclination would be that, even if you were ready to say that to him, I wouldn't put it in this message; I'd put it in another message.
- H.M.Jr: Of course, a swell vehicle to say something is Mallet's coming in Monday.
- Feis: They've given you so much now, including that previous statement of the Treasury of willingness to discuss the situation.
- H.M.Jr: No, I read that; I went all through that. I've gone through it. Clay said they wanted it and the English said that the thing wasn't ripe! The Treasury - check me -
- Lochhead: Clay said they were ready for it, and Phillips said that he didn't hold with Clay and....
- H.M.Jr: Said he didn't agree with Clay and that the thing wasn't ripe for discussion. I just read it the night before last. Am I right?
- Lochhead: That's right. We took that first from Clay as possibly being an official idea and then Phillips looked at it and squelched that, said that was Clay's personal - that was a personal thing of Clay's.
- H.M.Jr: Wayne?

-21-

Feis: If I can just, before we leave this particular point of fact - to what message was it that you sent back the reply that, of course, you have the disposition, but it should be done in Washington?

Lochhead: That wasn't a message; it might have been on the phone.

H.M.Jr: No, let's see - we didn't answer Clay's - we didn't answer that.

Feis: What was the one that you answered in that form?

H.M.Jr: It must have been on the telephone. There is nothing in those messages, because I just read them within the last two days. There's a telephone message missing.

Feis: But you remember that remark.

Taylor: Yes, Phillips or Waley talked about the desirability of a discussion at some time and you told them, "Yes, why doesn't Phillips come over?"

H.M.Jr: That's right. And when he said, "Oh, he couldn't think of coming over," I said, "Well, maybe some day he will."

Taylor: I don't remember whether that was in conversation....

H.M.Jr: Well, it wasn't in a cable.

Taylor:with Bewley or what it was.

Lochhead: No, Butterworth.

Taylor: But it was with Butterworth on some basis.

Lochhead: By telephone.

H.M.Jr: Well, just let me take a shot at this thing, the answer, and then you people can do this thing.

This is for Butterworth: "In answer to your number 349 please convey the following message to Sir John Simon: That it is my sincere hope that our relationship will be as cordial and successful as was my

-22-

relationship with Mr. Neville Chamberlain." So far, O.K.?

- Feis: I think, Henry, I'd say exactly the same thing without mentioning Chamberlain.
- White: Predecessor.
- Feis: Perhaps "It is my sincere hope that our relationships will continue" - I'd put it in that form - "as cordial and successful as they have been."
- H.M.Jr: "As they have been"?
- Feis: Yes
- H.M.Jr: You wouldn't say, "As they have been with..." - just a period.
- Feis: "As they have been" - period.
- White: They haven't been with Sir John Simon. This is personal to Sir John.
- Feis: "With your predecessor" - that's right.
- H.M.Jr: I'd rather mention by name.
- Taylor: I think "predecessor" is better.
- H.M.Jr: You think "predecessor" is better. Why?
- White: The connotation is that it is the position of the Minister of Finance rather than a person whom you have never met.
- H.M.Jr: All right - "predecessor."
- Taylor: In other words, it is the two Treasuries that have established these very cordial relationships, and that is what you want to emphasize, rather than the individual.
- Lochhead: Sir John calls him his predecessor too.
- H.M.Jr: Paragraph. "In regard to two questions that will be put to Sir John Simon in the House of Commons on

-23-

Monday, his suggested answers are...." - what?

Taylor: "I have no comment to make."

H.M.Jr: Oh no.

Feis: ".....seem to me to correspond well."

White: There is just one statement - "There is no indication of any unhealthy credit condition at the present time and no such condition will be allowed to develop." I don't see how you can pass judgment or approval on that; it is part of his answer; you don't see any objection.

H.M.Jr: You could put it this way, that his proposed answers in regard to the tripartite agreement - that his proposed answers to the questions in regard to the tripartite agreement meet with my approval.

White: (Nods no)

H.M.Jr: No? I'd - let's just say, "His suggested answers seem to me to cover the present situation." Now, you fellows improve on that.

Feis: You could say....

Taylor: "His proposed answers to these two questions seem adequate."

Feis: Would this be any good - "seem well-advised"?

H.M.Jr: I don't like too..... Let's leave this for a couple of minutes, and you (Gaston) read our answer to that letter and see how that sounds.

Taylor: Do you wish to take this occasion to do what he wants you to do, which is to restate your firm tie to the tripartite agreement?

White: How do you know he wants you to do that?

Taylor: Christ almighty! that's what the whole thing is about.

H.M.Jr: Not to me. If it is as clear as that, why doesn't he say so?

-24-

Taylor: He does say so.

H.M.Jr: No. Then you believe that this is all a phony and that he is asking himself these questions for my benefit.

Taylor: No, I don't, but here he is - he's using these two questions, doesn't answer either one of them, and in each one of them he declares his loyalty to the tripartite agreement.

Feis: He does.

H.M.Jr: Well, I'm no....

White: Just because he is so subtle that you have to be doubly subtle to see what he means, is no reason you should meet him on that ground.

H.M.Jr: One thing that I'm going to tell Mr. Mallet on Monday is this: "Now listen, I've had to read my cables back to four months to find out what your people are trying to hint out there. Now, you know me; I can't do business that way. When you're ready to talk and have got anything to say, please say it in plain English and don't give me any fancy stuff, because I'm woozy. And you've got a new man in there and if he's got something he wants to get over to me, please tell him to say so." And that's what I'm going to tell Mallet, who sails on Tuesday. "Now, don't - I've read over the cables and tell your people I'm not a diplomat, I don't understand all these hints. If Mr. Sir John Simon wants to say something, say it." Now, that's what I'm going to tell Mallet. "Now, you've done business with me, you know I'm direct, you know I keep my word," and so forth and so on - "but none of this monkey business." That's my message for Mallet. "What have you got in mind?" "I haven't got anything in mind."

White: "And when I do, I'll say it...."

H.M.Jr: "And when I do, I'll say it."

White:so that he can't misunderstand it."

H.M.Jr: And I'll say it straight out that, "I'm going to say right now I don't know if you people are waiting to

-25-

hear from me, or whether you've got something in mind. Have I got anything in mind? No."

Feis: May I make one further.....

H.M.Jr: See, Wayne?

Taylor: Well, I'd simply like to say all over again that that is what this fellow's got on his mind. He's giving you a chance to say that you do believe in the tripartite agreement.

H.M.Jr: Oh Christ, Wayne, I'm not going to go into all this baby business, this kind of way of doing business.

Taylor: This fellow's been living with Armenians for years and that's been his business, of course.

H.M.Jr: Just the same, Wayne, when we couldn't get anywhere with the British the President called Phillips on the telephone and said, "You go up and tell Sir Ronald that if he doesn't stop this bootlegging off our borders - I'm god damn sick and tired and I'll give him 24 hours. I want to give - repeat that word. If he doesn't stop it, the President of the United States wants to know why." And we got somewhere. Now, we fussed around with him, but that was the message the President sent Sir Ronald, and he understood it. And now this business of horsing around with these fellows, and all this subtlety - I'm not going to do it.

Taylor: I wasn't suggesting that you should. I was simply saying that that's what this fellow was talking about. Now, if you don't....

H.M.Jr: You mean "no speak Armenian."

Taylor: All right, if you want to say something about it, here's your chance; otherwise, don't.

Lochhead: You were saying that in your letter, your reply to....

H.M.Jr: In this letter.

Feis: I come back to the idea that if you say "correspond to the situation" you do introduce a vague note of

-26-

corroboration for that phrase of his on the tripartite. He is expressing certain answers; that is his version of the position. If you say, "These answers in my judgment correspond to the present situation," then you corroborate, not vigorously but by implication.

- H.M.Jr: Now look, if they want to ask me am I going to stick to the tripartite agreement, let them come out and say so. And if this is some deep-dyed subtle plot, I'm just not going to rise to the occasion. Now, I'm not going to constantly protest my virtue and keep saying, "Yes, I'm going to stick." After all, the President today gave another denial on gold. What's today, Thursday? Friday. I did one on Tuesday. I mean one can protest one's virtue too much.
- Still disagree?
- Taylor: I wasn't disagreeing at all. I was just telling you what this fellow was doing.
- H.M.Jr: Then I come back at you - shall I rise to it?
- Taylor: That's up to you. He's giving you a chance.
- H.M.Jr: My feeling is no.
- Taylor: O.K.
- H.M.Jr: My feeling is no. But I can have a message on Monday or Tuesday which - I want to tell this to this fellow Mallet - that I just - "Please tell Sir John Simon that if he wants to say something, to come right out and say it; that you know me and I don't understand these hints." I think that's what I'd like to do. Can you see any objection to that, Herbert?
- Feis: Saying that to Mallet?
- H.M.Jr: Yes.
- Feis: Quite the contrary.
- H.M.Jr: Now, may I just - before we leave this, has anybody got anything else they want to raise?
- Taylor: I think I'd be....

-27-

Feis: Say to the fellow, "Sure, that's all right." That's about what you want to say; don't want to say any more.

H.M.Jr: "It's O.K."

(Great laughter.)

Feis: I dare you to try it.

H.M.Jr: Now, don't you dare me. ".....by me."

Feis: Tell Sir John his answers "are O.K."

H.M.Jr: Would you object to the "O.K. by me."

Taylor: Look how much enthusiasm we've got in the first part there about....

H.M.Jr: Love and kisses.

White: We haven't deserved any yet.

Taylor: Well, he's all full of that "ardent wish" and "same close cooperation." I'd give him another five ounces of "ardent wishes for cooperation" and leave the other one the way it is.

H.M.Jr: Well, let's take a look at this thing first thing tomorrow morning before we get on the financing. We can take a look, and I'll guarantee you that if we put in another five ounces of ardent wishes, the President will take out ten. I've seen him do that before. What? Especially since that famous message which it took the State Department two months to write - left this week.

Feis: One of our rush efforts.

H.M.Jr: O.K. "Your cable 349 received. It's O.K. by me."

White: There's more merit in that than appears.

Taylor: Don't show that to the President, because he'll make you send it.

Feis: Do what with it?

-28-

Taylor: He'll make you send it.

Feis: That's all right.

H.M.Jr: Now let's see the other one.

Gaston: You want to read this, what Honorable Neville says, first?

H.M.Jr: No, we all know that.

Gaston: "My dear Mr. Chamberlain:

"Your kind message received through the good offices of Sir Ronald Lindsay pleased me greatly.

"I too feel great personal satisfaction in being able to contemplate the results of the collaboration between the Treasuries of our two countries, as particularly evidenced by the tripartite declaration and its continuing successful operation. These results, I feel, would not have been possible without the spirit of cordial good will with which you have constantly considered our mutual problems.

"This precedent of cooperation will, I dare to hope, have good effects not limited to the monetary undertaking, but extending into the broader field of world affairs as an influence toward peace and order.

"I take this occasion to express my earnest wish for your success in your new post, and at the same time to say that I look forward to further opportunities for collaboration with you and with your successor in the British Treasury.

"It is my hope that some day we may sit down together to discuss matters of common interest. Sincerely,...."

White: That's a hundred percent better than this afternoon.

H.M.Jr: Let Herbert (Feis) take a look at it. I think that's a pip. Just take a look at it. That's a pip. Incidentally, Herbert, isn't that quite unique, the letter he wrote me?

Feis: I don't know whether it is unique or not, but it is certainly not usual.

-29-

White: I've got another draft here. I don't know whether it is much good, since this is so much better than the one we left this afternoon. But do you want....

H.M.Jr: If you please.

White: "Ambassador Sir Ronald Lindsay has conveyed to me your cordial message, which it has given me much pleasure to read.

"I am glad to take this opportunity of congratulating you on your assumption of new and more important responsibilities, and at the same time to express my appreciation of your whole-hearted cooperation. It has been one of the most encouraging experiences I have had in public office.

"I look back with pleasure to the collaboration between the Treasuries of our two countries during the past year and to the fruitful results of that collaboration, as evidenced by the tripartite understanding. I believe that this joint understanding has had and will continue to have beneficial effects that go far beyond the monetary aspects. There is much more that we can accomplish through collaboration and I look forward with pleasure to the further opportunity of working with yourself and your successor in the British Treasury."

But I think the other is better.

Feis: Well, I think that's good, but I think this is better. This comes off in an unusual way.

White: What we had left this afternoon - we weren't satisfied. But this is much better, but it was the result of what we had left. I thought I'd try my hand at it. But that's better.

Feis: I have one question. You say, "This precedent of cooperation."

H.M.Jr: This what?

Feis: "This precedent of cooperation." I don't know just what - I suppose since it's a precedent, perhaps it's been a first precedent, but....

-30-

H.M.Jr: How would you put it?

Taylor: Just "This cooperation."

H.M.Jr: Would you leave it out?

Feis: "This cooperation will, I dare to hope, have good effects not limited to the monetary undertaking, but extending into the broader field of world affairs as an.....

H.M.Jr: Cross out the word.

Gaston: What I was thinking of was the precedent of continuing day-to-day operation.

H.M.Jr: No.

Feis: Even that....

H.M.Jr: What else, Herbert? Any other thing?

Feis: I'll just read it over line by line, but I don't believe so.

(Attached are copies of the letter to Chamberlain and cable to Butterworth in finally approved form)

FINANCIAL

June 5, 1957.

My dear Sir Ronald:

I thank you for conveying to me under May 31 date the message of Mr. Neville Chamberlain and I shall be further indebted if you will be so good as to transmit the following to Mr. Chamberlain:

"Your kind message received through the good offices of Sir Ronald Lindsay pleased me greatly.

"I too feel great personal satisfaction in being able to contemplate the results of the collaboration between the Treasuries of our two countries, as particularly evidenced by the tri-partite declaration and its continuing successful operation. These results, I feel, would not have been possible without the spirit of cordial goodwill with which you have constantly considered our mutual problems.

"This cooperation will, I dare to hope, have good effects not limited to the monetary undertaking, but extending into the broader field of world affairs as an influence toward peace and order.

"I take this occasion to express my earnest wish for your success in your new post and at the same time to say that I look forward to further opportunities for collaboration with you and with your successor in the British Treasury.

"It is my hope that some day we may sit down together to discuss matters of common interest."

With assurances of my continued esteem, I am

Sincerely yours,

Secretary of the Treasury.

The Honorable
Sir Ronald Lindsay,
Ambassador of Great Britain,
The British Embassy,
Washington.

FINAL FORM

274

June 5, 1937

TO BUTTERWORTH

IN ANSWER TO YOUR NUMBER 349 PLEASE CONVEY
THE FOLLOWING MESSAGE TO SIR JOHN SIMON:

THAT IT IS MY SINCERE HOPE THAT OUR RELATIONSHIP
WILL BE AS CORDIAL AND SUCCESSFUL AS WAS MY
RELATIONSHIP WITH HIS PREDECESSOR.

WITH REGARD TO THE TWO QUESTIONS THAT ARE TO
BE PUT TO HIM IN PARLIAMENT ON MONDAY I HAVE NO
SUGGESTION TO MAKE WITH RESPECT TO HIS PROPOSED
ANSWERS WHICH SEEM TO ME ENTIRELY APPROPRIATE.

MORGENTHAU

June 5, 1937

Special Agent

TO BUTTERWORTH

IN ANSWER TO YOUR NUMBER 349 PLEASE CONVEY
THE FOLLOWING MESSAGE TO SIR JOHN SIMON:

THAT IT IS MY SINCERE HOPE THAT OUR RELATIONSHIP
WILL BE AS CORDIAL AND SUCCESSFUL AS WAS MY
RELATIONSHIP WITH HIS PREDECESSOR.

WITH REGARD TO THE ^{two} QUESTIONS THAT ARE TO BE
PUT TO HIM IN PARLIAMENT ^{on Monday} I HAVE NO SUGGESTION TO
MAKE WITH RESPECT TO HIS PROPOSED ANSWERS WHICH
SEEM TO ME ENTIRELY APPROPRIATE.

MORGENTHAU

FROM: MR. GASTON'S OFFICE

TO: Mr. Lochhead

How would this do?

PLEASE CONVEY TO SIR JOHN SIMON MY APPRECIATION
OF HIS FRIENDLY MESSAGE AND SAY TO HIM THAT
IT IS MY DESIRE TO CONTINUE THE SAME CLOSE
COOPERATION BETWEEN THE TWO TREASURIES THAT
EXISTED DURING THE REGIME OF HIS PREDECESSOR
STOP WITH REGARD TO THE QUESTIONS THAT ARE
TO BE PUT TO HIM IN PARLIAMENT I HAVE NO SUGGES-
TION TO MAKE WITH ~~REGARD~~ ^{RESPECT} TO HIS ~~PROPOSED~~ ^{PROPOSED} ANSWERS
WHICH SEEM TO ME ENTIRELY APPROPRIATE.

MORGENTHAU

June 5, 1937

TO BUTTERWORTH

IN ANSWER TO YOUR NUMBER 349 PLEASE CONVEY
THE FOLLOWING MESSAGE TO SIR JOHN SIMON:

THAT IT IS MY SINCERE HOPE THAT OUR RELATIONSHIP
WILL BE AS CORDIAL AND SUCCESSFUL AS WAS MY
RELATIONSHIP WITH HIS PREDECESSOR.

WITH REGARD TO ^{the} TWO QUESTIONS THAT WILL BE
PUT TO SIR JOHN SIMON IN THE HOUSE OF COMMONS ON
MONDAY, HIS ~~SUGGESTED~~ ^{proposed} ANSWERS SEEM ADEQUATE.

MORGENTHAU

JR

GRAY

London

Dated June 4, 1937

Re: d 3 p.m.

Secretary of State,
Washington.

RUSH.

349. June 4, 6 p.m.

FOR SECRETARY MORGENTHAU FROM BUTTERWORTH.

I was asked to call at the British Treasury this afternoon to receive and to convey to you "a message of good will" from the new Chancellor of the Exchequer stating that it is his ardent wish that the same close cooperation between the two Treasuries be maintained as has existed under his predecessor.

The following two questions have been asked in the House of Commons and must be answered there on Monday afternoon by Sir John Simon who "will be glad to know that you agree to the proposed answers thereto".

(one) The Chancellor of the Exchequer is to be asked "whether he will continue to borrow in order to buy and neutralize gold so as to prevent credit inflation, or whether he will propose revision of the tripartite agreement before the inflow of unwanted gold reaches uncontrollable dimensions". The proposed answer is "there

is

-2-

JR 349, June 4, 6 p.m., from London.

is no indication of any unhealthy credit condition at the present time and no such condition will be allowed to develop. I am not clear what revision of the tripartite agreement my honorable friend had in mind but I have no ^{intention} ~~hesitancy~~ of departing from that agreement".

(two) The Chancellor of the Exchequer will be asked "whether there have been any negotiations with the United States of America concerning a common policy in connection with the purchase of gold". The proposed answer is "there has been no occasion for such negotiations. The arrangements under the tripartite monetary agreement in regard to which there is close consultation between the two Treasuries are working to the full satisfaction of the governments concerned".

It was particularly emphasized that an answer should be received at the latest by Monday 11 a.m. London time.

BINGHAM

CSB

RECEIVED
JUN 11 1946
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

JR

PLAIN

London

Dated June 4, 1937

Rec'd 3:55 p.m.

Secretary of State,
Washington.

Extra Copy

350, June 4, 8 p.m.

FOR TREASURY FROM BUTTERWORTH.

The process of dehoarding continues its snowballing course aided by rumors galore. Uneasiness is growing more widespread and the view is now frequently expressed that if apprehension is allowed to bear fruit the process of recovery may definitely suffer. The following excerpts from today's financial press may convey something of the feeling in the city. FINANCIAL TIMES: "Apologists from all parts are uniting in defense of the theory that the price of gold is not likely to go lower to any material extent or to suffer disability from the outpouring of the metal from producers and hoarders. But their arguments avail little to stem the tide of uneasiness which is creeping into the minds of holders of gold or gold shares, causing a feeling of nervousness whose effects are felt in nearly all the markets around the house. No matter how weighty the authority that speaks, the organ of publicity through which it broadcasts or the titles of the defenders, anxiety in regard to the outlook for the price of gold still spreads.

A

-2-

JR #350, June 4, 8 p.m., from London.

A kind of mob-psychology is infecting the minds of holders of gold shares. If this is permitted to continue unchecked the result will become -- we will not say disastrous -- but at any rate a serious matter. Practically every expert from whatever angle he approaches it answers the question by saying that the price of gold must be maintained for this, that and the other legitimate reason. Yet each assurance so far from fortifying the spirits of those who hold gold shares appears to add to the nervousness which discussion of the gold price has aroused".

FINANCIAL NEWS: "Those who believe in the providential wisdom of Whithall and Threadneedle Street are satisfied that the authorities are in possession of all the facts and know what they are doing but the number of those trustful souls is declining rapidly. Most of us are not at all satisfied that the Treasury and the bank can do no wrong and would like to know the explanation if there is one of the strange and mysterious behavior of the exchange equalization account. It is suggested in some quarters that the object is deliberately to bring out the hoarded gold so as to get over the process of dishoarding as quickly as possible. But then, from the point of view of a solution of the present gold problem the worst thing that can possibly happen to hoarded gold is that it should

be

-3-

JR #350, June 4, 8 p.m., from London.

Be rapidly dishoarded. To force the process in order to get over the uncertainty caused by the existence of large hoards is therefore somewhat similar to committing suicide in a war in order to avoid having to go to the front. But it is easier to reduce to absurdity this and any other explanation put forward than to offer one which is acceptable. It is as good an explanation as any to suggest that the 'control' authorities have simply mistaken 1937 for 1927 and think it their urgent duty to reinforce the gold reserve and to induce hoarded gold to leave its hiding place in order to cope with the burning problem of the scarcity of gold".

Contrary to recent practice the British authorities started selling dollars before fixing which incidentally prior to certain withdrawals at one time had at offer 2500 bars. Nevertheless the discount widened further today to 7-1/2 pence. Naturally the amount of dishoarding has created a great interest in estimating the amount of gold which remains in hoarding. Several banks which conducted a joint informal inquiry report their results as indicating (1) foreign banks in London exclusive of French have already sold on behalf of their customers about 80 per cent of the gold held; (2) British joint stock banks about 75%; (3) French banks about 60%. In this connection reference is made to the penultimate paragraph

of

JR #350, June 4, 8 p.m., from London.

of my 301, May 21, 7 p.m. I shall attempt to obtain an up to date figure at the next meeting at the British Treasury.

BINGHAM

KLP

June 5, 1937
9:10 a.m.

H.M.Jr: Hello, Butterworth?

Butterworth: Yes.

H.M.Jr: Can you hear me?

B: Yes, sir.

H.M.Jr: Now, in the first place, we will have an answer to you which will leave some time this afternoon in regard to Sir John Simon's question.

B: Yes.

H.M.Jr: We work weekends.

B: Yes.

H.M.Jr: I don't know why they think that we do, but we're here.

B: (Laughs)

H.M.Jr: When they sent for you to the Treasury, who gave you that question?

B: Waley.

H.M.Jr: Waley. Did he add anything of background when he gave it to you?

B: No, he merely said that those had been put down on the order paper in Parliament and that Sir John had to answer them on Monday.

H.M.Jr: I see.

B: And I, as a matter of fact, took down the exact wording that he used, so those quotation marks that I put around there represent his actual words.

H.M.Jr: I see. Well, -

B: It's quite a - you see, due to the uncertainty and uneasiness here, incident to the volume of dishoarding, there has been such a lot of discussion in the City about the gold situation.

- H.M.Jr: I see.
- B: And members of Parliament, representing constituencies that have people who are interested, actually take this course on any occasion, -
- H.M.Jr: I see.
- B: - to obtain information from the Government.
- H.M.Jr: Ah-ha.
- B: And they're going to be further questioned, which I expect will be put on the order paper during this week.
- H.M.Jr: Ah-ha. Well, the procedure was a little unusual - to give me the questions, don't you think so?
- B: I beg pardon?
- H.M.Jr: The procedure of sending the questions over to me was a little unusual.
- B: Yes, I do. I think - my personal feeling about it was this -
- H.M.Jr: No, wait a minute. Talk a little bit slower.
- B: Yes. That it was done for two reasons. One, because
- H.M.Jr: Repeat that. I didn't get that.
- B: I say in the first place, these were the first acts that Sir John Simon was called upon to perform -
- H.M.Jr: Yes.
- B: - and transmitted them to us in a desire to cooperate.
- H.M.Jr: I see.
- B: And, secondly, I think inasmuch as they concern the tripartite monetary agreement -
- H.M.Jr: Yes.
- B: - and the gold situation, they likewise felt it was a matter for our two countries - they were sent to us.

H.M.Jr: Re - I didn't get that.

B: I say, and secondly, because the questions to be answered concern the tripartite monetary agreement, -

H.M.Jr: Yes.

B: - and more particularly the gold question aspect of it -

H.M.Jr: Yes.

B: They wanted to refer it to us.

H.M.Jr: I see.

B: I felt that those were the two reasons.

H.M.Jr: Ah-ha.

B: Although, as I say, they said nothing that was particularly tangible.

H.M.Jr: Yes.

B: But I didn't feel that I could appropriately explore their motive.

H.M.Jr: I see.

B: Especially if it was an act of courtesy.

H.M.Jr: Ah-ha. Now another thing, which we don't understand. Twice you've asked us about the Japanese, and I gave you my answer. Then you come back and say, "Well, now that the English are going to avoid talking to them," -

B: Yes.

H.M.Jr: Hello?

B: Yes.

H.M.Jr: Well, why should they avoid talking to them?

B: Well, I think I tried to explain their point of view in my second telegram.

H.M.Jr: Well, we didn't get it.

4

- B: They - they didn't want to offend the Japanese, and they felt that it was best if they did proceed with hesitation, rather than to have them ask for something and then it can't be given to them. I mean the Japanese resent that type of procedure very much, and that's -
- H.M.Jr: But, Butterworth, how do they know they're going to ask them?
- B: I beg pardon?
- H.M.Jr: How do the English know that the Japanese are going to ask them?
- B: Well, I think they rather gathered from several things that they would. You remember that I reported some time back that Waley had had a luncheon with the Japanese gentleman in question -
- H.M.Jr: Yes.
- B: - at which he said that he was going to come in to see them -
- H.M.Jr: Yes.
- B: About the possibility of the tripartite monetary agreement.
- H.M.Jr: You don't - you don't feel that they're trying to use us as a stalking horse?
- B: No, I really don't. I mean that thought had not occurred to me.
- H.M.Jr: Yes.
- B: And I don't think so.
- H.M.Jr: Ah-ha. Ah-ha.
- B: My impression is that they're not trying to play that kind of a game.
- H.M.Jr: Ah-ha. Well, I hope you're right. Now, the other thing will go out. Are you at home now?

B: Yes.

H.M.Jr: And does your phone work all right?

B: Yes.

H.M.Jr: The reason I asked is I have had a special line put into the home of Cochran, see?

B: Yes.

H.M.Jr: Just for long distance purposes, which we pay for.

B: Yes.

H.M.Jr: And we have his home number.

B: Yes.

H.M.Jr: Now, if you care to do that, we'd be glad to pay for it.

B: Well, that's very good of you.

H.M.Jr: He - he went to the Government and told them what he wanted, and they put in a phone only for overseas - to be used for long distance, overseas calls.

B: Well, thank you very much. Suppose I look into it and let you know about it.

H.M.Jr: Well, you let me know and then you give us the number, and Cochran only uses it for overseas calls.

B: I understand.

H.M.Jr: And they've given him a special line.

B: Yes. Well, that's very kind of you to offer it.

H.M.Jr: All right.

B: I'm very much obliged to you.

H.M.Jr: Goodbye.

B: Goodbye, sir.

June 5, 1937.

My dear Sir Ronald:

I thank you for conveying to me under May 31 date the message of Mr. Neville Chamberlain and I shall be further indebted if you will be so good as to transmit the following to Mr. Chamberlain:

"Your kind message received through the good offices of Sir Ronald Lindsay pleased me greatly.

"I too feel great personal satisfaction in being able to contemplate the results of the collaboration between the Treasuries of our two countries, as particularly evidenced by the tri-partite declaration and its continuing successful operation. These results, I feel, would not have been possible without the spirit of cordial goodwill with which you have constantly considered our mutual problems.

"This cooperation will, I dare to hope, have good effects not limited to the monetary undertaking, but extending into the broader field of world affairs as an influence toward peace and order.

"I take this occasion to express my earnest wish for your success in your new post and at the same time to say that I look forward to further opportunities for collaboration with you and with your successor in the British Treasury.

"It is my hope that some day we may sit down together to discuss matters of common interest."

With assurances of my continued esteem, I am

Sincerely yours,

Secretary of the Treasury.

The Honorable
Sir Ronald Lindsay,
Ambassador of Great Britain,
The British Embassy,
Washington.

June 3, 1937.

My dear Sir Ronald:

I thank you for conveying to me under May 31 date the message of Mr. Neville Chamberlain and I shall be further indebted if you will be so good as to transmit the following to Mr. Chamberlain:

"Your kind message received through the good offices of Sir Ronald Lindsay pleased me greatly.

"I too feel great personal satisfaction in being able to contemplate the results of the collaboration between the Treasuries of our two countries, as particularly evidenced by the tri-partite declaration and its continuing successful operation. These results, I feel, would not have been possible without the spirit of cordial goodwill with which you have constantly considered our mutual problems.

"This cooperation will, I dare to hope, have good effects not limited to the monetary undertaking, but extending into the broader field of world affairs as an influence toward peace and order.

"I take this occasion to express my earnest wish for your success in your new post and at the same time to say that I look forward to further opportunities for collaboration with you and with your successor in the British Treasury.

"It is my hope that some day we may sit down together to discuss matters of common interest."

With assurances of my continued esteem, I am

Sincerely yours,

Secretary of the Treasury.

The Honorable
Sir Ronald Lindsay,
Ambassador of Great Britain,
The British Embassy,
Washington.

BRITISH EMBASSY,
WASHINGTON, D.C.

May 31st, 1937

My dear Mr. Secretary,

I have much pleasure in communicating the following message which I have received for you from Mr. Neville Chamberlain:-

"On leaving my post as Chancellor of the Exchequer I wish to convey to you my sincere appreciation of the spirit of cordial collaboration now in existence between our two Treasuries. This has been, I believe, of inestimable benefit reaching far beyond our two countries. It was this spirit which made the tripartite declaration possible and thus enabled a serious crisis to be surmounted with the minimum of disturbance, and I have no doubt this same spirit will be of the greatest help in enabling us to surmount such

difficulties/

The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

"difficulties as may trouble us in future. I am sure that you will find my successor no less anxious than I have been for the fullest collaboration between the two Treasuries.

I would add that I have read with great interest the account which Mr. Sewley gave me of your recent conversation with him and that the points arising will engage my successor's close attention."

Believe me,

My dear Mr. Secretary,

Very sincerely yours,

H. C. Lindbergh

June 5, 1937

TO BUTTERWORTH

IN ANSWER TO YOUR NUMBER 349 PLEASE CONVEY
THE FOLLOWING MESSAGE TO SIR JOHN SIMON:

THAT IT IS MY SINCERE HOPE THAT OUR RELATIONSHIP
WILL BE AS CORDIAL AND SUCCESSFUL AS WAS MY
RELATIONSHIP WITH HIS PREDECESSOR.

WITH REGARD TO THE TWO QUESTIONS THAT ARE
TO BE PUT TO HIM IN PARLIAMENT ON MONDAY I HAVE NO
SUGGESTION TO MAKE WITH RESPECT TO HIS PROPOSED
ANSWERS WHICH SEEM TO ME ENTIRELY APPROPRIATE.

MORGENTHAU

June 5, 1937

TO BUTTERWORTH

IN ANSWER TO YOUR NUMBER 349 PLEASE CONVEY
THE FOLLOWING MESSAGE TO SIR JOHN SIMON:

THAT IT IS MY SINCERE HOPE THAT OUR RELATIONSHIP
WILL BE AS CORDIAL AND SUCCESSFUL AS WAS MY
RELATIONSHIP WITH HIS PREDECESSOR.

WITH REGARD TO THE TWO QUESTIONS THAT ARE
TO BE PUT TO HIM IN PARLIAMENT ON MONDAY I HAVE NO
SUGGESTION TO MAKE WITH RESPECT TO HIS PROPOSED
ANSWERS WHICH SEEM TO ME ENTIRELY APPROPRIATE.

MORGENTHAU

JR

GRAY

London

Dated June 4, 1937

Re: d 3 p.m.

Secretary of State,
Washington.

RUSH.

349. June 4, 6 p.m.

FOR SECRETARY MORGENTHAU FROM BUTTERWORTH.

I was asked to call at the British Treasury this afternoon to receive and to convey to you "a message of good will" from the new Chancellor of the Exchequer stating that it is his ardent wish that the same close cooperation between the two Treasuries be maintained as has existed under his predecessor.

The following two questions have been asked in the House of Commons and must be answered there on Monday afternoon by Sir John Simon who "will be glad to know that you agree to the proposed answers thereto".

(one) The Chancellor of the Exchequer is to be asked "whether he will continue to borrow in order to buy and neutralize gold so as to prevent credit inflation, or whether he will propose revision of the tripartite agreement before the inflow of unwanted gold reaches uncontrollable dimensions". The proposed answer is "there

is

-2-

JR 349, June 4, 6 p.m., from London.

is no indication of any unhealthy credit condition at the present time and no such condition will be allowed to develop. I am not clear what revision of the tripartite agreement my honorable friend had in mind but I have no ~~hesitancy~~^{intention} of departing from that agreement".

(two) The Chancellor of the Exchequer will be asked "whether there have been any negotiations with the United States of America concerning a common policy in connection with the purchase of gold". The proposed answer is "there has been no occasion for such negotiations. The arrangements under the tripartite monetary agreement in regard to which there is close consultation between the two Treasuries are working to the full satisfaction of the governments concerned".

It was particularly emphasized that an answer should be received at the latest by Monday 11 a.m. London time.

BINGHAM

CSB

My dear Mr. Chamberlain;

" Your kind message received through the good offices of Sir Ronald Lindsay pleased me greatly.

" I too feel great personal satisfaction in being able to contemplate the results of the collaboration between the Treasuries of our two countries, as particularly evidenced by the tri-partite declaration and its continuing successful operation. These results, I feel, would not have been possible without the spirit of cordial goodwill with which you have constantly considered our mutual problems.

" This ~~precedent~~ of cooperation will, I dare to hope, have good effects not limited to the monetary undertaking, but extending into the broader field of world affairs as an influence toward peace and order.

" I take this occasion to express my earhest wish for your success in your new post and at the same time to say that I look forward to further opportunities for ~~collaboration~~ collaboration with you and with your successor in the British Treasury.

" It is my hope that some day we may sit down together to discuss matters of common interest."

Sincerely,

The Honorable
Neville Chamberlain,
10 Downing Street,
London, England.

My dear Sir Ronald:

I thank you for conveying to me under May 31 date the message of
Mr. Neville Chamberlain, ^{and} I shall be further indebted if you will be so
good as to transmit the following to Mr. Chamberlain:

With assurances of my continued esteem, I am

Sincerely yours,

Secretary of the Treasury,

The Honorable
Sir Ronald Lindsay,
Ambassador of Great Britain,
The British Embassy,
Washington.



THE SECRETARY OF THE TREASURY
WASHINGTON

June 4, 1937

238 Original rough
written draft
by H.M.J.
Not used

My dear Mr. Chamberlain:

It was with real pleasure that I received your letter through the good offices of Ambassador Lindsay.

I have felt that I was given an unusual opportunity as Secretary of the Treasury to serve my country through, first, concluding the tripartite agreement, and secondly, being able to work it out so successfully through the cooperation given me so fully and heartily by you.

I also feel that both of us, in our official capacities, have been able to render a service to the world far beyond the monetary aspects of the tripartite agreement. I have frequently told people that the spirit of cooperation which you have shown in carrying out this agreement was one of the most encouraging experiences that I have had in the international field since holding the office of Secretary of the Treasury.

There is much yet to be accomplished and I wish to assure you that I stand ready to continue to do my part to assist toward world peace.

I want to take this opportunity to wish you every kind of success in your new post.

I hope that some day we will be able to sit down and talk over our experiences face to face, and have the pleasure of personal contact.

With kindest regards and best wishes, I am

Yours sincerely,

Secretary of the Treasury

His Excellency,
The Right Honorable Neville Chamberlain,
13 Downing Street,
London, England.

BRITISH EMBASSY,
WASHINGTON, D.C.

May 31st, 1937

My dear Mr. Secretary,

I have much pleasure in communicating the following message which I have received for you from Mr. Neville Chamberlain:-

"On leaving my post as Chancellor of the Exchequer I wish to convey to you my sincere appreciation of the spirit of cordial collaboration now in existence between our two Treasuries. This has been, I believe, of inestimable benefit reaching far beyond our two countries. It was this spirit which made the tripartite declaration possible and thus enabled a serious crisis to be surmounted with the minimum of disturbance, and I have no doubt this same spirit will be of the greatest help in enabling us to surmount such difficulties/

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

"difficulties as may trouble us in future.
I am sure that you will find my successor
no less anxious than I have been for the
fullest collaboration between the two Treasuries.

I would add that I have read with great
interest the account which Mr. Bewley gave me
of your recent conversation with him and that
the points arising will engage my successor's
close attention."

Believe me,

My dear Mr. Secretary,

Very sincerely yours,

J. C. Lindbergh

BRITISH EMBASSY,
WASHINGTON, D. C.

May 31st, 1957

My dear Mr. Secretary,

I have much pleasure in communicating the following message which I have received for you from Mr. Neville Chamberlain:-

"On leaving my post as Chancellor of the Exchequer I wish to convey to you my sincere appreciation of the spirit of cordial collaboration now in existence between our two Treasuries. This has been, I believe, of inestimable benefit reaching far beyond our two countries. It was this spirit which made the tripartite declaration possible and thus enabled a serious crisis to be surmounted with the minimum of disturbance, and I have no doubt this same spirit will be of the greatest help in enabling us to surmount such

difficulties/

Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

"difficulties as may trouble us in future.
I am sure that you will find my successor
no less anxious than I have been for the
fullest collaboration between the two Treasuries.

I would add that I have read with great
interest the account which Mr. Bewley gave me
of your recent conversation with him and that
the points arising will engage my successor's
close attention."

Believe me,

My dear Mr. Secretary,

Very sincerely yours,

R. C. Lindbergh

Some observations on Sir John Simon,
New British Chancellor of Exchequer.

Sir John Simon, son of a congregational minister, is one of the outstanding British lawyers. After a brilliant academic career at Oxford, he entered the House of Commons and practiced law. He was Home Secretary in the Liberal Government at the outbreak of the Great War and resigned from the Liberal war cabinet because general conscription was introduced. From that time he did not hold office until the National Government was formed in 1931, but concentrated on his legal career and became the lawyer with the largest commercial practice in England. He served the Government in an advisory capacity as Chairman of the Royal Commission on the Government of India in 1927-30. In September 1931 he was appointed Foreign Secretary just when the Manchurian incident was breaking. His handling of the Japanese invasion of Manchuria, both with reference to the League of Nations and to Secretary of State Stimson's approaches to the foreign office made him in England the most unpopular Foreign Secretary since the end of the Great War. The reorganization of the Government in 1935 was used by Mr. Baldwin as an opportunity to relegate him, because of his unpopularity, from the position of Foreign Secretary to the less conspicuous one of Home Secretary.

He has a reputation of being entirely devoted to his own career and somewhat weak on the side of devotion to principle. He is reputed to have strong ambitions to succeed Chamberlain as Prime Minister. In his conduct of foreign affairs he quickly acquired a reputation of never saying "yes" or "no". His personal characteristics are such as not to increase his waning popularity. He is cold and subtle, oily, and rather on the unctuous side. Nominally he is not a member of the Conservative party, which is the leading party in the National Government. He is a "Liberal National". This party is extremely small and is in everything but name a wing of the Conservative party.

I believe he was appointed for the following reason: In order to preserve the illusion of "National" as distinguished from "Conservative" government it was necessary to give one of the four leading posts in the Cabinet to a man who was nominally not a member of the Conservative Party. He was the only person outside the official Conservative Party who in the opinion of many had the reputation and ability for such a position. (Traditionally the position of Chancellor of Exchequer is next in importance to that of the

- 2 -

Premier.) The only other eligible candidate appears to have been Sir Samuel Hoare. He, however, has not yet recovered from the serious impairment of his prestige in consequence of the ill-fated Hoare-Laval agreement of December 1935, though he has recovered enough to be given the less important position of Home Secretary.

(I should not be too surprised if in view of Simon's record and character you may not have to resort to the second pair.)

F:306

MEETING RE FINANCING

June 5, 1937
9:30 A.M.

Present: Mr. Bell
Mr. Taylor
Mr. Murphy
Mr. Lochhead
Mr. Seltzer
Mr. Harris
Mr. Eccles
Mr. Harrison

H.M.Jr: Do you (Bell) think 10-32ds is enough on a two and a quarter note?

Bell: I should think so. It's a short maturity.

H.M.Jr: We got a nice opening today.

Bell: Have you?

Taylor: A quarter discount, which is just backwards for that kind of a thing, is generous.

H.M.Jr: Well, after all some people talk about my selling a certificate. Well hell, if I was going to sell a one-year certificate, I'd sell it at flat, wouldn't I?

Taylor: Sure.

H.M.Jr: Well, we'll see.

Bell: What do you mean flat?

H.M.Jr: At par.

Taylor: Par whatever you figured the rate was.

Bell: Sure, you'd sell it at par, but you'd have to give a little gravy on it.

H.M.Jr: On a certificate?

Bell: Little bit.

H.M.Jr: You wouldn't give a hell of a lot of gravy.

Taylor: A sixteenth.

H.M.Jr: Hello (On phone; conversation with Burgess follows)

June 5, 1937
9:32 a.m.

H.M. Jr: Hello?

Operator: Burgess. Go ahead.

H.M. Jr: Hello?

Dr.
Burgess: Hello there.

H.M. Jr: Well, let's have the morning's prognostications.

B: (Laughs)

H.M. Jr: This is the first one. You know on a steamer -

B: That's right.

H.M. Jr: - you have breakfast, and then you have orange juice at 11:00, and then cocktails at 12:00.

B: That's right.

H.M. Jr: Well, this is breakfast.

B: Well, now the most interesting thing I can tell you is this: You know how Swiehart talked with you Thursday afternoon.

H.M. Jr: Yes, he had me almost weeping.

B: Yes. Well, I just talked to him a few minutes ago, and he's changed round a bit.

H.M. Jr: Yes.

B: He says he finds when he gets back here and sees the market is good that the market is expecting a 2½ and a 5-year, -

H.M. Jr: Yes.

B: At those rates.

H.M. Jr: Yes.

B: And he now has no question about their going.

H.M. Jr: Yes.

B: Now I asked him about this 500 and 300 business.

H.M.Jr: Yes.

B: He says he doesn't think that's necessary.

H.M.Jr: Ah-ha.

B: That it would be better for the Treasury to put the thing at 400 and 400.

H.M.Jr: Yes.

B: I asked him also about this 4-3/4 year on the 5-year note.

H.M.Jr: Yes.

B: And he says he doesn't think that's necessary either - that you can do a straight 5-year note. Now there is one of the fellows who was most doubtful about it -

H.M.Jr: Yes.

B: - who has come around a bit.

H.M.Jr: Well, frankly, of all the people who were down, he made the poorest impression.

B: Did he really?

H.M.Jr: Yes. I don't know - just let me ask Bell - I don't know whether he thought so - Bell was in.

B: Yes.

H.M.Jr: Bell checks.

B: I see.

H.M.Jr: He made the poorest impression.

B: Well, I'll tell you. I think he was a little nervous about it.

H.M.Jr: Yes.

B: He's just - just been put in charge there you know.

H.M.Jr: I see.

B: And he's been an under man for a long time.

H.M.Jr: Ah-ha.

B: But he's one of the nicest fellows in the world, and over a period of the past few months he's been very helpful to us, and very sound in his judgment about the market.

H.M.Jr: Ah-ha.

B: So that I think perhaps the impression he gave didn't quite do him justice.

H.M.Jr: Well, I mean it's just - you can't have quite as much confidence in a man who changes as fast as he does.

B: No, that's right. Now I talked yesterday with all these fellows that you mentioned.

H.M.Jr: Yes.

B: I had a long talk with ^{parker}/Gilbert.

H.M.Jr: Yes.

B: He - he's a little bit afraid of the - of the 5-year. He thinks it's not very attractive, that the market is not quite in the mood for 5-year. He raised the question of having an open ended issue, letting the market decide which it would take. Well, I told him that there are a lot of people in the market who objected to that.

H.M.Jr: Yes.

B: Then I talked to ^{Fletcher}/Gill at the Bank of Manhattan, and he thinks it ought to be a little heavier on the shorter.

H.M.Jr: Yes.

B: But he's a pretty conservative fellow. I talked at some length with Gordon Rentschler. I told you about that. He's rather in favor of 500 and 300.

E.M.Jr: Yes, 5 and 3.

B: Yes. Now the only two questions I think - at least, that's what they were yesterday - are whether you want to make any small concessions in the thing.

H.M.Jr: Any what kind of concessions?

B: Any small concessions.

H.M.Jr: Yes.

B: And the only two to be considered, it seems to me, are either to make it 500 and 300 -

H.M.Jr: Yes.

B: Or else to make it 4-3/4 years. Now, as I've been thinking that over -

H.M.Jr: Yes.

B: The concession - this is perhaps just a little change in point of view overnight.

H.M.Jr: Yes.

B: The concession which would be most advantageous for the Treasury -

H.M.Jr: Yes.

B: Would be to make it 4-3/4 years, for this reason: That it would leave you freer in September -

H.M.Jr: Yes.

B: - to use a note.

H.M.Jr: Yes.

B: That is a March note.

H.M.Jr: Yes.

B: There would be less competition with a September note than a June note would.

H.M.Jr: Yes.

B: Now, your - your maturities in '41. You have \$500,000,000 in June, and then your December, '41 maturity is extremely small, so that putting in a March maturity -

H.M.Jr: How much is it?

B: It's only \$207,000,000.

H.M.Jr: I see.

B: You remember we gave them an option on that.

H.M.Jr: Yes.

B: So that that March date is a kind of an open date.

H.M.Jr: (Laughs) You and Archie are a couple of Scotchmen. Archie put it this way: It's not a concession, he said, you're just taking the first open date in '42.

B: Yes.

H.M.Jr: We wouldn't think of a concession, you see.

B: Well, I think -

H.M.Jr: Big strong United States Treasury. If we take '42, we just take the first open date.

B: Well, when I said concession I was speaking between ourselves. I think that you can say that you're taking the most advantageous date for you in '42. Which is the first open date and is the date which leaves you most free for September 15.

H.M.Jr: Well, all your reasons all boil down - this is also between us - that for some reason or other, Macy's have made a success on a \$4.98 sale instead of a \$5.00 one.

B: That's right - yes.

H.M.Jr: What?

B: That's right. (Laughs)

- H.M.Jr: And as long as human nature will - will stand in line at a bargain counter to get a \$4.98 when they wouldn't pay \$5.00, we might as well use the same tactics.
- B: That's about it - yes.
- H.M.Jr: What?
- B: Yes. And I'll confess that since last night I've been doing some thinking on it from the Treasury point of view about distribution of maturities, and I think from that point of view you're fully justified in making it \$4.98. In some ways, it's more advantageous to you to do it that way.
- H.M.Jr: Well, putting psychology in one corner, then looking at it from the standpoint of maturities and all that -
- B: Yes.
- H.M.Jr: It fits in very nicely.
- B: That's right - yes.
- H.M.Jr: And then, also when they come along in September, and if by that time people don't feel a bit more cheerful, we can again give them 4 years and 9 months.
- B: That's right. You'll still have that open.
- H.M.Jr: Or, we could build up the March one.
- B: Yes, or you'd - you'd have September free with nothing within six months of it.
- H.M.Jr: True.
- B: Which is quite important.
- H.M.Jr: You and I are both trying to argue each other into something that we think is good.
- B: (Laughs) That's right. Yes.
- H.M.Jr: (Laughs)
- B: I'm inclined to think this morning that that's better than to make the 5-year a smaller amount.

H.M.Jr: Oh, well, now - now we're different. If we agree on the \$4.98 -

B: Yes.

H.M.Jr: I'm also inclined to make it only 300 million.

B: Well, I would - I would differ on that. I think that that's not so good from the point of view of the Treasury.

H.M.Jr: Why?

B: Because you've already got such very large maturities in '39. You've got 2-3/4 billions, and every hundred million you can shove over from '39 into '42 is an advantage to you.

H.M.Jr: True. But - but you haven't given me anybody yet who says he's really hungry for a 4-year note or a 5-year note, or a '42 - let's call it a '42 year note.

B: Well, there's the City Bank which will take their full limit.

H.M.Jr: How many can they take?

B: Well, 50 million of each issue.

H.M.Jr: Can they take 50 million?

B: Yep, they've got a hundred million -

H.M.Jr: What?

B: Yep.

H.M.Jr: Well, that's one-eighth of the issue, isn't it?

B: Yes. The - the Chase will take a swab of them. The First National Bank is very keen about them. They think a five-year - they think you can do the whole thing in five years. They see a lot of demand for it with trust funds and so on.

H.M.Jr: Well, -

B: The Guaranty wants some, -

H.M.Jr: I'm still - of course, that's what we're here for - to talk, but my inclination this morning when I walked into the office was March, '42, 300 million.

B: I see. Well, I would prefer 400. I - I'm prepared to - I don't think it's a very great point, and I don't think you need to do that. And I think it's a little stronger if it could go 400 million. And I think it's a little better from the point of view of the Treasury. It gives a little larger issue there. 300 is rather a small note issue, and 400 will be better to trade in, and so on. But, as I say, I don't think it's a very great point, and if you feel pretty keen that way -

H.M.Jr: I - no - no - Oh, no, I'm going to argue with you for another hour. Now I've got - I've got Eccles and Harrison coming in here in 20 minutes.

B: Yes.

H.M.Jr: And I thought we'd chew it over here some more. And I have my whole gang in here.

B: That's fine.

H.M.Jr: And I don't want to make up my mind -

B: Yes.

H.M.Jr: - any sooner than I have to.

B: Yes.

H.M.Jr: How - how was the tone this morning?

B: What's that?

H.M.Jr: How was the tone of the market this morning?

B: Oh, I haven't got much on it yet. Just a second. They're just the same - no change. They're quiet.

H.M.Jr: But I mean they haven't tried to push down our notes to make us more -

B: No - no.

H.M.Jr: Now, let me ask you a question. On the $2\frac{1}{4}$ -year, 1-3/8s -

B: 1-3/8s.

H.M.Jr: 1-3/8s.

B: Yes.

H.M.Jr: What do you figure the probable, estimated premium is?

B: Oh, I think it should run 10 or 12/32nds.

H.M.Jr: Well, how much off could it go Monday and still sell?

B: Oh, it can go off - that can go off a quarter of a point.

H.M.Jr: Could it?

B: Of course, that would be a tremendous drop for a very short issue like that.

H.M.Jr: It would.

B: You see they only fluctuate a thirty-second usually, that short stuff.

H.M.Jr: I spoke to Mr. Hull last night. He said he'll guarantee me no war until Tuesday morning.

B: Oh, well, that's nice, isn't it? I'm delighted.
(Laughs)

H.M.Jr: Yes. I'm going to chuck a guess and see how he slept.

B: (Laughs) Yes.

H.M.Jr: Well, now the next half hour, are you going to be talking to people?

B: I'll be right here and I'll check with a few more people - yes.

10

H.M.Jr: Have you talked to Levy this morning?

B: Yes, I talked to Levy and Swiehart and -

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

B: Ah - Levy likes the 4-3/4s.

H.M.Jr: Yes.

B: But Levy would do 400 million of each.

H.M.Jr: Yes. He would.

B: He said he thinks it looks weak to do 3 and 5.

H.M.Jr: Well, I knew he like the 4-3/4s, but he'd do 4 of each?

B: Yes. He'd do 4 of each, yes.

H.M.Jr: How about Devine?

B: I haven't talked to him this morning. I'll give him a ring.

H.M.Jr: When he - he was down here, he was for 5 and 3.

B: I see. He - he's a great enthusiast on 5 and 3. He's more for it than most anybody.

H.M.Jr: Ah-ha. You know - I - I - the only - I have had no contact with the Chase. Could you talk to them this morning?

B: Oh, I talked to them yesterday.

H.M.Jr: You did.

B: Yes.

H.M.Jr: I mean to a man who makes the decisions over there?

B: Oh, yes, he's the fellow that runs their portfolio.

H.M.Jr: Who's that?

B: That's Shelton Green.

11

H.M.Jr: I see.

B: They take all - they take his advice on all that stuff.

H.M.Jr: Now how does he stand on the division as to the amounts?

B: Well, I didn't go into that in detail with him.

H.M.Jr: Would you mind talking to him again?

B: Ah -

H.M.Jr: It's not necessary - you'd rather not, eh?

B: I'd a little rather not.

H.M.Jr: All right.

B: I - I followed him through yesterday pretty well.

H.M.Jr: All right.

B: He's a - he thinks there won't be so very heavy demand for the 5-year note, but he thinks it will go perfectly well.

H.M.Jr: Ah-ha.

B: But he would prefer putting it all in shorts.

H.M.Jr: Well, I'll call you again in about a half hour.

B: Very good.

H.M.Jr: Thank you.

-2-

Taylor: If you go to four and nine, and with your premium situation the way that it is, you don't have to worry at all about the splitting them fifty-fifty, and I wouldn't be a bit surprised if you got more subscriptions for the five-year than you do for the two and a quarter.

Seltzer: There is a much heavier premium, of course, on the four and three quarters.

H.M.Jr: I don't know, the trouble is.....

Taylor: Make the difference right there.

H.M.Jr: It's in the premium, but you see, here's the trouble. Here's a fellow Swiehart - is that his name - and he comes down; he represents a whole group; and every single fellow is afraid of a five-year note. We didn't have anybody enthusiastic about it.

Bell: No.

H.M.Jr: Did we?

Bell: Except the report that one made on the First National - wanted all fives.

H.M.Jr: But nobody came down here - "Yes, they'll take it, yes."

Seltzer: But you've had a relative change in the market prices of the two and a quarter maturities in there and the five-year; the two and a quarter is worse as compared with the five-year.

H.M.Jr: Pardon me?

Seltzer: The two and a quarter has worsened - gotten worse in relation to the five-year as regards market quotations.

H.M.Jr: Just hold your thought a minute.

Hello (On phone) Yes. - - I'm very sorry, I can't take the call. - - No, we don't do that. - - I'm very sorry.

Mr. Kidd, the editor of the Sunday Chronicle of London, would like to talk to me on the telephone.

-3-

That's happened before. I mean they've tried to..... I'll give them a Sunday story; tell them that we'll raise the price of gold.

Taylor: The price is not affected.

H.M.Jr: All right, go ahead.

Seltzer: A few days ago the yields were such that a two and a quarter $1\frac{3}{8}$ would command a premium of half a point.

H.M.Jr: A two and a quarter?

Seltzer: A two and a quarter year $1\frac{3}{8}$ would command a premium of about half a point, sell on a 1.15 basis. Now it looks as if it will have to sell on a 1.25 basis. Whereas there hasn't been a similar change in the five-year note.

H.M.Jr: What about the five-year? You mean it stood steady?

Seltzer: Yes, it's been very steady, so that this section of the market....

H.M.Jr: And what conclusion do you come to on that? What conclusion do you draw?

Seltzer: Well, the conclusion of this thing is that your premium on the two and a quarter year issue has gone down, so if you put a $1\frac{3}{8}$ percent coupon on that you may not want to overload that with 500 million. That's an argument in favor of dividing them equally.

H.M.Jr: I see.

Taylor: It makes them go to the other one because it looks better to them.

H.M.Jr: Well, the question gets down, which is going to pull them - their needs, their caution, or their sense of avarice?

Taylor: Avarice every time.

Seltzer: Of course, the avarice works in both cases to some extent.

-4-

- Lochhead: But their needs are right there; they've got the money piled up. Of course, every one of these people coming down here is on the other side of the fence. They're on the buying side. If you ask a fellow what he wants to buy, he wants to get the lowest price he can.
- H.M.Jr: We're not talking price now. These fellows who came down here....
- Taylor: How you split it.
- H.M.Jr: ...on this thing - they're talking, they want to sell something. They've got something, they want to sell it. And we also had buyers.
- Lochhead: The five-year notes will have to be redistributed to a great extent. They won't stay so strongly with the initial buyers as the two and a quarter. But that doesn't say they're not going to go.
- H.M.Jr: Of course, there's a question which I'm going to put to Eccles, which they put to me - a couple really smart fellows - "What is the Federal Reserve going to do with that hundred million dollars worth of bonds which they bought?"
- Bell: (Laughs)
- H.M.Jr: Didn't they?
- Hello (On phone; has conversation with Magill)
- I wouldn't give anybody a pep talk this morning; give myself some. I haven't got any energy left. Where were we?
- Lochhead: Asking the Federal Reserve what they were going to do with their hundred million bonds. Might put it this way: ask when they are going to buy the other 150.
- H.M.Jr: You (Bell) made a remark which I didn't have a chance to follow up. You said the fact that the various war loan accounts were scraped clean, that they had very little to go, was a good thing?
- Bell: Uh-huh. They buy this and pay for it by credit, whereas in the previous issues we have had the war loan credit up to the limit and they have had to pay cash for the

-5-

issue in large extent; been as high as 60 and 65 percent cash of the issue; that will drop to below 20 of the issue. They don't have to pay for it by cash; they pay for it by credit.

- H.M.Jr: And that would help? What could they buy on credit? Do you know how much in the war loans - what the figure is?
- Bell: I don't know the total, but it is well over a billion dollars.
- H.M.Jr: Well, that's a good thing.
- Bell: The balances today are 140 million.
- H.M.Jr: In the war loan account? Is that all?
- Bell: Yes, sir.
- Seltzer: That's pretty low.

You know, here you have nearly a point premium in the five-year notes, four and three quarter year notes, and only about 10-32ds in the two and a quarter note. That would mean greater demand for your five-year note, your longer note. That's an argument.

Bell: For the dealers and the banks who want to sell, that's true.

Lochhead: Scalpers.

H.M.Jr: Murphy, you're very quiet this morning. What you got on your mind?

Murphy: Well, I am somewhat disturbed by the low apparent premium on the 1 3/8; perhaps I am more apprehensive than I should be, and I might say I certainly think they will go over. But I feel there is quite a bit of risk in it. I have a May yield of 1.22 on them, and at 1.25 a premium of 9-32ds. And it is very possible that during the day, as the result of some untoward development, a great many people would not subscribe at all to them. Last weekend was quite bad, and I'm not - I feel that the one and a half shouldn't

-6-

be counted out. If we did have the one and a half I might be inclined to a five-

H.M.Jr: What?

Murphy: I say if we did have the one and a half, I might be inclined toward a five-three division.

H.M.Jr: Five of the which?

Murphy: Five of the one and a half and three of the four and three quarters.

H.M.Jr: I thought you were going to say - you mean a $1\frac{1}{2}$ percent coupon?

Murphy: Yes.

H.M.Jr: I thought you were going to say to make it 300 million.

Murphy: No, my idea is that I would hesitate to put 300 million on the $1\frac{3}{8}$ percent base, because I'm not sure that the base is strong enough to hold it.

H.M.Jr: And you're inclined to fifty-fifty if it is a $1\frac{3}{8}$.

Murphy: I'd be certainly inclined to fifty-fifty.

Seltzer: That's the same point I was trying to make.

H.M.Jr: That's a different angle; you're worried on the $1\frac{3}{8}$.

Taylor: Not really, but if there is worry on account of the premium situation it will shove it towards your five - four years and nine months.

H.M.Jr: The four year and nine months at $1\frac{3}{4}$ is very juicy, isn't it?

Murphy: It looks very juicy on paper.

Bell: That is, that one quarter of a year off there doesn't make a lot of difference in premiums - less than 2-32ds.

Lochhead: You can't figure it, practically, in 32ds, it's so short.

-7-

Bell: On the basis of a point it's about five cents.

H.M.Jr: What you (Harris) got?

Harris: Well, I like the four-four distribution. I think if the Treasury would make it five in a short and three in a long, they would be admitting that they're afraid, and I think it would show a bit of lack of confidence in that field. And I should say a $1 \frac{3}{4}$, whether it's for four years and nine months or five years, it makes very little difference.

H.M.Jr: What doesn't make much difference?

Harris: Whether it's four years and nine months or five years. But I would like to see it four-four rather than five-three.

H.M.Jr: Four-four.

Harris: Yes.

Taylor: The best thing that could happen to the market would be a greater subscription for the four and nine than the other one.

H.M.Jr: Oh yes.

Taylor: And I think it is a gamble that is well worth taking - and the way the premiums are working.

H.M.Jr: I don't want to gamble.

Taylor: Unfortunate word - wrong word.

Bell: Only other word you could use would be "speculate." That would have been worse.

Murphy: I'm afraid it was the right word, Mr. Taylor.

H.M.Jr: Well, here are the '46-'48s; we're up 3-32ds. Everything is up a little. '45-'47s are up 3-32ds. Harris, go out and see how many are coming over, whether just one or two, or - you know. Just talk to the fellow up there and see how the thing is, how much volume, and what the notes are doing.

-8-

Harris: Just as I left, came in here, I had been talking to New York, and Devine said there was very good demand coming in for the bonds and he was marking his prices up, but the open market was absolutely quiet, awaiting the announcement of the financing, and it was absolutely unchanged from last night's close.

H.M.Jr: Well, if the bond market is up, that's what we want.

Bell: Of course, this announcement helped the bond market.

H.M.Jr: Give the Fed a chance to unload.

Bell: Give Devine a chance. The boy had a pile of them; he had 20 million.

Seltzer: The risk you would run on this is that the Germans will shell another city during the weekend.

H.M.Jr: Mr. Hull guarantees that won't happen. No war for three days.

Seltzer: Premiums disappear, at any rate.

H.M.Jr: Now in a minute he's going to suggest that I ask the Germans to do a little shelling.

Taylor: No.

H.M.Jr: No.

Bell: Who's Swiehart representing?

H.M.Jr: Childs.

Bell: That's what I thought.

Taylor: Didn't know he was with him.

Bell: I don't think he's been there so long.

H.M.Jr: Hello (On phone) Thank you. Hello. - - Hello, Cordell. (Conversation with Hull follows:)

June 5, 1937
9:59 a.m.

H.M.Jr: Hello?

Operator: Secretary Hull.

H.M.Jr: Thank you.

State Dept.
Operator: Just a moment, Mr. Secretary.

H.M.Jr: Hello? (Pause) Hello?

Operator: He'll be on in just a second.

Secy.
Hull: Hello?

H.M.Jr: Hello, Cordell?

H: Yes, sir.

H.M.Jr: Well, I'm just pricing my bonds, and I thought I'd make one more check with you as to the chances for a war over the weekend.

H: Yes. Well, everything appears quiet, Henry.

H.M.Jr: It does.

H: Yes, if anything breaks out, it would have to be out of a clear sky.

H.M.Jr: Well, that's all I wanted to know.

H: Yes. Well, I - I - I wish you 100% plus on your undertaking.

H.M.Jr: Thank you. I had Herbert Feis at the house last night, and he helped us draft an answer to the questions Sir John Simon sent us.

H: Yes.

H.M.Jr: Some questions.

H: Yes.

H.M.Jr: And we've drafted a reply. And Herbert was helpful. And I'm showing it to the President at 11:00 before I send it over.

H: Yes. Well, that's very interesting. I went over it with him yesterday.

H.M.Jr: He told me that you did, and he said that you thought it was all right to answer.

H: Yes.

H.M.Jr: It was rather unusual, wasn't it?

H: Yes, that's true. They're trying to work in closer, I suppose. I don't know what their different reasons are, but I just thought they might have two or three different reasons.

H.M.Jr: But at least it's interesting that they want to consult.

H: Absolutely.

H.M.Jr: Well, thank you.

H: Thank you.

-9-

H.M.Jr: Well, there's that check.

Harris: There's only been about 30 bonds sold on the board this morning; the largest block has been six bonds. Notes are still unchanged. Here's the Dow-Jones comment: "United States Treasury and Government-guaranteed issues were firm to strong, with a few issues showing small gains over yesterday. Activity in this type of security remained at a relatively low ebb."

Taylor: They're all getting over Sleepy Hollow.

H.M.Jr: What's that?

Taylor: They're all getting over Sleepy Hollow.

(Eccles and Harrison come in, 10:00 A.M.)

H.M.Jr: Well, this is the situation as we've got it now. I just was talking about fifteen, twenty minutes ago to Burgess; we've been talking here. It looks like a two and a quarter year, $1 \frac{3}{8}$, and - Burgess and I this morning are leaning towards a March '42, because the December '41 is only 200 million and it's the first open date, and then, for some reason which we don't know, people like to buy a \$4.98 where they won't buy a \$5 piece of merchandise.

Eccles: What rate did you say?

H.M.Jr: $1 \frac{3}{4}$ for March '42.

Eccles: One and...

H.M.Jr: ...three-quarters for March '42. Now, Burgess feels that - I'm going to call him again in about ten minutes - that you ought to go fifty-fifty, 400 of each. I've been arguing for 500 of the short and 300 of the long.

Since last night C. F. Childs has become quite bullish - called up Bell and called up... They were down here - he and Swiehart - they were down here, and when he was down here he was sure a five-year wouldn't go.

-10-

Bell: Wouldn't be popular.

H.M.Jr: And since then he didn't realize how much the market has changed.

Harrison: Been a good deal of a change in the last week, ten days.

H.M.Jr: And Devine was talking to your people this morning and he's got a good market in bonds this morning. So the thing kind of boils itself down to this. There isn't much argument about the 1 3/8. Burgess and I are leaning towards a March '42. And then the thing gets down should we have 500 and 300 or 400 and 400. Now, we'd be glad to see how you people feel.

Harrison: Frankly, ever since our last meeting here, I've been inclining a little towards the shorter issue on the longer note. That's 300 of the five-years.

H.M.Jr: What?

Harrison: 300 million of the five-year and 500 of the two and a quarter, my reason being that, while there has been an obvious shift in the market in the last ten days or two weeks, nevertheless some of the most astute advisers up there have felt that the five-year might not go, and I didn't think it was necessary for you to take an unreasonable or unnecessary risk. Therefore, I was inclined to 300 million on the five-year and 500 on the two and a quarter.

However, your shortening the maturity to four years and nine months, while it doesn't seem like much, does make a difference in the minds of some people. It's a little sweeter than it was at five years. It sounds better; it's under five years. That makes a little difference.

And then the other factor of difference is that there is no doubt that even in the last four or five days the market has gotten better and there is a much more receptive attitude toward the longer note than there was two weeks ago.

I think you could take the chance on the 400 and 400. The only doubt about 300 million, as I see it, on the

-11-

long one as against 500 on the short, is that some might say it is a sign of weakness. I wouldn't construe it to be that at all. I think when you adapt your issues to the market demands, you're not being weak, but you're being wise.

H.M.Jr: You all wouldn't know that Monday night - whether you were weak, wise, or a damn fool. You're never smart.

Harrison: I think there is no doubt, Mr. Secretary, that the five-year, or four and three quarters, will go, and you will get adequate subscriptions. The only point is, if it is too unpopular, whether some purchases will not have been made merely for the purpose of getting the profit and then unloading them again.

H.M.Jr: There's one argument the boys advanced here which is entirely new to me - why we shouldn't make 500 of the two and a quarter. They are afraid that that's loading that pretty heavy. They say, with only 10-32ds margin, if something should happen over the weekend, that we're loading that short one pretty heavy.

Harris: Mr. Secretary, I just got a note from inside. It said two dealers are knocking the $1\frac{1}{2}$ of March '39 and the $2\frac{1}{8}$ of June '39 off 1-32d; other dealers still keeping an entire list of notes unchanged from yesterday. So that would have the tendency to bring the premium down on that two and a quarter a little, and makes the five-year all the more attractive.

H.M.Jr: Of course, there is a question some of these fellows asked me and I haven't the slightest idea how to answer this, and that is - I want you fellows to listen to this, because I don't know how to answer it - they say, "What do you suppose the Federal Reserve is going to do with that extra hundred million of Government securities they bought after the 15th of June? Are they going to dump them?"

Eccles: Who said that?

H.M.Jr: A number of people who came down to see me. And I just don't know how to answer that.

-12-

Eccles: I can answer that for myself.

H.M.Jr: Well, it would help me make up my mind.

Eccles: Well, I tell you, the way I look at the Federal Reserve picture is that there is certainly no justification for disposing of those securities unless there is a very different situation than there is now; that certainly under the - there is nothing in prospect, as far as I can see, that would justify or indicate any reason whatever for decreasing substantially that portfolio. Now, you've still got your problem of Treasury financing, you've still got your capital markets that are not all we had hoped them to be yet, and you haven't got any credit expansion throughout the banking system that would warrant any further reduction in excess reserves through an open market operation.

Now, that's the way I certainly look at it. If you reach a period where the Treasury has surplus funds and is not going to the market for any new money, and you've got a rapid credit expansion, then you may want to let something run off, but there is nothing certainly in the immediate prospect at all that would....

H.M.Jr: The thing, George, that bothers me on this thing is - you see, you take a person like C. F. Childs, he comes down here Thursday, sees me at five o'clock - very bearish on the five-year situation; goes back to New York, checks again, and everything's lovely. He calls us Friday, he calls Burgess this morning - "Please get word to the Secretary that I've changed my mind, the five-year is all right." Well now - I mean this change for the better is - has really only come the last two or three days on the five-years, because when we started a week ago, they were talking a two-year and only a two-year, and some were talking a one-year.

Now, how much - you live up there, and these fellows have changed heart over two or three days - how much can you rely on them on Monday? I mean how much can they - they are so volatile - can they get that over to the banking system of the country, who will be calling them on the phone Monday?

-13-

- Harrison: I'd put it the other way. I think - I rather gather that they have shifted in their judgment from the short to the long only because they have been getting reactions from outside of New York. I think it is a perfectly fair thing to say that the average banker in lower New York would prefer the short, and I think it is quite right that they should, frankly, especially if they're getting low in their excess reserves, relatively. That doesn't mean they won't take any long; they would prefer the short. But there are a great many other investors outside of New York, other banks, other corporations, whom they get in touch with after they get in touch with the bankers - just as, for instance, Sinclair comes with reports of investors around his district, and even some of the banks want the longer note. Now the dealers are getting that reaction. I rather think that is the reason they are changing their minds, not because the New York bankers have changed very much, but because they are getting the opinion of others who want the long-time note rather than the short.
- H.M.Jr: Well, he told me this, to give it to Marriner - that the First National of New York said if we sold 800 million five-years, they'd subscribe - they'll take the five-year their limit; the National City will take their quota in the five-years.
- Bell: The Guaranty wanted some of them.
- H.M.Jr: The Guaranty will.
- Harrison: They'll take them.
- H.M.Jr: The Guaranty's come around much better.
- Eccles: Of course, they're just not getting a place for their money.
- H.M.Jr: Now, I just wonder, that's all. Of course, if we had a little nerve and could make it 400 of each and the thing went well, it would be a wonderful tonic for the country; there's no question about it.
- Eccles: I think it would go well. The thing that would concern me is what the effect would be afterwards. I think

-14-

your financing would be a success without any question, because you've got enough premium on here - you see, you've got a premium of nearly a point on a five - little less than a five-year issue; it's pretty sweet. But after the thing is closed you're going to find - you're going to possibly find some of them wanting to take their profit and then we may need some market support. So I would certainly think that if you put out 400 million we ought to be prepared - George, if we advise that, that we'd be prepared to make shifts in order to steady that market, if need be.

H.M.Jr: Well, that's why you fellows were invited in this morning, because I'd prefer - I very definitely - I mean I'm awfully glad that Marriner brought this up, because I'd like to feel that you men are satisfied and that - on what we're going to sell, and if something like that happens, are you going to be there?

Eccles: Well, I would say this, that it is to the interest of the whole market; that if these five-year issues are sold and then they immediately begin to go flat, it is going to - it is going to affect the whole picture, and it wouldn't take very much, it seems to me, to do that. And if it pulls the whole note issue down, all the outstanding notes, intermediate notes, intermediate bonds.... And we've got to think of the September financing; you've got a big note issue there that you've got to refund. And it seems to me that it is important, so long as you've got some of this financing to do, looking through the sterilization program, looking through the rest of the year here - that it is tremendously important to us, from a money market standpoint, that whatever is put out now - that at least it carries through reasonably well because we've got to face the problem again in September...

H.M.Jr: True.

Eccles: ...of financing. I would say that four hundred thousand - I don't think any question it would go now.

H.M.Jr: Of each, you mean?

-15-

- Eccles: Yes. But if we put out the four hundred thousand now...
- Harrison: You're talking the wrong number of zeros.
- Bell: We understand.
- Eccles: Yes, four hundred million.
- H.M.Jr: Marriner thinks he's back in Utah.
- Eccles: Sometimes I wish I was.
- Bell: That's a lot of money out there.
- Eccles: Yes, that is, that is. It would be individually.
- H.M.Jr: But which do you lean for?
- Eccles: There is some argument, it seems to me, for the five hundred thousand of short and three of long. There wouldn't be any question about that. It would make the market certainly a little more hungry for the longer issues. There is always that factor, that if you don't give them all they want, this issue would be particularly strong, and it would possibly carry along better.
- H.M.Jr: Well, we don't - certainly up to two days ago they didn't want the five-years.
- Harrison: Up to a few days ago.
- Eccles: But I think the market would have taken some of the fives, because there's a lot of investors, lot of institutions, that want that yield. I think that - as George says, that the New York market has been talking about short stuff so long here now that they just haven't been able to see anything longer than two years; and when I was up there a month ago, my gosh, they just wanted everything...
- Harrison: 90-days.
- Eccles: They wanted everything 90-days then. Well, they've gradually come around now to where they can take some two-year stuff. But as he says, the rest of the

-16-

country are - they've got a lot of money to invest, banks have got reserves, and they want this yield, and there's a market for some of the - for a substantial amount of the five-years.

H.M.Jr: Well, Marriner, if you had to make up your mind - or do you want to wait until we talk to Burgess, until I call? Would you like to?

Eccles: I'd like you to do that.

Harrison: If I had to decide right now, before hearing Burgess, I think I'd do the five hundred and the three hundred.

H.M.Jr: Which way?

Harrison: Oh, five hundred of the short and three hundred of the long.

H.M.Jr: If you (Eccles) had to decide.....

Eccles: Well, I'm like you. I'd like to know what the Federal Reserve is going to do.

Harrison: Oh well, in either event.....

H.M.Jr: You mean what they're going to do.

Eccles: I mean after all, from your point of view, the five and the three - solely from your standpoint, it's a little safer.

H.M.Jr: Yes

Eccles: I say if you did decide on the other, however, and we said, "All right," then we'd have agreed with that; then I say it's up to us to give a good deal of consideration to....

H.M.Jr: Hello (On phone; conversation with Burgess follows)

June 5, 1937
10:21 a.m.

H.M.Jr: Hello?

Operator: Dr. Burgess.

H.M.Jr: Thank you.

Operator: Go ahead.

Dr.
Burgess: Hello, sir.

H.M.Jr: Now we've got George Harrison and Marriner Eccles here plus the Treasury.

B: I see.

H.M.Jr: We're all sitting here on pins and needles waiting for the great hour.

B: Well, I've - I've talked to a number of people since I talked to you last.

H.M.Jr: Yes.

B: One of them was the President of U.S. Trust Company happened to call up.

H.M.Jr: Yes.

B: And I asked him about their position. They said they had sold out a lot of bonds during the decline, their position is very short, and they'd like to take a good block of the long notes.

H.M.Jr: Ah-ha.

B: They'd like that better than they would an intermediate note.

H.M.Jr: I see.

B: Of course, they - they have large trust funds in addition. He tells me that those aren't usually available for heavy investment at the quarter day, but are a continuing support to that market.

H.M.Jr: Yes.

B: I talked with a chap over in the trust department of Bankers, who used to be in the Government department.

He didn't have very much to say. He said that there were a number of corporate issues that are being held up that he thought a good Government issue might stimulate. He thought these notes would go. Now here is another little change from a fellow who talked with you. I was talking with Bob Love at the First of Boston Corporation.

H.M.Jr: Yes.

B: He says that he now thinks we could get away all right with a 5-year note, particularly with a March, '42, -

H.M.Jr: Ah-ha.

B: - note.

H.M.Jr: That makes a difference.

B: Yes. That if he were doing it, he would do 500 million short and 300 million long.

H.M.Jr: Yes.

B: But that he believed it would go either way. He says the market is - is a good firm market. It has a good tone.

H.M.Jr: Yes.

B: And has been improving the last few days.

H.M.Jr: Yes.

B: And I talked with a fellow over at Devines. Devine himself wasn't in this morning, but he has a man named Rielly who is his second - who had just made a five-week trip out through the country, and he said there was some resistance through the country on a 5-year note, that they're more interested in the shorter note, and that he thinks the market is expecting a 2½-year note in '39, and a 5-year note.

H.M.Jr: Yes.

B: And that it will go all right. But they themselves favor 500 million in the shorter and 300 in the longer.

H.M.Jr: Yes.

B: But it would go either way.

H.M.Jr: Ah-ha.

B: I talked with the Discount Corporation fellows. They've been talking to the Continental in Chicago -

H.M.Jr: Oh, yes.

B: - and they say - the Continental say they'll go in for a 5-year note, and they have a number of customers who will come in also.

H.M.Jr: Ah-ha.

B: They were talking to _____ and Company in Philadelphia, -

H.M.Jr: Yes.

B: - who say they have a consistent demand for tax-exempt municipals of '43, '42 and '44 maturity.

H.M.Jr: Yes.

B: From their customers. A Virginia municipality just sold a '42-'47 note on a 1.76 basis.

H.M.Jr: Yes.

B: Now you compare a '42 Government with that, and it looks pretty good.

H.M.Jr: Ah-ha.

B: So that I think the reports that you get from people now are rather better than they were.

H.M.Jr: Yes.

B: I think you can summarize it this way, Henry.

H.M.Jr: Please.

B: That the market knows pretty well what's coming; that is, they expect a split issue, -

H.M.Jr: Yes.

B: - of $2\frac{1}{2}$ and around 5-year.

H.M.Jr: Yes.

B: And in the face of that expectation, the market has been very good.

H.M.Jr: Yes.

B: It really hasn't slumped off anything to amount to at all. So my feeling is what I expressed a little while before - that I would make the concession to this conservatism by doing a $4\frac{3}{4}$ note. That's a little different from - yesterday I was thinking of making the concession in the terms of the amount of the issues.

H.M.Jr: Yes.

B: But the more I think it over, it seems to me that it is an advantage to the Treasury to put the maturity in March -

H.M.Jr: I agree with you.

B: - because of - of the very small December issue and because it leaves your hands freer for next September.

H.M.Jr: Yes.

B: And if you'll put out this note in March, you've got a clear six months -

H.M.Jr: Yes.

B: - for a 5-year note.

H.M.Jr: Yes.

B: Whereas if you put out a June issue, you've only got 3 months. So I've decided that from the point of view of the Treasury, and if it happens to - to be a little more attractive to the market, why so much to the good, and meet the prejudice on the part of some buyer. I would, however, divide the

issue evenly, 400 million of each.

H.M.Jr: You would.

B: Because I think you can get away with it very easily, and I think that that also is more to the advantage of the Treasury. But there are some competent judges in the Street who would make another decision - would make it 500 and 300, and I wouldn't be prepared to argue that very violently. But I think you can easily get away with a 50-50 split, and that's better from the point of view of the Treasury.

H.M.Jr: Well, if I may pin you down. Which do you recommend at this time?

B: I recommend 400 of each.

H.M.Jr: 400 of each. Now may I - I want to ask you - in deciding the 5 and the 3, some of our boys raised an argument which I'd like to give to you - why they're for the 400 and the 400 rather than for the 5 and the 3.

B: Yes.

H.M.Jr: If they put the 500, they think that that - the margin there is so narrow that if something should go wrong that there isn't enough margin, that we're weighting down the $2\frac{1}{2}$ note pretty heavy when we put out 500. See?

B: Yes.

H.M.Jr: And, therefore, they're in favor of making it only 400.

B: Yes.

H.M.Jr: Now how much do you think there is to that argument?

B: Well, I think there's something. But, of course, the demand for that short note is probably pretty heavy.

H.M.Jr: Yes.

B: And I think it would carry the 500 all right. You'd just have to refigure it on the present market,

and our people figure a premium of about 12 to 13/32nds.

H.M.Jr: They do. They just refigured it.

B: Yes, they just figured it. I just got the figures this minute.

H.M.Jr: Now, there's another thing. If we do make it 400 of each and we get away with it, that ought to help the whole market.

B: I think it will. I think it will help the market more than the other way.

H.M.Jr: Yes.

B: Because the other way is an announcement that the Treasury regards the short-term market as much better than the 5-year market.

H.M.Jr: Yes. Well, let me ask you one other thing. And then when I get through maybe either Eccles or Harrison -

B: Yes.

H.M.Jr: Now, let's say something goes wrong.

B: Yes.

H.M.Jr: How does the Federal feel about stepping in and which one would they rather buy in place of their bills?

B: Well, you can ask the fellows there that (laughs).

H.M.Jr: Well, -

B: It seems to me that either maturity is a good maturity for us. Of course the 2-year is better.

*George
Harrison: I'd rather have the five year.

H.M.Jr: Well now, Harrison says he'd rather have the 5-year.

*Taken from reporter's notes of meeting in Secretary's office.

- B: Does he? Well, that's fine.
- *Harrison: Because we've got 250 millions....
- H.M.Jr: Well now, just hold - he's talking. Just a second.
- *Harrison: Because we've got 250 million note maturities of zero to one year, one to two, two to three, three to three and a half, but where we are short - we've only got 70 millions in notes from three years on, and we need to fill in that to make a continuity of maturities.
- *H.M.Jr: You'd rather buy a 5-year?
- *Harrison: I think I would - to equalize maturities.
- H.M.Jr: Harrison says he'd rather buy the 5-year, for - for the System.
- B: Yes. Well, I think there's a good argument for that.
- H.M.Jr: Pardon me?
- B: There's a good argument for that.
- H.M.Jr: Now just a minute. Mr. Eccles wants to say something.
- *Eccles: I was just going to say, as a matter of fact, at the last meeting of the Committee I expressed the view that we ought to have more of the under two-year than we had and less of from the two-year, three-year, four-year, and so forth. We had, in other words, a block of intermediate securities that wouldn't serve any purpose. If we were going to let securities run off, it would be shorter securities. The others ought to be for investment for income. That's the reason for it. I certainly wouldn't have any preference for the short - for the two and a quarter, and if we're going to shift I certainly would just as soon shift into five-year as into the two and a quarter.
- H.M.Jr: Well now Eccles says if he was going to shift he'd rather shift into the 5-year.
- B: Well, that - that's fine then. That suits me all right.

*Taken from reporter's notes of meeting.

- H.M.Jr: Well now, let's see if either of the gentlemen want to talk to you.
- *Harrison: May I ask just one question.
- Harrison: Randy, looking ahead to September -
- B: Yes.
- H: - and later on -
- B: Yes.
- H: - would there be any advantage in the shorter amount, lower amount of the 5-year note; that is, 300 million we'll say, on the theory that you'll get a scarcer value, and you would tend to tone up your long market through scarcity rather than through putting on a bold front?
- B: Well, I would think that the amount was so small that a hundred million here or there wouldn't affect the scarcity value, but the psychological element of showing that you have just as much confidence in the 5-year market as the other, if it goes well, is probably more important than any scarcity value.
- H: Well, I think the $4\frac{3}{4}$'s is the most important factor - the $4\frac{1}{4}$'s rather than 5.
- B: Yes, that helps you on - on your September -
- H: Yes.
- B: - proposition.
- H: Sure.
- B: That's the thing I hadn't worked out very fully yesterday and that changes my theory about that a little.
- H: Yes. All right. Just a minute.
- *H.M.Jr: You (Eccles) don't have anything.
- *Eccles: No, I don't have anything.
- *Taken from reporter's notes of meeting.

-9-

*H.M.Jr: Tell him I'll call him back at sharp ten minutes of.
H: He says he will call you back sharp at 10 minutes
of 12 your time, for the last flash.
B: Very good.
H: All right.

*Taken from reporter's notes of meeting.

-17-

- Eccles: What did he say the premium was on these 1 3/8s? You said it was down to 9-32ds.
- Seltzer: Burgess thought it would go to 12 or 13 32ds.
- Eccles: Well, it's better, then.
- Lochhead: It's pretty hard to figure the premium on those short notes.
- H.M.Jr: I'll be back in a minute. Got to make a call. (Goes out)
- Eccles: Well, it's a fact, anyway - the better the premium when this offering is announced, naturally the better that issue would be. I tell you, it's almost like - it seems to me it's just like - about throwing up a coin.
- Harrison: I just got mine ready.
- Harris: Relatively speaking, it's a small issue in each note.
- Taylor: Difference between three and four isn't going to make any difference as far as the scarcity.
- Bell: No, I don't think so. As a matter of fact, Burgess hit the nail on the head. The market knows practically what's coming and the market is adjusted to it.
- Taylor: There is always a little gamble one way or the other, and you always want to - you try to have the best effect, and from that standpoint I'm very strong for splitting them fifty-fifty.
- Harrison: Well, the way I feel about it, had it been a full five years rather than the four and three quarters, I would have cut it down to the smaller amount. However, I'll say this, that Burgess's latest report - United States Trust Company and fellows like that make a great deal of difference in this market.
- Taylor: If - well, the United States Trust Company, if they've got places for your four-nines or fives, they can make the entire difference as to whether it will go or not.

-18-

- Eccles: I'd hate to have to depend entirely upon the dealers and the banks on this five-year issue, or the four and three-quarters issue, because there will be a lot of subscriptions there for the reason that there is a premium and fair yield. A lot of them will have in mind, "Well, we'll take it now and within 30 or 60 days we'll dump it." It won't be tucked away.
- Lochhead: Still, Governor, I think an awful lot of people are just in the same position; that they have gaps in the portfolio and it is fairly attractive, and that may turn over, of course; I think the five-years would be turned over more than the two-years, because naturally dealers and banks will subscribe possibly just to do some scalping. But I think once they turn they'll stick; they won't have to go around.
- Eccles: There is this argument for the five-year. If it goes into portfolios of investors and fiduciary institutions, it is desirable of course to give them all they will take in that field. And if there is a market in that field for a substantial amount of these 1 $\frac{3}{4}$ s, which apparently there is, then of course it would appear that 400 million ought to be put out - at least 400 million of them, maybe even more, because that is a much better market than a bank market. The bank is all right for bills or the shorter notes, but when you get into the longer stuff it isn't likely to stick; it is more volatile, certainly, a good deal.
- I was interested in what Sinclair said the other day about the same thing. And you heard the report from Drexel and Company. And then he said that Virginia issue, 1.76.....
- Lochhead: It was '42-'47.
- Eccles: - the Government selling on a basis with the State of Virginia. Not only that, but the State of Virginia has a '42-'47 maturity.
- Harrison: Of course, it has the tax-exempt feature.
- Eccles: Some of the notes.....

-19-

- Murphy: The notes are exempt, more exempt than the Virginias, because they're exempt from taxation by any state. Other states can tax Virginia securities.
- Eccles: There is an indication.
- Taylor: I think the market will watch the subscriptions on the two issues and I think that it is more than possible, on account of the difference in your premiums there, that your original subscriptions for the four-nines are going to be greater in amount than for the two and a quarter.
- Eccles: I wouldn't be a bit surprised.
- Bell: That would be a good thing.
- Taylor: Just to split them fifty-fifty and to give your dealers a chance to go to the four-nine, which they will go, because that's where the money is - if you could get that effect, why, it's worth almost any gamble that you can take.
- Seltzer: You like the word.
- Lochhead: They objected to the word "gamble" here.
- Seltzer: Well, it isn't a good selling argument. It is not a good selling word right here.
- Harrison: I'm not worried about subscriptions whichever way you put it. It's just a question of what's going to happen to those that buy the long notes, whether they're going to hold on to them or whether they're going to feed them out too rapidly, running the risk of soaking the intermediate security market, that is, the long notes and short bonds even.
- Eccles: How they going to hold the dealers down if they need to?
- Harris: They permit them so much. They know what they can get. The leading brokers are allowed up to 20 million - some of them.
- Bell: They have to put up ten percent too, but that's no problem.

-20-

- Eccles: Some of them admitted it was a problem.
- Harrison: You apportion the dealers just the way you do the banks.
- Bell: Dealers are supposed to put up ten percent.
- Harrison: On the allotment you don't let them take more than a certain amount.
- Bell: Same for everybody on the allotment.
- Harris: I think the percentage of allotment is going to be so small that there's going to be a scramble for them afterwards.
- Bell: That's up to the Federal Reserve Banks.
- Harrison: We limit the subscriptions to brokers and banks just the same.
- Bell: Under the May 6 letter you go over their subscriptions, see whether they're out of line with their capital, etc. - ability to pay.
- Eccles: But don't you give the Discount Corporation, Childs, and those fellows - you don't give them any more than any bank; it's exactly the same formula you use?
- Bell: Oh yes.
- Harrison: Well, I'm not quite certain whether it's exactly the same formula, but it is approximately. With the banks I think we don't - won't take subscriptions for more than half of their capital.
- Harris: That's right.
- Harrison: And how is it with the dealers - half their capital too?
- Bell: It is when they've got any. But the Federal Reserve banks have to use their judgment and have knowledge of the ability of the particular dealer to pay for them.
- Taylor: If you had a smaller amount of the long ones, say

-21-

five and three, and should get a larger total of subscriptions for the 300 million, we wouldn't get the same effect, because they would say, "Well, we padded our subscriptions for the small ones, so as to be sure of getting an allotment." But if you have them both on the same basis and get greater subscriptions for the fives, why, it's awful sweet.

(H.M.Jr returns)

- H.M.Jr: Now Marriner, does it click in your mind?
- Eccles: Well, I think it's a toss-up. After what Burgess says about that State of Virginia issue on a - it's - here's a state selling a bond on a less favorable basis....
- H.M.Jr: Less favorable?
- Eccles: Yes. 1.76 is what I understood him to say - a '42-'47. Now, that's one and three-quarters, practically. That is, there is an apparent shortage of your tax-free securities and municipals of short range maturity, and there is a real demand for them. Now, this fits right into a category of....
- H.M.Jr: But Marriner, won't - I'm awful short - can you boil it down?
- Eccles: What I meant is this. This longer issue - I feel more favorable about a four, that is, 400 million, than I did before I heard Burgess, and Burgess made two or three points there that seemed to me to make it favorable for the 400 million issue.
- H.M.Jr: Well now, this Virginia thing - I mean - well, they sold a '42-
- Eccles: .. -'47.
- H.M.Jr: At what?
- Eccles: At $1\frac{3}{4}$.
- Bell: To yield 1.76.
- Eccles: That's a factor in favor of this five-year issue, it seems to me; an important factor.

-22-

- H.M.Jr: Do I get it you're leaning towards the 400 million?
- Eccles: Fifty-fifty.
- H.M.Jr: How about you (Harrison)?
- Harrison: Well, before Burgess spoke I preferred the 500 and 300. I think the most significant thing that he said that influences me in my changing my opinion about that is about the United States Trust Company.
- H.M.Jr: They're very conservative.
- Harrison: Which are very conservative, and speak for a group of people who are interested in the longer-time money market. That is, I - therefore, I wouldn't feel badly if the Treasury, for its own reasons, prefers 400 and 400; I think that is quite satisfactory.
- Eccles: I'd say so.
- H.M.Jr: Well, the thing - I've been leaning toward five and three, because the thing that overcame your (Murphy) argument - Burgess figures it at about 12 and 13 32ds.
- Murphy: He figures at about 1.18, which I think we ought to keep in mind.
- H.M.Jr: If it is 12 or 13 32ds - it couldn't drop much more than 4 or 5 32ds - still would leave 8 32ds. How do you figure it, Harris?
- Harris: Well, I tried to figure the minimum, and of course in a short note there is not much change in price, but any change in price affects your yield basis very much. But a drop of 4 32ds in a note like that....
- H.M.Jr: I didn't tell you I called up Hull shortly before you came. There is nothing he can see over the weekend unless there's a bomb out of the sky. Mr. Hull can't see any trouble unless something happens out of a clear sky.
- George, if you don't mind, I'm going to give you - I asked the President to see me at the stroke of 11 - if you had to do it, what would you do as to dividing it up?

-23-

Harrison: I still think the 500 and 300 million.

H.M.Jr: Well, let's go around the room, if you don't mind.
Dan?

Bell: I'm leaning towards the fifty-fifty.

H.M.Jr: O.K. Wayne?

Taylor: Very strong for fifty-fifty.

H.M.Jr: Archie?

Lochhead: More than fifty-fifty.

H.M.Jr: More than fifty-fifty. You mean you'd go more on the five-year.

Lochhead: I'm very much in favor of the five-year.

Harris: I'm the same on the five-year.

H.M.Jr: What?

Harris: At least fifty-fifty on the five-year.

Murphy: Fifty-fifty.

Seltzer: Check.

Harrison: My feelings wouldn't be hurt about fifty-fifty

H.M.Jr: Of course, the thing that you two men say here - I don't want any possible misunderstanding - that in the Federal Reserve, which is of course the biggest portfolio, the five-year fits better than the two and a quarter. Am I right in that?

Harrison: Well, that's my opinion.

Eccles: That's right.

Harrison: Because of the shortage of maturities.

H.M.Jr: Well, don't you two fellows decide it?

Harrison: Marriner does.

-24-

- H.M.Jr: Well, let me put it this way.
- Bell: That's putting them on the spot.
- H.M.Jr: I'm going to put it....
- Eccles: You got that confession, did you? Did you get that? Asked him if "you fellows decide." He said, no, I do. I'm glad to get that confession.
- H.M.Jr: Well, anyway, each of you, if I understand correctly - each of you individually have said that in your opinion a five-year that - that you could use a five-year better than you could a two and a quarter.
- Eccles: Well, certainly just as well. There would be no preference for a two and a quarter as against a five. I wouldn't say that a two and a quarter wouldn't fit in just as well as a five, but certainly there would be no deterrent because it is a five-year at all. We'd just as soon take a five-year - as soon as less than a five-year; if you were shifting from notes into something else, there would be no hesitancy at all to support a five-year issue.
- H.M.Jr: Now, we're - I'm always the conservative fellow. I'm still leaning toward the five and three.
- Harrison: So am I. Only because, whatever else you say, no matter how many subscriptions you get, that isn't what's going to control this thing for September or later. What's going to control is how many of these fellows are going to keep what they've bought regardless of pretty near a point profit, and how many are going to sell in order to get that profit, and whether, because of the sales for the profit, you might not dislocate that intermediate rate.
- H.M.Jr: Well, the thing that - you're entitled to know why I feel that way. The reason I feel that way is that the shift has been so very recent. It's only a matter of 48 hours. I mean that the shift towards the five-year is a matter of 48 hours.
- Eccles: And growing. It hasn't been over - it hasn't reached the proportions it has now. I think the

-25-

strength in the thing has been growing for two weeks, but it's within the last few days that it's really shown very substantial strength.

Seltzer: It's been those 48 hours in which those bankers and so on have really made up their mind what they want - what they're going to subscribe to.

H.M.Jr: Hello (On phone; conversation with Burgess, unrecorded)

-26-

- H.M.Jr: How about you gentlemen (Harrison and Eccles) sitting there?
- Harrison: What?
- H.M.Jr: As to the aftermath?
- Harrison: I think the aftermath is better on the five and three, because then you've got a smaller amount of the fives to be put back on the market.
- Eccles: I'd like to see more of them outside of the banks, and that would leave the reserves better. But if the banks would take the shorter issues, that's true; the longer issues will be taken outside.
- H.M.Jr: Which would you (Eccles) have after all this is washed up?
- Eccles: I'd take four-four.
- H.M.Jr: (To Harrison) Five-three?
- Harrison: I think so, Mr. Secretary.
- Eccles: I'd take four-four.
- H.M.Jr: Better have them written both ways.
- Bell: I see. Shall I send them over to you?
- H.M.Jr: No, we can get them - we can send it. He's leaving at one.
- Bell: You don't want to decide.
- H.M.Jr: Not till I get back. I'd have them written both ways.
- Bell: But that's the letter; but, you see, the statement and the press circulars.....
- (H.M.Jr leaves for White House)
- Eccles: One and three quarters, totally tax free, a little less than five years, is a damn good offering, in view of the.....

-27-

Harrison: But the percentage - you're putting in such a big profit, so much gravy on it, that you're inviting people to buy it to resell.

Taylor: You could do it for three, but whether you do it for three or not, the same thing is true.

(After absence of about fifty minutes, H.M.Jr returns shortly before noon)

H.M.Jr: Well, it's four and four.

Bell: Four and four.

H.M.Jr: Got the letter?

Bell: Yes.

H.M.Jr: Anybody disappointed?

Harrison: Not a bit.

H.M.Jr: Huh?

Harrison: Not a bit; I think it's all right.

Harris: Four years and nine months?

H.M.Jr: Sure, sure. Marriner, you satisfied?

Eccles: Fine. That was my vote.

Harrison: It's all right.

H.M.Jr: Well, may I say thanks. - Well, wait a minute. I'd like to say thank you.

Eccles: Thank you.

H.M.Jr: I think it's all right.

Harrison: Oh, I do too. It's all right.

Eccles: Have to be all right.

Harrison: No. No, that will be all right.

H.M.Jr: Very much obliged.

June 5, 1937
12:04 p.m.

Burgess: Yes.

H.M.Jr: Have they told you what I did?

B: No, they haven't.

H.M.Jr: 400 and 400.

B: Very good. I think that's very nice.

H.M.Jr: I think so. I'll tell you - I had to wait 45 minutes over there to see the President.

B: Oh, my word ! That's too bad.

H.M.Jr: What?

B: That's too bad.

H.M.Jr: And - he had the Speaker in there - and after - I felt this way that after all, if this country financially can't look to the Treasury for leadership, where are they going to look?

B: Yes, that's right. Yes.

H.M.Jr: And what - I'm here alone - what I did was - we pinned both Harrison and Eccles down -

B: Yes.

H.M.Jr: - as to which one they wanted to buy, and each one kept looking at the other. Well, I finally got both to say that if they had to buy the securities, they'd rather buy the long ones.

B: (Laughs)

H.M.Jr: What?

B: Well, that's a pretty good index, isn't it?

H.M.Jr: So I said, "Well, after all, if something goes wrong we have to look to the open market com.

B: Well, I don't think anything will go wrong.

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

B: I feel very confident about it.

H.M.Jr: You do.

B: Yep.

H.M.Jr: Well, I'll try to get a little sleep.

B: That's fine. Well, I'm sure you decided wisely.

H.M.Jr: Well, I - I - I think that if I did the 3 and 5, they'd say, "My God, Morgenthau's worried."

B: That's right.

H.M.Jr: What?

B: I think that's right. That's the danger any way.

H.M.Jr: And now you told me the United States Trust and Continental Chicago - they've been weak, haven't they?

B: Yes; yes.

H.M.Jr: And United States Trust, that's the most conservative, isn't it?

B: That's certainly one of them.

H.M.Jr: Yes. Well, after all, there are 4 or 5 banks in New York. If they subscribe their limit, the thing is pretty well taken, isn't it?

B: Why, I can see it taken right now - yes.

H.M.Jr: Right.

B: Yes.

H.M.Jr: Well, thanks for the help.

B: Very good.

H.M.Jr: Good night.

B: Goodnight.

June 5, 1937
9:49 a.m.

H.M.Jr: Hello?
Roswell
Magill: Good morning, Henry.

H.M.Jr: I thought you were moving.

M: (Laughs) I am.

H.M.Jr: Yes.

M: Morrison Shafroth just called me up a few minutes ago, and I thought I ought to report it to you.

H.M.Jr: Yes.

M: He said he and Ryan and some of the other boys down there had gone over the evidence last night on these things, and they were much impressed by the fact that they needed more time to do it, and that we better delay it, and so forth.

H.M.Jr: Evidence of what?

M: Of these various violations.

H.M.Jr: Yes.

M: Well, I told him that I thought we had plenty on several of the points if they'd get busy and prepare it.

H.M.Jr: Yes.

M: And that - that - that we were being pressed from across the street to get going on the thing.

H.M.Jr: Yes.

M: And I thought they ought to be ready to go ahead.

H.M.Jr: Yes.

M: Well, he seemed quite a good deal bothered about it, and - and I think probably what he needs is some kind of a pep talk.

H.M.Jr: Well, Ros, I've - I've got to concentrate on my financing this morning. I haven't got enough energy left to give him a pep talk.

M: Well, I - I -

H.M.Jr: I'll send for him Monday, but I can't do it today.

M: Yes, well, I think everything is all right. I told him just to hold himself in line and go ahead and do what I told him to.

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

M: - and I'd see him Tuesday.

H.M.Jr: Well, I - I - I'll have to let it go because I've just got to make the decision this morning on finance.

M: Yes. Well, all right then. I think it's quite all right. I thought I ought to tell you about it.

H.M.Jr: Well, I'm glad you told me, but let him worry a little bit.

M: I think it is a good thing for him to do.

H.M.Jr: And don't - and you stop worrying.

M: (Laughs) All right. I'm - I'm ^{not} worrying.

H.M.Jr: These fellows naturally they're going to worry. Let them worry a little bit. It doesn't - they don't know how much we handle up here at the top.

M: Well, that's - that's what I said. I said, "For Heaven's sakes, don't let these other fellows tell you - to beat you on this thing. They're always telling you that the Bureau is all right the way it is, that there isn't anything, etc."

H.M.Jr: Yes. Well, let them sweat over the weekend.

M: All right, sir. Well, good luck to you on the financing.

H.M.Jr: Thank you.

M: If you can give me the operator I'll speak to and send him over there to do a trick on them.

H.M.Jr: All right.
Operator: Hello?
H.M.Jr: Take care of Mr. Magill.
Operator: All right.

June 5, 1937
9:59 a.m.

H.M.Jr: Hello?

Operator: Secretary Hull.

H.M.Jr: Thank you.

State Dept.

Operator: Just a moment, Mr. Secretary.

H.M.Jr: Hello? (Pause) Hello?

Operator: He'll be on in just a second.

Secy.

Hull: Hello?

H.M.Jr: Hello, Cordell?

H: Yes, sir.

H.M.Jr: Well, I'm just pricing my bonds, and I thought I'd make one more check with you as to the chances for a war over the weekend.

H: Yes. Well, everything appears quiet, Henry.

H.M.Jr: It does.

H: Yes, if anything breaks out, it would have to be out of a clear sky.

H.M.Jr: Well, that's all I wanted to know.

H: Yes, Well, I - I - I wish you 100% plus on your undertaking.

H.M.Jr: Thank you. I had Herbert Feis at the house last night, and he helped us draft an answer to the questions Sir John Simon sent us.

H: Yes.

H.M.Jr: Some questions.

H: Yes.

H.M.Jr: And we've drafted a reply. And Herbert was helpful. And I'm showing it to the President at 11:00 before I send it over.

H: Yes. Well, that's very interesting. I went over it with him yesterday.

H.M.Jr: He told me that you did, and he said that you thought it was all right to answer.

H: Yes.

H.M.Jr: It was rather unusual, wasn't it?

H: Yes, that's true. They're trying to work in closer, I suppose. I don't know what their different reasons are, but I just thought they might have two or three different reasons.

H.M.Jr: But at least it's interesting that they want to consult.

H: Absolutely.

H.M.Jr: Well, thank you.

H: Thank you.

JR

GRAY

London

Dated June 5, 1937

Rec'd 10:45 a.m.

Secretary of State,
Washington.

351, June 5, 2 p.m.

FOR TREASURY FROM BUTTERWORTH.

The President's statement on gold did not reach London until after all markets had closed but it has been widely reported in today's press which welcomes it as both timely and reassuring. Only 485 bars were offered at fixing which although a large amount is small in comparison to what would have been offered if the President's statement had not been issued.

Today's FINANCIAL TIMES interprets the maintenance of the gold price discount as indicating that the authorities consider the remaining hoards of manageable size "even so their policy is unjustifiable for the wholesale dishoarding of gold though it may in the long run remove a source of weakness, has an unsettling psychological effect which markets are in no condition to stand. What is required is not the sequence of inconsistencies to which the fund has treated us but a firm statement of policy which can be openly criticised and assessed (***) a firm line on this side of the Atlantic is imperative;

no

-2-

JR #351, June 5, 2 p.m., from London.

no more is needed than an assurance that the gold price will be supported in this country at such levels as to ~~take~~ some of the strain off the United States which in spite of President Roosevelt's statement of yesterday cannot be expected to bear the whole world on its shoulders; the ghost of sudden deflation would thus be laid".

The FINANCIAL NEWS takes the view that the following measures are necessary "in the first place it is of fundamental importance that the British authorities should drop their practice of buying gold only at a substantial and increasing discount on the dollar parity. Whatever the original motive of that policy it is very clear that it has defeated its object and a widening discount cannot fail to suggest to the markets and to gold hoarders that the exchange account is reluctant to buy. That implies that if Britain will not shoulder part of the burden then the whole must be thrown upon the unwilling shoulders of America thereby increasing the danger of an American price reduction and adding to public alarm. From that it follows that the burden of financing and sterilizing existing gold supplies must be shared, if not between a number of monetary powers then at the very least between Britain and America. And it seems that the only way in

-3-

JR #351, June 5, 2 p.m., from London.

the burden is by undertaking to buy gold at a publicly announced and comparatively stable price. It may be argued that such a policy would imply virtual stabilization of sterling in terms of gold but in fact there is no reason why it should involve any greater measure of stabilization ^{than} is already inherent in the tripartite agreement. If the British authorities can bring themselves to grasp this fact and to act upon it in some such way as this then the medium term gold problem would be solved".

After emphasizing that if Great Britain plays her part in absorbing gold then America must be willing to witness a certain appreciation of the dollar. The editorial concludes by stressing the important effects emanating from the gold scare. On the surface it may appear unreasonable that British industrial prices should fall, that consumers should refrain from buying copper, rubber, et cetera, because of a scare in the bullion market. But it is a fact that they do. All markets are dominated at present by the fear of what might happen (that is not necessarily the same as what would) if the price of gold were lowered. The ^(other?) psychological factor in order words is for the moment overpowering all others. And it is this depressing psychology which can turn a

scare

-4-

JR #351, June 5, 2 p.m., from London.

scare into something far worse and which cannot be removed by some half-hearted official statement. For some weeks now the outlook has been clouded by one or the other uncertainty. And that cannot continue indefinitely if confidence is not to become permanently impaired".

BINGHAM

KLP:WVC

RECEIVED
JUN 4 1951
TREASURY DEPARTMENT
Office of the Assistant
Secretary for Economic Affairs

TELEGRAM SENT

RB

GRAY

June 5, 1937

1 p. m.

AMEMBASSY

LONDON (ENGLAND)

225.

FOR BUTTERWORTH FROM TREASURY.

In answer to your No. 349 please convey the following message to Sir John Simon:

That it is my sincere hope that our relationship will be as cordial and successful as was my relationship with his predecessor:

With regard to the two questions that are to be put to him in Parliament on Monday I have no suggestion to make with respect to his proposed answers which seem to me entirely appropriate.

HULL

EA:HF:EB