

DIARY

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June 7, 1937
8:54 a.m.

Knoke: All right, sir.

H.M.Jr: And then you see we could get rid of some of our gold certificates.

K: Yes.

H.M.Jr: You know.

K: Yes, I understand, yes.

H.M.Jr: See?

K: Yes, I had thought of it before. I shall think it over for the next 24 hours. That's the time you gave me, right?

H.M.Jr: That's right, but I don't want you to discuss it with anybody.

K: No, I won't.

H.M.Jr: With anybody at all.

K: No. And the question is whether it is good or bad to - to - to -

H.M.Jr: Increase reserves against foreign deposits only 100%, what effect would it have?

K: Yes.

H.M.Jr: See?

K: Yes.

H.M.Jr: What would become of the money; what would the banks do; how would they react? Just your own impression.

K: Yes. All right, sir.

H.M.Jr: Thank you.

Fin²

June 7, 1937
9:13 a.m.

H.M.Jr: Hello?

Operator: Dr. Burgess. Go ahead.

H.M.Jr: Hello?

Dr. Burgess: Hello, Henry.

H.M.Jr: Well, how does she look?

B: It looks all right.

H.M.Jr: Eh?

B: Looks all right.

H.M.Jr: Got any dissenters?

B: No, not one yet.

H.M.Jr: Not one yet.

B: The notes of '39, '40 and '41 are about a thirty-second off, 1 or 2/32nds off.

H.M.Jr: Well, that's all right.

B: Yes; very favorable. The bonds are up 1/32nd.

H.M.Jr: Yes.

B: About. Now the dealers all say that they - their reception is very good. The people like it.

H.M.Jr: Ah-ha.

B: Some of the banks are going the limit. One insurance company that I heard from is going in for it, and so on.

H.M.Jr: Who was that?

B: They didn't say.

H.M.Jr: What?

B: I didn't ask them which one.

H.M.Jr: Yes.

B: I was just getting a quick - quick reaction.

H.M.Jr: Yes.

B: But I think it's safe to say it's all right.

H.M.Jr: When do - when do you have a deadline in New York for making cash subscriptions?

B: Well, we take them after 3:00. We take them up until 4:00 usually. And then - and then, of course, by mail.

H.M.Jr: I see. But you usually take them up until 4:00.

B: Yes; yes.

H.M.Jr: Well, I'll - I'll be calling you a little later.

B: All right, sir.

H.M.Jr: Another hour you'll know more.

B: I think you can dismiss all worry from your mind. I think it is perfectly clear that it is well received.

H.M.Jr: The only thing which gave us a boost was the Wall Street Journal. They had nice headlines.

B: Yes, the Times and the Tribune emphasized the wrong thing.

H.M.Jr: Well, the Wall Street Journal says, "Brisk demand expected for Treasury notes by institutions."

B: That's a help.

H.M.Jr: And the rest of them - the high interest rate fellows. Well, at least we'll get some customers if they think the interest rates will be high.

B: Yes, sir. We will.

H.M.Jr: Both the Times and the Tribune are so God Damn stupid; I mean. They're always thinking of propaganda and never thinking of anything else.

B: Yes. Well, that's because the Washington correspondents, you know -

H.M.Jr: Yes.

B: - who are down there for a political reason.

H.M.Jr: Yes.

B: That's the trouble.

H.M.Jr: Okay.

B: All right.

H.M.Jr: Thank you.

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

Return to Room 285

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DEPARTMENT OF STATE
WASHINGTON

2499

In reply refer to
FE - 894.00/744.

June 7, 1937

CONFIDENTIAL.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for his confidential information a paraphrase of a telegram (No. 148) of June 4, 1937, from the American Ambassador at Tokyo in regard to the new Japanese Cabinet.

Enclosure:

Paraphrase.

DEPARTMENT OF STATE

DIVISION (Far Eastern
BUREAU (

ENCLOSURE

TO

LETTER DRAFTED

ADDRESSED TO

Secretary of the Treasury.....

P A R A P H R A S E

A telegram (No. 148) of June 4, 1937, from the American Ambassador at Tokyo reads substantially as follows:

At an early hour on June 4 Prince Konoé needed only Kaya's formal acceptance of the post of Minister of Finance to complete the organization of the new Cabinet. After Kaya has become acquainted with the character of the economic policies which the new Cabinet will pursue it is anticipated he will accept the Finance portfolio and that on June 4 the formal investiture of the Cabinet will be held.

Konoé's appointment as Prime Minister has pleased the Japanese people, the most frequently heard comment being that a trend toward a more normal condition is signified by the selection of the person whom public opinion favored above all others. Konoé stated, however, soon after having been commended to form a Cabinet, that although he would try to have two members of the political parties in the new Cabinet (he has done this) their personal merits would be the basis for their inclusion rather than the fact that they represented the parties. The enthusiasm voiced by the parties at the news of Konoé's appointment has cooled noticeably since this statement was made. Although the parties seem now to possess a destructive power, most observers are of the opinion in view of the inability of the parties to present a constructive and intelligent program that the present great popularity of the Prime Minister would justify
him

him in taking care not to become too closely associated with the parties.

The enthusiastic response of the press to Konce's selection has been affected adversely by the announcement of the composition of the Cabinet.

Individual and press comment is to the effect that the retention in office of the present Navy and War Ministers shows that the Cabinet favors increased armament and the doctrine of "increasing power of industrial production" desired by the army and navy. Apprehension is felt in business circles on account of the selection of Baba as Home Minister as his views on finance are considered to be both unorthodox and unsound. It is said that if Kaya is appointed Minister of Finance he will continue the policies of his predecessor. However, it appears doubtful whether Kaya has force and prestige enough to counteract the attempts which will probably be made by the Ministers of War and Navy and the Home Minister to bring about a stricter control by the state over industry and to carry out policies which would result in uncontrollable financial inflation.

Certain elements of uncertainty have been done away with by the fall of the Hayashi Cabinet and undoubtedly the formation of the new Cabinet will have the effect of stabilizing conditions, both politically and economically. I shall defer endeavoring further to interpret the meaning of the change in government until the new Cabinet's policies have been made known

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known and have been discussed in the newspapers. I expect that next week I shall be afforded an opportunity to pay a visit to the Minister for Foreign Affairs (Hirota).

RECEIVED

JUN 1941

894.00/744

JUN 19 1941

RECEIVED

June 7, 1937
9:23 a.m.

H.M.Jr: Hello?

Operator: Mr. Helvering. Go ahead.

H.M.Jr: Hello?

Guy
Helvering: Hello?

H.M.Jr: Good morning, Guy.

H: Good morning.

H.M.Jr: Guy, are you free at 11:00?

H: Let's see - yes.

H.M.Jr: All right. I'd like to have you, Russell, Sherwood, and Ireys.

H: Yes.

H.M.Jr: I'll tell you what about. I want to find out how many more people there are like that gentleman in Detroit - either individuals or corporations who haven't paid their taxes in '29 or earlier. See?

H: Yes.

H.M.Jr: I want to know how we can find that out. That's what I'd like to talk about. I want to give you notice, see?

H: Yes. You wanted Russel, Ireys, Sherwood and who?

H.M.Jr: Helvering.

H: Those three I'll all bring.

H.M.Jr: Russell, Sherwood and Ireys.

H: Yes.

H.M.Jr: Anybody you want to bring along?

H: No, those fellows know their stuff.

H.M.Jr: Yes. The fact - I mean how many more people like that man in Detroit - I mean are there - go back to '29 and earlier. I mean who owe the Government vast sums of money, either individually or corporations. See?

H: Yes.

H.M.Jr: Eh?

H: All that farm business.

H.M.Jr: What's that?

H: All the farm business.

H.M.Jr: No, general - on the general taxes.

H: Ah-ha.

H.M.Jr: Generally - how many - how many accounts, as I would call them - have we got open?

H: Oh -

H.M.Jr: Not just farms - anything.

H: Yes. Well, I'll see you at 11:00.

H.M.Jr: I mean I want to know how many people are there whose taxes are disputed somewhat. Going - I don't know how far back - who haven't paid us any tax. Now here Ford hasn't paid any tax in 8 years.

H: Oh, yes. But there's only that one question that is open in his case as I understand it.

H.M.Jr: Yes, but I think that he hasn't paid any tax.

H: Oh, yes, he paid 2 million in these last returns.

H.M.Jr: Yes, but he got that deduction on it.

H: Oh, yes, that deduction is in there.

H.M.Jr: Yes, I mean the deduction.

H: Yes. Well, all right, we'll see -

H.M.Jr: But what I want to know - how many important cases are there in dispute and how far back do they go?

H: Yes.

H.M.Jr: You remember I went into that a couple of years ago.

H: Yes.

H.M.Jr: Yes. All right. See?

H: Yes.

H.M.Jr: How many important cases of corporations or individuals in dispute and how old are the oldest ones?

H: Yes. All right.

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

H: Yes.

H.M.Jr: If there's any answer to those telegrams about the farm blanks, bring those along.

H: Yes; all right.

H.M.Jr: I suppose it is a little early but if anybody has answered, why bring them along.

H: Well, we may be getting them today.

H.M.Jr: Well, if there are any in, bring them along.

H: All right.

GROUP MEETING

June 7, 1937
9:30 A.M.

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

H.M.Jr: What arrangements have you (Bell) made about getting information?

Bell: Three o'clock and five.

H.M.Jr: Well, I want to talk to Herbert about a press conference. When do you (Gaston) want a press conference?

Gaston: Why, I should think....

H.M.Jr: I'm not going to do what I did before. I'm not going to say, "I think it's oversubscribed." The only time to get any publicity is tonight. Only hit it once; I'm going to give a figure tonight, estimate of how much it's oversubscribed.

Bell: You are?

H.M.Jr: Yes, I am. I've seen it before and then later on we announce it, three or four days later, and it's no good. And we can get out an earlier one, if you want it - "The books are closed." But I'd rather do it just once.

Bell: Well, I think that we ought to get our figures that are reported at five o'clock and compare those with previous figures and then show how much the subscriptions have been on previous figures as a final result of what you give tonight to the press, with the possibility of those figures increasing on the basis of past information.

H.M.Jr: When will you be ready for me?

Bell: The time, little after five.

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H.M.Jr: Here's what I mean. If I say tonight that I think it's oversubscribed two or three times, see, that's the headlines, that's what the European papers carry. The whole thing I want is the psychological effect, to give this whole thing a boost, if it works. Now let the boys sweat. I believe the only paper that gave me a good story is the Wall Street Journal, and the rest are lousy. The Wall Street Journal not only gave me a good story, but they have the courage to say the thing will be a success.

Gaston: Yes. The Times and Tribune stories were both sad.

H.M.Jr: And let the boys just sweat.

Five-thirty?

Bell: I think we'll be ready; yes, 5:30.

H.M.Jr: Will that give you time?

Bell: Yes, sir.

H.M.Jr: All right, then nothing about closing books or anything until 5:30.

Bell: That's right.

H.M.Jr: What?

Bell: You may want to send a notice to the banks after the three o'clock report to expect an announcement later this evening. That's to hold them on the job, that's all.

H.M.Jr: When's the first? Let's just have our time schedule now.

Bell: We get a report at two o'clock and another one, final, at five.

H.M.Jr: Well, after you get the two o'clock, why don't you walk in here with Kilby?

Bell: Yes, sir.

H.M.Jr: How's that?

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Bell: All right.

H.M.Jr: Shall I say "Mr. Bell at 2:30," give you - not to hurry you?

Bell: 2:30 will be all right.

H.M.Jr: What?

Bell: 2:30 will be all right.

H.M.Jr: And then you (Gaston) can tell the boys no press conference at three.

Gaston: And you say definitely now at 5:30?

H.M.Jr: Well, that'll be all right.

Gaston: Yes, we better tell them now, because if we announced it later, they'd think we were holding off on account of not having satisfactory figures.

H.M.Jr: You can tell them it's on account of the figures from the Coast - 5:30 press conference.

Gaston: I'll just tell them we want to wait until we get accurate figures.

H.M.Jr: I asked Burgess and he said he'd take subscriptions up to four o'clock, which is three o'clock our time, so I think maybe we could - would you want to announce maybe at three o'clock our time - have we ever announced that the books are closed, or just what do you do?

Bell: Wait until after the banks are closed. If you say they're closed and indicate the large oversubscription, then what they do is rush out and mail them.

H.M.Jr: All right. That's all right. But 5:30 - that's 6:30 New York.

Bell: Yes.

H.M.Jr: But the whole purpose of this thing - the whole thing I've worked on for two weeks is to get the psychological effect, and if I can say it's X times oversubscribed, they'll carry that tomorrow, but they won't carry that

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Thursday or Friday. Am I right, Herbert?

Gaston: Yes.

H.M.Jr: What?

Gaston: Yes, that's right. They'll carry a good story - a better story than they would if you just closed the books today, and they won't be much interested on Thursday in the amounts of oversubscription.

H.M.Jr: Now, the other time we did that - once we said seven or eight times and every paper in the world carried it. But if we wait until Thursday, by that time something else has happened.

Lochhead: You have to announce at least so many times over-subscribed and.....

H.M.Jr: Well, we'll be conservative.

Lochhead: Well, you know at least from your reports, but it may jump a good deal more than that by the time you get your mail.

H.M.Jr: Well, the mail percentage runs about so much, doesn't it, Dan?

Bell: Yes, sir. We have to have those figures, I think, to...

H.M.Jr: Well, it gives you time to estimate.

See any objection, Wayne?

Taylor: No, all in favor of it.

H.M.Jr: You're all in favor of it.

Bell: One time when you announced it we had some difficulty; I've forgotten just what the difficulty was.

Taylor: You can say "approximately."

H.M.Jr: The difficulty was you fellows squeezed me down so; later on the thing rose.

Bell: I think the difficulty was that the boys rushed out

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and put in mail subscriptions after the announcement of so many times oversubscribed. They could figure out their percentage as to how much they were going to get, so then they went out and put in additional subscriptions.

H.M.Jr: Dan, if they make a few extra ones I'm not going to weep; I want a good showing. I mean the whole purpose - you've got a market; they haven't had a financing in two or three months, and we want a zip on this thing. If we get a good zip, it tones the whole thing for the rest of the summer, barring strikes - more strikes. That's the....

Bell: All right, I'll have it.

H.M.Jr: I'll say for this thing I went on record ten days ago, contrary to Haas' division, that the worst we'd have, barring excessive strikes, would be a minimum summer slump, and it might be less than a minimum, and that is contrary to everything that Haas' crowd has written - that I can not do certain things on account of business falling off, and I told them that, barring excessive strikes, the worst we could expect is a normal summer slump, and we might not have that; and that was ten days ago. Since then the picture has gotten steadily better, - even in textiles.

I let you (Roche) off easy because I was so tired; there wasn't even anything left of me to say "Peep" when your doctor called in J. Edgar Hoover to find your lost doctor. There wasn't even a "peep" left, I was so exhausted. You found him, anyway?

Gaston: I don't know.

Roche: His son.

H.M.Jr: Well, I was very curious to find out whether J. Edgar Hoover followed the procedure, said, "I can't do anything unless it comes through the Secretary," or not - or whether he turned on the sirens and went to it.

Roche: I haven't heard how many sirens he turned on.

H.M.Jr: I'm rather curious, because the arrangement is that he should not turn on anything unless the request came

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from me.

Gaston: I'll find out, yes.

H.M.Jr: But most anything could have happened.

All right, what else?

Roche: I won't comment on that.

H.M.Jr: Well, I don't blame you. Except that it was Acting Surgeon General.

Roche: I couldn't think of Mr. Hoover in that capacity.

H.M.Jr: Shades of all the things that I went through last year.

Roche: I didn't know they called you at all.

H.M.Jr: Well, I'll ask you to stay afterwards.

Herman?

Oliphant: Nothing. I want to see you a minute afterwards.

H.M.Jr: Herbert?

Gaston: No, I haven't anything. I suppose you didn't happen to listen to Cameron of the Ford Motor Company last night?

H.M.Jr: No.

Gaston: I didn't either, but I'm told that he said - that he spoke about the drive on tax evasion and said that it was for the purpose of covering up official incompetency. That would look as if Mr. Cameron was throwing a "Frank Hogan."

H.M.Jr: Did he say that?

Gibbons: You sound English this morning - "Did he say that?"

H.M.Jr: Well, I'm sort of wondering this morning; I don't know whether every tax evader is against Mr. Roosevelt because he's in tax trouble or because everybody who's in tax trouble is against Mr. Roosevelt.

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But the two things seem to be synonomous, and I think we're being awful dumb.

Oliphant: Huh?

H.M.Jr: I think we've been awful dumb about it. Take this Crum Elbow boy, for example; there's no one been dirtier against Mr. and Mrs. Roosevelt than he has.

Oliphant: Did you notice the....

H.M.Jr: Drew Pearson this morning - they've got a list of incorporated yachts. This fellow's constantly against Mr. Roosevelt. And the two things that happened - where is it?

Gaston: Second column there.

H.M.Jr: They've got Alfred Sloan, Coffin, Oelrichs. Oh yes - "A specially interesting incorporated yacht is the 'Vahdah,' owned by the Crum Elbow, N. Y., Holding Corporation. Howland Spencer, husband of the president of the corporation, is a bitter New Deal foe, and for years has been feuding with the President over the use of the name 'Crum Elbow.'" Nobody's been more bitter.

And the other thing which I couldn't help but laugh about is that they give us more credit for the Astor suit.....

Roche: Wasn't that lovely?

H.M.Jr: And when the Attorney General had a telegram on his desk from Bill Stanley congratulating himself and the Attorney General and the President, I think he was going to show it to the President, but the President was so full of the Treasury, what he was doing on taxes, that the Attorney General didn't get a chance to say anything. And Drew and Bob come along and give us full credit. I just wonder how they got that. I haven't the slightest idea, have you, Herman?

Oliphant: No.

H.M.Jr: Good.

Bell: Westbrook had a nice article this morning.

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H.M.Jr: Yes.

Gaston: Pegler.

H.M.Jr: Anything else?

Gaston: Westbrook Pegler - he doesn't read the newspapers very attentively. He called me up the other day and said that Lehman had before him an act which would tax - which would make all state employees in New York pay Federal income taxes, and I told him that, no, that wasn't the act, that it was just an act making certain state employees pay a state tax. He said, "No, it's another. I read it in the Herald-Tribune."

H.M.Jr: But what you say about Ford is very interesting. You know, he always said that this whole question of incorporation tax - Ford said this himself - was just the international bankers that conceived the idea, and he, Ford, was against it.

Gaston: He said that men like Ford were divinely called to have this property, and so on, and be leaders of men - just like old man Baer, "Divine Right" Baer.

Roche: One of the rottenest speeches he's given.

H.M.Jr: Well, I'll say right now - I don't know if the President did, but I've said right along that Internal Revenue is my blind spot. But it isn't any longer. I just didn't have the people. Should have had an Assistant Secretary long time ago in charge; I've got one now.

Wayne?

Taylor: Nothing. I'll see you right after.

H.M.Jr: Huh?

Taylor: I'll see you just a minute. I've got a couple of things.

Gibbons: The only thing I have is, some of the Collectors of Customs terms expire on June 30, and old man McKellar doesn't know whether he wants to send in the name of the present incumbent in Tennessee - and the one out in

-9-

Nebraska; but they can hold over; we don't have to appoint them immediately.

H.M.Jr: Oh.

Gibbons: Just a detail. Some Senator may come in and ask you.....

H.M.Jr: We'll send him in to you.

Gibbons: Just so you'd know.

H.M.Jr: Archie?

Lochhead: Bank of England reports much smaller market on the other side - activity quieted.

Upham: Nothing.

Bell: I have nothing.

McR: Nothing.

H.M.Jr: What about that negro down there in Coast Guard?

McR: I haven't got the report yet.

Gibbons: Oh, he was running a boarding house, selling liquor on the place, and generally... And the negro Congressman from Illinois came in to see Waesche on Saturday and is very well satisfied. Waesche's putting a white man temporarily in charge, hoping to develop a negro, one of the present...

H.M.Jr: Can't they take a negro from the present force?

McR: I haven't got the detailed report.

Gibbons: They don't know at the moment whether there is anybody; they're just sending this white man there temporarily.

H.M.Jr: One Coast - do you (Roche) know about it?

Roche: No.

H.M.Jr: One Coast Guard station, Pea Island.....

Gibbons: Just a life-saving station.

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H.M.Jr: For I don't know how long it's always been manned - and they've had negro officers maybe for 50 or 75 years. Now they're removing the head of it, putting a white man in.

Roche: The lovely colored girl that, thanks to Mr. McReynolds, we find did get back where she was supposed to go, is being dropped four days before her permanent six months period is up.

H.M.Jr: Take Mac by the ear.

Roche: I've taken him, and he's putting it back in my lap, and I'm going to find some....

H.M.Jr: (Talks on White House phone)

Roche: I've found a division in Comptroller's office that wants her, Mr. McReynolds.

H.M.Jr: (On White House phone) He (Bell) can talk to you. He's right here. Just a minute, Harry.

(Bell talks on White House phone)

H.M.Jr: Harry Woodring.

- - -

• Well, that's all I got.

rest the soul.—J. Pater II, M.
of Putnam Baptist Church

Washington Daily Merry-Go-Round

By **DREW PEARSON** and **ROBERT S. ALLEN**

THE MERRY-GO-ROUND of the Treasury Department has gone under way again. But only in the Treasury building in the city with spectators' interest. Yet the White House is still bent on seeing to it that the fun for all to see.

The magnitude and number of the big cases involved will be unprecedented. Not since the sectional Finance heading liquidation of 1923 has Washington ever witnessed so hot as the spectacle being prepared behind the scenes in the tax office.

Nationally known bankers, industrialists, publishers, and particularly lawyers will be haled before the joint congressional committee and confronted with charges that will mean smashing headlines—but not the kind to bring them any credit.

One revelation that will definitely and forcibly be brought out by the investigation is the fact that some of the harshest critics of the New Deal, and most vocal clamorers for economy, are among the worst of financers in evading the tax laws.

LATEST PHASE

ACTUALLY, the forthcoming probe is only the latest phase of the administration's offensive against wealthy taxpayers.

It has been quietly running for them with considerable success for several years. In fact, only 24 hours before the President sent his blistering message to Congress calling for an investigation, Secretary Henry Morgenthau had a \$2,500,000 seizure on his desk—one of the biggest tax recovery prizes on record.

The case involved the estate of the late William Waldorf Astor, who left the U. S. and became a British subject. When he died in 1919 the Internal Revenue Bureau slapped a \$10,000,000 assessment on \$4,000,000 worth of New York real estate, which three months before, he had bequeathed over to his two sons, Waldorf, Jr., and John Jacob.

The Government contended that the transfer was made "in anticipation of death to escape inheritance taxes."

The Astors paid the tax under protest, and then threw the matter into the courts. It was held for 18 years, until finally, in 1938, a judge in the District of Columbia Federal Court decided in their favor. He held that the huge transfer of property had not been made "in anticipation of death," ordered the Government to repay the tax.

NO APPEAL

THE OBVIOUS next step for the Government was to appeal the case. But for some mysterious reason, this was not done.

Secretary of the Treasury at the time was Andrew W. Mellon, who now has a \$2,000,000 tax account still pending against him.

Something further happened in 1933 when Mellon was installed in the Treasury. With the active backing of Internal Revenue Collector Guy Halvorsen, he began a vigorous drive to clean up the tax rolls. To the Astors' demand for repayment of the \$10,000,000 plus 8 per cent interest—a total of \$10,800,000—he answered with a bill charging tax arrears.

The case involved John W. Dashi, an Ohio Democratic law-abiding member and leading Liberty League, to handle their case. In the coming weeks the Government was in the Circuit Court. Dashi then appealed to

the Supreme Court, which ordered the controversy back for a new trial.

Because it had lost the first two before a judge, the Government this time insisted on a jury trial. The decision was a wise one. A New York jury held for the Government, thus saving the Treasury nearly \$20,000,000.

HOW TO DO IT

THE ASTOR tax trial brought to light some illuminating details on how taxes are evaded.

The Government read into the record a deposition from Sir John Coode Adams, Astor's executor, telling how Astor avoided paying stiff Italian export duties on valuable jewels.

The gems were at Astor's villa at Sorrento, overlooking the famed Bay of Naples. Sir John went there personally with his daughter, who then wore the jewels on the return trip out of the country as "personal adornments," thus escaping taxation. Upon their arrival in London her father handed the gems over to his titled employer.

NOTE—Vincent Astor was the father-in-law of Lady Nancy Astor, the American-born member of Parliament. In a letter introduced in the tax trial he expressed a low opinion of women in politics.

INCORPORATED YACHTS

THE PRESIDENT'S trial charge that yachts were being incorporated as "businesses" for tax-dodging purposes cast the shadow of suspicion on a large number of wealthy owners of pleasure craft.

The yacht register of the U. S. Bureau of Navigation lists several hundred vessels owned by corporations. The records also disclose that in the last few years there has been a constant increase in the number of incorporated yachts. All the ships registered by the bureau are licensed as pleasure yachts and cannot be used for commercial purposes.

One of the largest incorporated yachts is the "Rene," a 245-ton, 205-foot vessel, carrying a crew of 28 and listed as owned by the Rene Corporation. The owner's address is given as the General Motors Building, Manhattan. Lloyd's Yacht Register of several years ago lists the owner as Alfred P. Sloan, chairman of General Motors Corporation.

Another big incorporated yacht is the "Zepeda" owned by Bepaco Plantations, Georgia. Bureau records show that several years ago, prior to incorporation, the owner was listed as Howard E. Coffin, prominent auto and aviation magnate. Coffin entertained President Franklin D. Roosevelt and Hoover at his island estate off the Georgia coast.

The "Lafodan," 282 net, 185 feet in length, and carrying a crew of 24, is registered in the name of the Lafodan Corporation of Delaware. Prior to its incorporation the owner was listed as Col. E. A. Deeds, big industrialist and clothier of New York.

The yacht "Cresida," 377 tons, 145 feet and carrying a crew of 23, is registered under the ownership of the Pierre Investment Company of Delaware. Bureau records show the owner is Herman Gehrke, wealthy New York socialite.

A specially interesting incorporated yacht is the "Vandah," owned by the Crum Elbow, N. Y., Housing Corporation. Howard Gibson, husband of the president of the corporation, is a Miller New Deal foe. And for years has been fighting with the president over the use of the term "Crum Elbow."

Habana 23
5-27-37



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
A 837.51/2028

June 7, 1937

My dear Mr. Secretary:

I take pleasure in sending you herewith, for your information, a copy of a despatch, No. 8989, dated May 27, 1937, from the American Embassy at Habana, reporting the appointment of the Cuban Financial Commission which is soon to proceed to this country.

Sincerely yours,

For the Secretary of State:

Under Secretary.

Enclosure:
From Embassy, Habana,
May 27, 1937.

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

RECEIVED
JUN 10 1937
U.S. DEPARTMENT OF STATE
10 0 AM B. HALL 1937

Department of State



BUREAU
DIVISION

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ENCLOSURE

TO

Letter drafted

ADDRESSED TO

The Hon. Henry Morgenthau, Jr.

SECRET

No. 8989

Havana, May 27, 1957

AIR MAIL Secretary of State informed me yesterday
Subjects (Source signed appoint- to Washington
 (ing financial mission
 around the end of this month. The press, briefly
 reporting the announced appointment, stated that
 the Commission would proceed to the United States
 for the study of economic reforms, as well as for
 the supervision of the remaining payments of sil-
 ver and silver certificates. In view of this
 exceptional press treatment, it is the general
 belief in Cuba that the scope of the Commission's
 duties is of considerable importance. A pertinent
 clipping from this morning's EL MUNDO is enclosed.

Respectfully yours,

The Honorable

The Secretary of State,

H. Freeman Matthews
Washington, D. C. George G. Affaires a.S.

Enclosure:

Sir:

Clipping from EL
MUNDO of May 27

With reference to previous reports concerning

NSN/Dec

the financial mission shortly to proceed to Wash-
 ington, I have the honor to report that President
 Laredo Bru yesterday signed the pertinent decree
 designating the following members of the Commission:
 Sr. Miguel A. Pires, of the Legal Section of the
 Treasury Department; Sr. Juan Manuel Monreal, of
 the Secretaryship of the Presidency; Sr. Eduardo
 Durvathy, of the Treasury Department; and Sr. Juan
 Roque, as technical delegate.

RECEIVED
DEPARTMENT OF STATE
JUN 1957

218
NS
JUN 1957

Carbone 837.51/2028

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The Secretary of State informed me yesterday that the Commission will proceed to Washington around the end of this month. The press, briefly reporting the aforesaid appointment, stated that the Commission would proceed to the United States "for the study of economic reforms, as well as for the supervision of the remaining shipments of silver and silver certificates." In spite of this unemotional press treatment, it is now generally known in Cuba that the scope of the Commission's duties is of considerable importance. A pertinent clipping from this morning's EL MUNDO is enclosed.

Respectfully yours,

H. Freeman Matthews
Charge d'Affaires a.i.

A true copy of
the signed original
HFM

Enclosure:

Clipping from EL
MUNDO of May 27

HFM/dec
File No. 851

From the Habana newspaper EL MUNDO
dated May 27, 1937

ESTUDIARA EN E. U. UNA COMISION DE FUNCIONARIOS LAS REFORMAS ECONOMICAS

SERAN SUPERVISADAS LAS REMESAS DE PLATA ACUÑADA EN LOS E. U.

Firmados por el Presidente De-
cretos relativos a Trabajo,
Hacienda y Educación.

El Presidente de la República firmó ayer noche varios decretos a propuesta del Secretario de Hacienda doctor Giménez Lanier, referentes a asuntos de orden interior de su Departamento, y a algunas transferencias de crédito.

Se designó por uno de estos decretos presidenciales, una comisión de funcionarios, que se trasladará a los Estados Unidos de América para el estudio de las reformas económicas, así como para la fiscalización de las remesas de plata y certificados aún pendientes de recepción. Forman la referida comisión el doctor Miguel A. Pérez, letrado Jefe de la Sección de Consultoría; doctor Juan Manuel Menocal, de la Secretaría de la Presidencia; señor Eduardo Durruthy, Secretario particular del Ministro de las Finanzas y señor Juan Roqué, que asesorará a la Comisión con el carácter de delegado técnico.

RECEIVED

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June 7, 1937
10:16 a.m.

H.M. Jr: Hello?

Operator: Dr. Burgess. Go ahead.

H.M. Jr: Hello, Burgess.

Burgess: Hello, Henry.

H.M. Jr: Yes.

B: Well, there's nothing much new. The - the reports continue to be favorable.

H.M. Jr: Yes.

B: The prices don't show much. The notes and intermediate bonds are off just a little bit as they would be.

H.M. Jr: I don't hear awfully well.

B: The notes and the intermediate bonds -

H.M. Jr: Yes.

B: Are off just a little, but the market is exceedingly quiet. There are no great offerings for any of those. The banks are going to take the offerings. The insurance companies, I don't know how many of them will take it. Not very many, I guess. The Equitable and the Mutual are reported as interested. Of the corporations, Ford and Chrysler seem to be interested.

H.M. Jr: Who?

B: Ford and Chrysler.

H.M. Jr: No. A Ford man went on the air last night and said the reason we introduced this tax thing is because I was incompetent.

B: Is that so.

H.M. Jr: Didn't mention me by name, but -

B: Well, he thought he might want to buy some of your bonds.

H.M.Jr: Yes, that's interesting.

B: Yes. But there's nothing really new. You can't tell much - much further. Everything is all right though, I am sure.

H.M.Jr: Well, I've given Dannie Bell a time schedule. He's coming in at 2:30 to see me.

B: Yes.

H.M.Jr: And I postponed my press conference until 5:30 tonight which is 6:30.

B: Yes.

H.M.Jr: We usually have it at 3:00.

B: Yes.

H.M.Jr: But I thought by that time we'd have something and I'm going to -

B: I think so, yes.

H.M.Jr: And I'm going to shoot the works and give them a figure.

B: Yes.

H.M.Jr: Because the whole purpose of this thing is to get a good reaction, and I simply say "It's oversubscribed and I'll tell you in 4 or 5 days how much," then when they do know it, they never run anything.

B: Well, of course, last time that didn't work very well, did it?

H.M.Jr: What?

B: Telling them a figure.

H.M.Jr: Why not?

B: Well, they - the figure was smaller than they expected and it -

H.M.Jr: Well, I can't help it. The truth is the best.

B: Well, no, the point was that the figures you had at that time were incomplete.

H.M.Jr: Well -

B: And they gave a misleading impression.

H.M.Jr: Yes, but I'd rather tell them tonight and tell them - I told the boys to figure it out the best they can.

B: Yes; yes.

H.M.Jr: I think that to hold this thing up four or five days -

B: Yes.

H.M.Jr: - just makes too much uncertainty.

B: Well, I think that depends on how good a figure you can get.

H.M.Jr: Well, they'll - they'll have a pretty good figure by 5:30.

B: Yes. Of course, it won't be a complete figure because it won't include the stuff that is coming in the mail.

H.M.Jr: That's true, but they're going to figure what percentage we usually get in the mail.

B: I see. Yes; yes.

H.M.Jr: I - I - I may be disappointed, but I'm going to do the best I can.

B: I see.

H.M.Jr: I'm not - I haven't told them why we're having it at 5:30.

B: Yes. Well, you can -

H.M.Jr: But if I have it at 3:00, we won't know anything.

B: No; that's right. That's right.

H.M.Jr: See?

B: Yes.

H.M.Jr: And by 5:30 we will.

B: That's all right. You can at least tell them whether you can close the books, and you'll know that any way.

H.M.Jr: That's right.

B: Yes.

H.M.Jr: Thank you. I'll call you again in about an hour.

B: Very good.

H.M.Jr: Thank you.

June 7, 1937
10:24 a.m.

H.M. Jr: Hello?

Operator: Mr. Hogate.

H.M. Jr: Hello?

Kenneth C. Hogate: Mr. Secretary. How are you?

H.M. Jr: How are you?

H: Fine. Thank you - a little warm but otherwise all right.

H.M. Jr: That's fine. I just wanted to congratulate the Wall Street Journal as being the only paper that has come to my desk so far that has a little in how they wrote up our bond issue, note issue today.

H: You mean in reference to gold?

H.M. Jr: No, just the headlines.

H: Just the headlines.

H.M. Jr: Which says, "Brisk demand expected for Treasury notes from institutions."

H: Yes?

H.M. Jr: See?

H: Yes.

H.M. Jr: Everyother paper wrote the story, "Highest rates charged by the Treasury in three years."

H: Oh, you're referring to the bonds. Well, I'm awfully glad you thought so and -

H.M. Jr: Well, you're the only paper that took that line. Everybody else stressed the interest rate. See?

H: Well, I - I'm glad you liked it. I - I thought it was the proper line to take, and I have no doubt that our headline will prove to be true.

H.M. Jr: I think so, and I think tonight you can do a little crowing.

H: (Laughs)

H.M.Jr: You can take the Times and Tribune headline and put it along side of yours.

H: Well, you're awful nice - you're awful nice to have mentioned it, Mr. Secretary.

H.M.Jr: Well, when you got one paper in the country that's willing to say that - what you said, and everybody else taking the other line, I just wanted to tell you - to call you.

H: Well, I - I - I thought those other headlines this morning looked -

H.M.Jr: So silly.

H: - looked a little unduly critical in what they held. I mean there is - a minor fluctuation in interest rate is - is all part of a day's work as far as I see it.

H.M.Jr: Well, they oughtn't to have editorial writers writing financial headlines.

H: (Laughs) That's about what it looks like, isn't it?

H.M.Jr: That's right.

H: How are you standing in grace?

H.M.Jr: Okay. Still got my sense of humor.

H: Well, I'll bet you have.

H: Have you been up to the farm much lately?

H.M.Jr: Well, I was up yesterday for 24 hours.

H: Glorious weather, wasn't it?

H.M.Jr: It looked good to me.

H: Yes. It looks like we're going to have good crops. Plenty of rain.

H.M.Jr: We haven't got the corn in yet.

H: No, we haven't either - not all of it. We've gotten part of it in. That's one thing - the rain has interfered with that, but, my goodness, how the hay is growing.

H.M.Jr: Well, can't you get some of these fellows up there to worry about the corn crop instead of the price of gold?

H: (Laughs) Well, I'm afraid - I worry more about it than I do about the price of gold.

H.M.Jr: Well, so have I.

H: (Laughs)

H.M.Jr: (Laughs)

H: I think this conversation would be a good one to repeat, don't you?

H.M.Jr: Oh, it's all right with me.

H: (Laughs)

H.M.Jr: You can repeat it.

H: I - I'll tell you what I'm going to do. I'm going to try - are - are - will you be available on the telephone?

H.M.Jr: Will I?

H: Yes.

H.M.Jr: When?

H: Right - in 10 or 15 minutes. I'm going to try and write a little something and I'll call you back and read it to you.

H.M.Jr: Okay.

H: I think we can have some fun with it.

H.M.Jr: All right.

H: All right. Fine.

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H.M.Jr: Thank you.
H: Thank you so much.
H.M.Jr: Goodbye.
H: Goodbye.

MESSAGE TO SIR JOHN SIMON VIA MALLET

June 7, 1937
10:40 A.M.

Present: Mr. Taylor
Mr. Lochhead
Mr. White
Mr. Mallet

H.M.Jr: What I wanted to say was this. In the first place, as you know, I've got this very fine letter from the Prime Minister and I sent an answer.

Mallet: Yes, I know.

H.M.Jr: And then, what you people - it didn't clear through you, it cleared from London - Sir John Simon submitted to me the two questions which he is going to be asked in Parliament today - I think they're all right - on this question of the tripartite agreement and gold, and I answered that. That went back through Butterworth, see?

Mallet: Right.

H.M.Jr: Now, the message - I have a message that I'd like you to take - I suppose this message would go to Sir John Simon - and that is this. When we consummated the tripartite agreement, I think all of us appreciated the fact that as a result we expected a great deal of gold would come out of hoarding, but I don't think that any of us expected that it would become the world problem which it has.

The tripartite agreement is set up to handle foreign exchange. It was not set up to handle gold. Our position is that, just as I announced several years ago that the United States was ready to discuss the question of stabilization whenever the world was ready, we now are ready to discuss the question of gold whenever the rest of the world is ready.

But I want to say that in approaching this problem at this time we do not feel that the solution lies through dropping the price of gold.

Mallet: Through dropping the price of gold.

H.M.Jr: Through dropping the price of gold.

-2-

Mallet: You do not feel.....

H.M.Jr: Yes. Supposing, Naster, you read that very slowly.

(Reporter reads Secretary's statement back)

H.M.Jr: By gold I mean both existing gold and - no, leave it just like that.

Now Mr. Mallet may have some questions. If it isn't fully clear to you....

Mallet: The point is this. I wasn't going to go direct to London. I was actually going to be in France about a week first. Is it urgent to get this message through to Sir John? Are you in a hurry about it?

H.M.Jr: What I had hoped was that you could just drop in and tell Sir John you had a verbal message. I'd rather not have it telegraphed. I'd very much rather - I could send it through the State Department and all that, but.....

Mallet: I'll do what you ask me to do.

H.M.Jr: What I would be - I can't ask you - what would be pleasing, I think, in view of the situation, would be if you could get off your steamer at London and just - if you could arrange beforehand to have an appointment, and then go to France - you see what I mean?

Mallet: Yes, yes.

H.M.Jr: I think - really think that in view of this cable message from Sir John to me - he did me the courtesy to submit the two questions...

Mallet: Right.

H.M.Jr: ...and I've been waiting for somebody to go that I could trust.

Mallet: That's right. Well, I could certainly have an appointment with him.

H.M.Jr: And I think that - after all, you go there for one day, you see him, and then you can go on.

Mallet: Oh yes.

-3-

H.M.Jr: When do you go, Wednesday?

Mallet: Wednesday, yes, sir.

H.M.Jr: What's that, the Queen Mary?

Mallet: Yes.

H.M.Jr: I think I would - you could cable him that you have a verbal message. I'd rather not put it down on paper; there would be too many people that would see it. I mean - in this case, for instance, of course tell the Ambassador, but outside of that nobody.

Mallet: Tell Trentham?

H.M.Jr: Yes, that's all right, but I'd like to limit it to those three. Then I think if you would cable Sir John that you're coming and could you have an appointment on your arrival....

Mallet: Yes

H.M.Jr: I mean you could get to him, couldn't you?

Mallet: Oh yes. I could send a message.

H.M.Jr: I'd much rather have you give it to him verbally. I don't trust cables very much on a thing like this, where there is - the whole world is trying....

Mallet: Trying to find out.

H.M.Jr: Yes. But is it entirely clear?

Mallet: What is the next stage?

H.M.Jr: Well....

Mallet: Have you any definite suggestions to make at this time?

H.M.Jr: No. Just that Bacchus is willing - Bacchus is willing.

Mallet: Yes, yes. In other words, the initiative....

H.M.Jr: Well, I've taken the initiative.

-4-

Mallet: You've taken the initiative, and the next should come from the other side.

H.M.Jr: I think so. I mean I've gone this far. Now,....

Mallet: Yes, yes.

H.M.Jr: And you're entirely familiar with the tripartite, see?

Mallet: Yes.

H.M.Jr: May I make a suggestion which is entirely - how shall I put it - well, I think it is to the ultimate interests of both governments, see, but I can appreciate their saying that it's none of my business - but I think to have this man here - what's his name?

Mallet: Trentham?

H.M.Jr: Trentham, who's not been back...

Mallet: No.

H.M.Jr: ...who knows nothing about this thing - and not to have given him what I call the kind of freshening up, so that he knows what Sir John has in mind...

Mallet: Yes

H.M.Jr:puts Mr. Trentham under a tremendous disadvantage.

Mallet: Yes

H.M.Jr: I think he's under a tremendous disadvantage.

Mallet: Yes

H.M.Jr: What do you call it, a freshening-up course - here that's what we call it; the aviators - ever so often we send them to these advanced schools for a freshening-up course.

Taylor: Taking a cure.

H.M.Jr: What?

Taylor: Taking a cure.

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H.M.Jr: No, regular intervals - I think twice a year they send Government aviators to an advanced course in aviation so as to freshen up, just so as to make sure that they know all the latest "wrinkles" in aviation. I think that's a good way to put it.

And I take it that when they do have something, they'll be as frank as I have been.

Mallet: I think I'd like them to be anyhow.

H.M.Jr: Not too evasive. I mean I've been very frank.

Mallet: You certainly have; it's been very much appreciated.

H.M.Jr: And if they're interested, that they'll be as direct as I have been this time.

Mallet: Yes, I'll - I like that very well.

H.M.Jr: That's all I've got.

How long a holiday you taking?

Mallet: I get back home the 23d of August. I suppose you'll be away about then.

H.M.Jr: Well, I'm going to try to bend my luck a little bit.

Mallet: Bring on the bend a bit prematurely.

H.M.Jr: If necessary.

Mallet: Well, I'm very grateful, very much appreciate the confidence.

H.M.Jr: Well, I have perfect confidence in you. And this is something - I'd like you to say personally you've seen me, and of course give him my very best wishes, and I hope that we can work many of these problems out together; because they are difficult; there's no use saying that they're not.

Mallet: Yes. But things have gone well this last year between us.

H.M.Jr: Oh yes, very well.

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Mallet: They feel that very much.

H.M.Jr: And I hope Sir John and I can continue doing them as well.

(Mallet leaves)

White: You've taken the bit in your teeth. The proposal was a little more open than I thought... Now it's up to us to be ready and be prepared.

Lochhead: We can't keep dodging this problem.

White: It's on now. The die is cast.

Taylor: Swell.

H.M.Jr: I want - I've thought and thought and thought about this thing. Now, sooner or later - I've always taken the initiative here. There's nothing in this that should worry them. Quite the contrary.

Lochhead: As long as you have given that statement.....

H.M.Jr: The only place - I read Taylor's memorandum and I want to say this particularly - where I differ from him on this is that I want to work this out first in the Treasury, so that I decide.

Taylor: That's - I haven't the slightest disagreement with you. I haven't the slightest disagreement.

H.M.Jr: Now, the thing that I have to decide - I've got to take two or three days to have this poured into my brain, which it hasn't yet, and after that thing is poured into my brain, then I can begin to talk. And what I feel is that this thing has - we've got to let this thing jell, and after I - I don't think this thing is so difficult.

White: Oh yes, this is very good, because this will probably be passed right on to South Africa and India. They'll feel....

H.M.Jr: What?

White: They'll be very glad to.

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- H.M.Jr: I'm not going to even ask the President. I know this is what he wants and - any more than I did when I decided that they had to sell us gold. Now the next move is up to these bozos. And I - I mean when you start qualifying gold, then I - they know what I mean, huh?
- White: Well, in the meantime we've got to go ahead and be prepared for any contingency.
- Taylor: No, that suggestion was the least important.
- H.M.Jr: Which?
- Taylor: The one you mentioned, where you disagreed with me. I simply meant to emphasize that at one time or another it does affect others.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: June 7, 1937, 11 a.m.

NO.: 741

FROM COCHRAN. BY MAIL FROM BRUSSELS TO PARIS.

I visited President Trip and Director Beaufort in the Netherlands Bank at Amsterdam on Friday morning. I was received at noon by Prime Minister Colijn and Minister of Finance Oudt in The Hague; I saw Minister Emmet in the afternoon. At The Hague I dined with President Trip. I had lunch on Saturday at Amsterdam with private banker Termelen of Hope and Company.

I was asked by Colijn what we were going to do with twelve billion dollars of gold plus, that which it appears the United States may continue to receive from abroad. In reply I made reference to official American utterances on the gold question and gave him some personal impressions. I said that I was visiting our European "club" friends, besieging expressions of their opinion on the gold question. The Prime Minister's reply was that I could say he was "not disturbed", but at the same time he would be "uneasy if the present rate of gold production continues". It is the Prime Minister's view that steps should be taken internationally for the regulation of gold production as were taken for sugar, tin, and other products. The fact that recently 23 nations reached an agreement on sugar at London was mentioned by Colijn. It would be simpler to reach

- 2 -

an agreement regarding gold, he believed, since there are so few important producers, such as the British Dominions, the United States and Soviet Russia. He was of the opinion that it would be possible to get the latter into an agreement, and he emphasized the embarrassing position into which the Soviets could be placed, for instance, through the other countries refusing to take their gold if a gold agreement were not accepted and adhered to by the Soviets.

Complimentary terms were used by Colijn in referring to the monetary arrangements of last autumn and he said that the rates had been kept very steady by the technical cooperation between the United States and the Netherlands. In view of the Prime Minister's own efforts in the Oslo agreement toward reduction of trade barriers, he was keenly and most sympathetically interested in Secretary Hull's endeavor to procure a trade agreement with the British. In Colijn's opinion, such a step would be greatly advantageous to the world. He is happy to see that Canada and perhaps some of the other Dominions are championing the argument of the United States.

Not very much was said by Minister of Finance Oudt, except to endorse the Prime Minister's sentiments.

END SECTIONS ONE AND TWO.

01913048
BULLITT.

EA:LWW

PARAPHRASE OF SECTIONS THREE AND FOUR OF NO. 741 OF
JUNE 7, 1937, from the American Embassy, Paris.

The Prime Minister and Minister Oudt both warmly reciprocated the greetings of Secretary Hull, and urged our continuing cooperation and contact.

In strict confidence I told Trip of my visit to Switzerland. The Swiss are selling gold to him, too, he said. Trip told me of his own negotiations with the New York Federal Reserve toward selling gold to the latter, and then, provided the British approve, using the dollar proceeds to gold (sic) in London. This procedure was regarded by Trip as being quite different from the Swiss sales to build up dollar balances in lieu of gold. He thought his own operations would be of general benefit if he could thereby help to reduce the gold discount on the market in London.

According to Trip, as well as Colijn, the Netherlands will "go along" with the two big powers, Great Britain and the United States. However, I was reminded by Trip that because of his large gold purchases he was having to take quite a bit of criticism from within the Netherlands. Should there be a reduction in the world price of gold, the people of his country would certainly say that he should have followed the sagacious lead of the Swiss Central Bank which was wise enough to get out of both
pounds

- 2 -

pounds and dollars before the depreciation in these currencies, and was also foresighted in its attitude on the gold question.

The opinion was expressed by Trip that the gold scare has become so serious and there is so little sign that it will abate, that in order to calm the situation and safeguard the future something must be done through concerted international action. Lowering the price of gold is not favored by Trip. If the United States itself should take such a step, he said, it would have tremendous repercussions on our internal prices, our domestic industries, and our export trade. He said much difficult negotiation would be involved in a general reduction in the price which leading monetary powers paid - some of which powers are on gold and some off and some of which might seek competitive advantages if a chance for "realignment" vis-à-vis gold were offered. A price reduction would work real hardships on those countries which have already spent their present devaluation profits. Trip, as you know, is a staunch opponent of the policy of tinkering with a currency in an effort to adjust the economy of a nation; he says he wants gold respected as a monetary base, and not shop valued in as a commodity. Trip does not believe that the Russians would be influenced to curtail production because of a reduction in the gold price, since the cost

of

- 3 -

of production is really an element of not much consequence to the government.

The proposal definitely favored by Trip is "to try to reach international cooperation in order directly to control the output of gold" as he expressed in his annual report to the Netherlands Bank of the first of June. I made the suggestion that it would require a great deal of time for such negotiations to be consummated and to cut down the gold output as a consequence even if the countries concerned were found willing to undertake discussing a proposal of this kind; ~~in~~ what was to be done in the meantime was a vital question. Dehoarding does not worry Trip so much as over-production, since it had been generally anticipated that eventually dehoarding would take place, most likely with an approach of general stabilization. Fear of the price of gold (the cause of the present hasty dehoarding) was not envisaged as the reason which would prove the incentive, but no lasting harm should follow this dehoarding provided the monetary authorities of the world work individually and collectively toward restoration of calm and toward maintenance of the gold price.

When I talked with Trip on Friday the latest remarks of President Roosevelt had not been reported at The Hague. Trip made the observation that the statements of American officials to date had not sufficed to relieve for much time

or

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or to any appreciable degree the market doubts as to the price of gold. Last week's increased sales of gold bars at London constituted a plain proof of this view. My contact was especially critical of the equalization fund of Great Britain because it had not intervened more actively and prevented the growing disparity between the American gold price and that at London. It is his belief that a definite lowering of the price of gold is favored by officials of the Bank of England; as for the British Treasury, he does not know what their view is. However, Trip insists that recent policies of the British (omission) have not convinced anyone that the British are actually "playing the game" with the United States on the gold question.

BULLITT.

END SECTIONS THREE, FOUR AND FIVE.

EA:LWW

PARAPHRASE OF SECTIONS SIX TO NINE, INCLUSIVE
OF NO. 741 of JUNE 7, 1937, FROM PARIS

I was asked by Trip whether I had recently seen Sir Frederick Phillips. My answer was that I had not. I added that I was not aware that any Anglo-American conversations other than the frequent telephone talks between Bolton and Knoke were going on at the present time. The real problem, Trip insists, is between Great Britain and the United States. Should these two powers (omission) that they are in unison on the gold problem, then harmonious programs could more easily and more consistently be followed by the smaller nations. The United States, he believes, should now press the British to reveal what their intentions are on this matter.

In Trip's judgment the assurances which British leaders have given to Parliament on monetary policy have been even less precise and effective than the statements made by American officials. He is not so optimistic as to believe that the United States could influence the British to definite monetary stabilization by pressing its views at the same time that the Dominions are urging Great Britain toward a return to gold; but he is convinced it would be most helpful to have a joint statement from the two powers or simultaneous statements embodying coordinated policies upon their readiness to take all offered gold at such rates as have obtained since the signing of the Tripartite Agreement. Should the two main parties desire it, he would be
entirely

- 2 -

entirely in favor of the other four "club" countries reaffirming their pledges. However, Trip is desirous of seeing any new statements from the two or six countries indicate that after these months of experience, assurances of stability beyond 24 hours could be given by the monetary authorities. The six countries should be able now to progress a step beyond heretofore "overnight" programs, even though these countries, especially in view of the unsound financial future of France, are perhaps not yet able to pledge return at fixed parities to an international gold standard. Such a policy is in line with the belief shared by Trip and some of my other central banking contacts that real stability in currencies will come gradually by growth and not through one big act at a conference of all the countries.

The technical facilities afforded the Netherlands under the "club" arrangement Trip finds are more useful than he originally anticipated. The Dutch will continue to work the club rules and spirit. However, Trip urges the United States to make the union more real and vital through letting the world see that when a problem comes up to which they (omission) as the gold question has quickly grown to be, the parties will consult and take action after discussion of the problem. Now that production has been geared up to such a pace Trip will not admit that the problem will work itself out.

- 3 -

Three reasons were given by Trip for his view that the time is propitious for us to talk to the British; (1) the gold-producing Dominions are themselves concerned over achieving a stable market; (2) British business circles are generally dissatisfied with the policies of the British equalization fund; (3) the London financial press's attack in this regard. As to the last-mentioned, the financial news in particular has been criticising Norman, Phillips and Siepmann by name and both in the degree to which the Government is being pressed for report in full as to its monetary policies, (omission) (omission) by planning to pose on Tuesday a number of pertinent questions in Parliament.

Thus Trip believes it is desirable to have eventual regulation of gold production. In order to alleviate the present market crisis, he urges immediate cooperation between the United States and Great Britain, and proposed possibly the support of the other four countries. Trip said he would be pleased if at the same time these countries announced that they were ready to look into the question of possible control of the amount of gold to be produced.

During dinner with Trip, Mannheim telephoned to him to let him know that the French had requested him to get in touch with their Ministry of Finance regarding the possibility

REWRITE of page 3 of Sections six to nine, inclusive, of No. 741 of June 7, 1937, from the American Embassy, Paris.

Four reasons were given by Trip for his view that the time is propitious for us to talk to the British; (1) the gold-producing Dominions are themselves concerned over achieving a stable market; (2) British business circles are generally dissatisfied with the policies of the British equalization fund; (3) the London financial press's attack in this regard, and on this point the financial news in particular has been criticising Norman, Phillips and Siepmann by name; (4) the degree to which the Government is being pressed for report in full as to its monetary policies, member Boothby planning to pose on Tuesday a number of pertinent questions in Parliament.

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wealth on their part. He thinks, furthermore, that China will not be able to continue without a metallic currency, and that in the future important amounts of gold will be taken by that country.

There is encouraging improvement in the Dutch economic situation, and the banking situation is sound. The political situation is better with conservatives strengthened to such an extent that a Government more to the Right than heretofore may possibly be formed by Colijn.

On Sunday afternoon I arrived in Brussels, where on Monday I am to see Belgian officials.

END OF MESSAGE.

BULLITT.

EA:BNW

RECEIVED

JUL 8 1944

TRUSTEES DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

MEETING ON INTERNAL REVENUE MATTERS

June 7, 1937
11:00 A.M.

Present: Mr. Helvering
Mr. Russell
Mr. Sherwood
Mr. Ireys
Mr. Tarleau

H.M.Jr: What I want to find out from you people is this. We went over this once before, Mr. Helvering and I; we talked about the very oldest cases which were on our dockets - and couldn't we clean those up?

Helvering: Now, let me say to you, Mr. Secretary, that some of the oldest cases, what we refer to as the oldest cases, are cases either before the Board or courts. Now, we have a tabulation made weekly as to the cases as far as the Unit is concerned, that is, the Bureau proper.

H.M.Jr: What does it look like?

Helvering: You better explain that to him, Mr. Sherwood.

Sherwood: Mr. Secretary, if you will follow the first column to the year, those are cases of original conception, that is, cases that haven't been closed. The others, we open the cases; and you often find in this particular group cases involving evasions which are just now being discovered. These are the cases. Now, our first case is the International Paper Company; you know about it. We have the names of the others and they are under constant survey.

H.M.Jr: Well, take International Paper. Have they offered to settle?

Helvering: I gave them a final figure on Saturday - \$1,433,000. They haven't accepted it yet.

H.M.Jr: Now, that's '17; that's the 1917.

Helvering: That's one of the oldest cases.

Sherwood: '17, '18, '19, '20 - that's the only case open of original conception of those four years.

H.M.Jr: How long do they have to accept?

Helvering: This week to accept.

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H.M.Jr: And if they don't?

Helvering: Then it will go to the Board.

Sherwood: That case was not with us for a number of years, but was up in the General Counsel's office.

H.M.Jr: Which General Counsel? Here?

Sherwood: Down in the Bureau.

Russell: I imagine three or four years, wasn't it?

Sherwood: Yes

H.M.Jr: Well, that case takes care of '17, '18, '19, '20.

Sherwood: Yes, none left of the original.

H.M.Jr: Now we've got two cases in 1922.

Sherwood: I haven't been able to identify those, but I can say they are under active consideration.

H.M.Jr: Well, find out what they are, will you, and let Mr. Tarleau know what the two cases are in '22. What are the two cases in '23?

Now I'm going back to 1917; there are 89 which have been reopened.

Helvering: Well, that's claims for refunds.

Sherwood: Claims for refunds - perhaps now identification of evasion.

H.M.Jr: But if it's original it means we've opened it?

Sherwood: Original means we haven't yet closed the case.

H.M.Jr: 1917 - 89 cases pending?

Sherwood: Those are claims cases usually, where the taxpayer comes in on a new basis and claims a refund; but not cases we have reopened.

Russell: Some of them might be fraud cases.

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- Sherwood: They might be fraud cases, Charley, but that's not a reopened case, because it's just now discovered.
- H.M.Jr: Well, you've got two cases in '22, two in '23, seven in '24, 14 in '25.....
- Russell: Mr. Secretary, a lot of those cases are evaluation cases and involve such huge problems; if you sent them before the Board of Tax Appeals, you'd be lost - another one of these Huntington cases.
- Sherwood: One of the cases, the Northern States Power Company, 1924, involves examination to determine the value of property in order to determine depreciation rates.
- H.M.Jr: Which?
- Tarleau: Northern States Power.
- H.M.Jr: Look, I want these cases identified. We'll take from '17 through to '27 - there's ten years; let's take that.
- Sherwood: That won't be difficult.
- H.M.Jr: Will you (Tarleau) follow that up?
- Tarleau: Uh-huh.
- H.M.Jr: Because that whole thing doesn't include a hundred cases. That would give us, that bracket - that doesn't - oh hell, there's less than 60 or 70 cases there. I imagine some of them are repeats.
- Now, take for instance - let's go back to this fellow Ford. You hear what he said about us on the radio last night?
- Helvering: No, I didn't.
- H.M.Jr: Well, I didn't hear it, but he said what we're trying to do here through this thing is to cover up incompetency. So that's what we're up...
- Now take Mr. Ford. I was told that in '29 General Counsel's office said that his farm - he could deduct his farm.

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- Russell: That's right, they ruled on it.
- Sherwood: That's right; in the earlier years they said farm losses were deductible.
- H.M.Jr: That's years ago. Why the hell don't we get another ruling? If Mr. Ford is right, O.K., but if he's wrong let's collect. But after eight years I should think we'd know either he's right or wrong. My God, it oughtn't to take eight years; either the man is entitled to deduct for his farm or he isn't.
- Russell: We've sent back to the General Counsel for another ruling.
- H.M.Jr: When?
- Russell: Sent it up today.
- H.M.Jr: But why do you wait eight years? Why do you wait eight years to ask for another ruling?
- Russell: After General Counsel rules on a case, it's very unusual to....
- H.M.Jr: Why don't you settle with Mr. Ford and say, "Mr. Ford, you're right"?
- Sherwood: There are other circumstances there which....
- H.M.Jr: If Mr. Ford is right, it's very unfair to him.
- Sherwood: That was not what was holding up the closing of the case, Mr. Secretary - the farm losses. It is still possible to adjust those farm losses because the case was held open pending the determination of certain litigation, and that involved matters relating to foreign countries and they've just recently....
- H.M.Jr: Foreign country?
- Sherwood: Yes, some of their holdings in foreign countries.
- H.M.Jr: No, this is Mr. Ford personally.
- Sherwood: This is Mr. Ford's personal case.

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- Helvering: Mr. Secretary, the General Counsel - which isn't our present set-up at all - they cited here, I should judge, ten different cases decided by the courts in which they have ruled that these farm losses were deductible - cases they thought similar to Mr. Ford's case.
- H.M.Jr: I'm not saying whether he's right or wrong. I'm just putting myself in his place and say, if he's right, settle it, and if he's wrong, let's collect. But why wait eight years?
- Sherwood: We haven't waited for that.
- H.M.Jr: You've waited eight years to get something else?
- Sherwood: Not on the farm losses; we're not questioning that any more.
- H.M.Jr: You think his farm losses are legal?
- Sherwood: The General Counsel has told us they were.
- H.M.Jr: Which General Counsel?
- Sherwood: For the Bureau of Internal Revenue.
- H.M.Jr: Of eight years ago?
- Sherwood: Yes, sir, and cited cases, decisions by the Board of Tax Appeals.
- H.M.Jr: Now listen, I know what his farm is - and he deducts that from his personal income tax?
- Russell: That's right.
- H.M.Jr: Sounds nuts to me.
- Russell: The Board of Tax Appeals ruled the Whitney stables were deductible. We've lost more cases before the Board than we've ever won.
- Tarleau: You haven't requested another ruling on the farm loss point?

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- Russell: On the farm loss, so far as the Unit is concerned, at the moment we are prepared to concede these farm losses, except for adjustments in the losses themselves for depreciation.
- Sherwood: That's right. We agree that if that farm operates at a loss, the provable loss is deductible, and we have taken that position because of that ruling made by Sheering, who happened to be General Counsel eight years ago.
- H.M.Jr: But you just said a minute ago you asked for another ruling on this farm.
- Tarleau: Not on the farm.
- H.M.Jr: What?
- Helvering: There's other questions open. The reason the case is open - it wasn't held open on account of the farm.
- H.M.Jr: I'd like the General Counsel's office to rule on that again. I'd like this present General Counsel's office to rule again, because if a man can do that.....
- Russell: In my own mind, the Board of Tax Appeals has allowed more flagrant cases than Mr. Ford's for deductible losses - racing stables and stuff like that, people that we know are in for the sport; and the Board of Tax Appeals has allowed it.
- H.M.Jr: Well, maybe General Counsel will sustain it. It isn't only this one; I'm going to throw a lot at them. I'm going to throw these racing stables at them, see what they say.
- Helvering: In the Whitney racing stable - wasn't that decided within the last two or three years?
- Russell: Whitney racing stable, Marshall Field - I just got a few of them here that I.....
- Helvering: We're not contending they're right. We contend that's the thing we're confronted with.
- H.M.Jr: I don't care whether it's Mr. Ford or somebody else; I'd like to have a ruling on these farms and racing

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stables, and whether we should take one of them and try it out as a test case.

Sherwood: I think the best case we can submit to the General Counsel for another ruling....

H.M.Jr: A farm and a racing stable, see? Will you? I mean I don't care - take a farm and a racing stable and get some other hobbies. What other hobbies do they use?

Irey: Polo ponies and chicken farms.

Russell: Dog kennels.

H.M.Jr: Take different kinds of hobbies that people have large losses on, take a good example of each, and submit it to the General Counsel and ask for a prompt ruling. I say I don't care who it is, but just let's do it, because out of that, if they feel that we can claim - but if not, then in this pending legislation it should be so written that we can.

Tarleau: Yes, we may have to clear up the situation by legislation; it may be we're hamstrung as the laws are written now.

Russell: I've always looked at a farm loss, or a loss on a racing stable, as a question of fact, not a question of law - just a question of fact, as to whether he's operating it for business or pleasure.

H.M.Jr: Well, I went through this thing seven years ago, and I took a revenue agent all over my farm and had him there for a day; when we got through, he saw the place was a place of business, that it wasn't a hobby, that it was my business. He was convinced. Sometimes we made money, sometimes we lost money.

Helvering: I have, but not very often.

H.M.Jr: Once in a while I make a little money - hell - but you can look up my returns if you want to.

That's what I say - I mean I'd like... Look, let's submit this to Mr. Oliphant's office, General Counsel's office, see - this thing here - and then get me that \$120,000 chicken farm and a racing stable, Mr.

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Raskob's racing stable, and somebody else, see? It doesn't stand to reason that a man can lose six hundred thousand dollars a year and deduct it from his personal income tax. It just doesn't make sense. It just doesn't make sense. Huh? To me. Does it to you?

Helvering: Well, of course, in this case the degree to which the loss extends, of course, would be proportionate to the income.

H.M.Jr: I'd like those submitted to the General Counsel and tell them I'd like to have a prompt ruling.

Have you had any answers from the telegrams, or is it too early?

Helvering: We'll make up a tabulation; I think we'll have that for you in the morning.

H.M.Jr: Fine.

Russell: We have about 15 in so far.

H.M.Jr: Have you taken a look at them?

Russell: Yes, sir.

H.M.Jr: What do they look like?

Russell: Surprising how few they're reporting in the telegrams. Very surprising.

Helvering: Of course, you've only heard....

Russell: I haven't heard from the big districts yet.

Tarleau: The districts with the fewer examinations will be the first ones to report, naturally.

H.M.Jr: Have you heard from New York?

Russell: No, sir.

H.M.Jr: Chicago?

Russell: No, sir.

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H.M.Jr: San Francisco?

Russell: No - well, I can't say whether I've heard from San Francisco or not. They're coming in every 10 or 15 minutes.

Helvering: We'll give you a tabulation.

H.M.Jr: Tomorrow morning.

Russell: Only sent that wire out Friday night, Mr. Secretary - Friday at two o'clock - and Saturday was a half day, and then Sunday; and some of those districts have 20,000 returns to go through.

Sherwood: And we've searched about half of the returns upstairs; we'll complete that search today.

H.M.Jr: You want to drop over at ten, or is that too early, tomorrow morning?

Helvering: That would be....

H.M.Jr: Be too early? I'm going to leave, you see.

Helvering: When?

H.M.Jr: Some time tomorrow morning. Going to see Bob graduate.

Helvering: Well, then....

H.M.Jr: Give me a call around 9:30.

Helvering: All right. On this tabulation of these returns - I think we'll get a good many of those in.

Russell: I think most of them will be in.

Helvering: Now, this Ford case - there's other questions been holding that open, and could we just ask for a ruling on the farm loss? Is that what you want on this?

H.M.Jr: No, I'd try to get the whole thing cleared up.

Helvering: What I'm getting at, Bill, is if we get a ruling on this farm loss, are we in a position to go ahead and settle these other things?

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Sherwood: You are in a position to settle if we get a ruling on the farm loss, but we may need additional waivers to carry this over for the following year.

H.M.Jr: All right, thank you.

June 7, 1937
11:20 a.m.

H.M.Jr: Hello?

Operator: Mr. Hogate.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello?

Kenneth
C. Hogate: Mr. Secretary?

H.M.Jr: Yes.

H: I've got three little paragraphs here that I think are quite amusing, and I'd like to read them to you and have your approval if you can give it.

H.M.Jr: Okay.

H: "On the telephone with a New York friend this morning, Secretary Morgenthau revealed that he was able to spend 24 hours this weekend at his Dutchess County Farm. Because of wet weather, the Secretary complained that he hadn't been able to get his corn planted. His friend, who is also a farmer, confirmed that this had also been his experience. 'I am worrying a whole lot more about this than I am about the gold question,' said Secretary Morgenthau, 'and I think you ought to be, too.' "

H.M.Jr: Well, now listen -

H: (Laughs)

H.M.Jr: I don't - you see - I think one of the reasons why I stand half way well with the newspaper boys is I - I have never done that.

H: Yes.

H.M.Jr: I have never given special interviews.

H: Well, that's all right. I won't press you at all. I thought it was a very amusing story.

H.M.Jr: I think it's very amusing, but - I called you up to thank you. But, I've never done that, Hogate.

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H: Well, that's all right. I'm not pressing you to do it at all.

H.M.Jr: And I - I - I - it's awfully nice of you to want to do it, but if you don't mind, I'd like to beg off.

H: That's perfectly all right. You're - you're - you're the judge of it, and I thought it was an amusing thing, but if you -

H.M.Jr: Yes.

H: And it would do some good in the Street I think, but I - I realize entirely the force of your objection.

H.M.Jr: Well, thank you very much.

H: All right, sir.

H.M.Jr: Goodbye.

H: Goodbye.

June 7, 1937
11:28 a.m.

H.M.Jr: Hello?

Operator: Burgess. Go ahead.

H.M.Jr: Hello, Burgess.

Dr.

Burgess: Hello.

H.M.Jr: How does it look?

B: Well, it looks all right.

H.M.Jr: It does.

B: I've gotten reactions from a good many places. The banks will - a lot of banks will subscribe the limit on both issues.

H.M.Jr: Good.

B: I've heard at least one more insurance company, Travelers, is going in for it.

H.M.Jr: Ah-ha.

B: That's one I talked to ahead of time, you know.

H.M.Jr: Pardon me?

B: The Travelers Insurance will go in for it. I talked to them ahead of time. You remember last week.

H.M.Jr: Yes, I do.

Garner of

B: Now the Guaranty says they are getting less subscriptions from - from corporations and other customers than usual. They think it has been largely taken by banks.

H.M.Jr: Ah-ha.

B: He says that the banks he talked to are going in for both issues for the limit.

H.M.Jr: Ah-ha.

B: Now we're getting a lot of calls from - from security houses and other people around here -

H.M.Jr: Yes.

B: - all of whom want to go in for the limit.

H.M.Jr: They do.

B: They're the ones that we keep the roof on for, you know.

H.M.Jr: I see.

B: Now, for example - there is Lehman Corporation - Lehman Brothers.

H.M.Jr: Yes.

B: They want to subscribe for 10 million. We cut them down to 5 in December.

H.M.Jr: Yes.

B: I told them that if they could tell me that their net worth was more than 10 million, they could subscribe for 10. And they called me back and said it was, so they're subscribing for 10.

H.M.Jr: Ah-ha. Of which issue?

B: Well, I didn't ask them that.

H.M.Jr: Ah-ha.

B: Now the R. D. Reynolds Manufacturing Co. - that's the tobacco people -

H.M.Jr: Yes.

B: They want to subscribe for about 10 million.

H.M.Jr: Yes.

B: 50-50 of each issue.

H.M.Jr: Ah-ha.

B: And they showed us their figures and that's all right.

H.M.Jr: Good.

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- B: And we're getting a number of -
- H.M.Jr: Well, isn't that rather unusual?
- B: No, I wouldn't say so. No, I think the long one will go almost as well as the short.
- H.M.Jr: I was going to ask you - are they showing any preference?
- B: Well, some preference. Some of the banks - the Guaranty, for example - I think will subscribe more for the short than for the long.
- H.M.Jr: Yes.
- B: But I think there's more of a ride, of course, in the long ones.
- H.M.Jr: Of course. We knew that.
- B: I think that will largely offset -
- H.M.Jr: Well, we knew that.
- B: Yes. Well, that's what we relied on.
- H.M.Jr: How much premium does the short one look like today?
- B: How much what?
- H.M.Jr: What are they figuring the premium is in the short one?
- B: Well, it's only - it's down only about 2/32nds, you know.
- H.M.Jr: What does that make it, 10 or 12/32nds?
- B: Oh, well I would say about 10 on the short and about - oh, I don't know - 20, something like that on the long.
- H.M.Jr: Ah-ha.
- B: ; But you can't figure them. It's just anybody's guess on it - how it will work out. It won't be quite that much.

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H.M.Jr: But it's going along as usual?

B: As usual - yep. Going very nicely.

H.M.Jr: Righto.

B: I'm perfectly confident about it now.

H.M.Jr: You are.

B: Yep.

H.M.Jr: Good. Well, I - I'll wait a little longer. I mean I'm confident but -

B: (Laughs) You won't throw your hat up in the air just yet.

H.M.Jr: No.

B: No. Well, I wouldn't do that yet.

H.M.Jr: All right.

B: (Laughs) All right.

H.M.Jr: Thank you.

MEETING RE HOUSING

June 7, 1937
11:30 A.M.

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

H.M.Jr: Well, in the first place, before you tell me how you're going to build the houses cheaper, what's the answer to Mr. Wagner's statement that seven dollars just won't help at all?

Gray: Well, here's a report from Langdon Post, New York Housing Authority, to the Mayor:

"There are in New York City more than 468,000 families paying rentals between \$5 and \$10 per room per month, in addition to accomodations."

H.M.Jr: How much?

Gray: From five to ten dollars per room per month.

"Only those who pay a monthly rent of over \$14 per room can be taken care of by new private construction. Our primary concern should be to house the people who can pay \$8 per room per month or less. There is a critical shortage in dwellings of all types, and it has now reached the point where practically no dwellings which can be considered safe and habitable are available under \$8 per room per month."

H.M.Jr: How much?

Gray: Eight dollars. That's the bottom that can be obtained in New York today.

This was gotten up very hurriedly this morning - reports of New York Housing Authority - examination of the New York housing situation.

H.M.Jr: O.K.

Gray: On the Williamsburg project, those people before were paying, including the figured cost of heat and hot water - those people were paying \$6.60 per room

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per month on the site of Williamsburg.

H.M.Jr: Say that again please.

Gray: Evaluating the cost of heat and hot water, which we are furnishing in the rents, see, at \$7 per room...

H.M.Jr: Yes. .

Gray: ...those people in the Williamsburg slum were paying \$6.60 per room per month. But we cleared the slum out and we're charging them \$7.

H.M.Jr: Now let me get this. They were paying \$6.60. Are they getting any more for their money now?

Gray: At \$6.60 they would have gotten heat and water - evaluated cost. But of course, they get, as you see, the opened-out air, sunlight, all that sort of thing.

H.M.Jr: Oh yes. Now, what rabbits you got to pull out of your hat?

Gray: Got a good one.

H.M.Jr: Who's going to shoot it?

Gray: Mr. Foley.

West: Bragging about it all the way over.

H.M.Jr: Now, what did you want me to read first, gentlemen? The long or the short?

Foley: The one in your left hand first. The only thing that is new - if you'd rather have me talk for a minute first....

H.M.Jr: I'll take it any way.

Foley: Just supposing I talk just a minute. Then we'll read it.

As I understand, Senator Wagner's objection to your proposal that a lump sum 60 percent grant be given to these housing authorities, is that it will

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not achieve rents low enough to make it feasible for the Federal Government to go forward with the low-rent housing program. His financial subsidy formula actually provides a 108 percent capital subsidy, and is objectionable from your standpoint for two reasons: One, because of the indirect financing features involved - the guarantee by the United States of obligations of the housing authority which are issued in the first instance to raise a billion dollars; and second, because it commits Congress to appropriate money over a period of 60 years, which you think is unsound.

I have tried here to bring about an adjustment of the two points of view by eliminating entirely from the Wagner proposal your two objections and retaining the features of the Wagner proposal that we can recognize as good. Now, the difference between the - the principal difference between the plan that you proposed to Senator Wagner last week and the plan that we are proposing here is that you get eventually a subsidy of somewhere around 85 percent, which is half-way between his 108 percent and the 60 percent.

- H.M.Jr: You got it up to 85 now?
- Foley: Yes.
- McR: Federal subsidy.
- Foley: Federal subsidy of 85 percent, and that is cheap in this way.
- West: This is the white rabbit.
- Foley: We assume a project of a million dollars.
- McR: You've got a million dollar formula of your own now.
- Foley: Yes, a million dollar formula of our own.

The United States would make a loan to the New York City Housing Authority of a million dollars at $2\frac{1}{2}$ percent interest, the loan to be amortized serially over a period of 60 years. That means that over that period the New York City Housing Authority would pay to the United States a million dollars in principal and \$947,810 in interest.

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H.M. Jr: How much?

Foley: At 2½ percent, \$947,810. So that at the end of the 60-year period, the United States would have \$1,947,810. The United States could enter into a rent subsidy contract with the New York City Housing Authority whereby it would pay \$27,500, which is 2¾ percent of the capital cost of the project, over a period of 60 years, which is \$1,650,000, from that revolving fund where the \$1,947,810 is accumulated. So that at the end of the 60-year period the outgo from the revolving fund would be \$1,650,000 and the income in the revolving fund would be \$1,947,810, or a surplus there in the revolving fund at the end of the period of \$297,810.

H.M. Jr: And washing it all up, it means what - 85 percent?

Foley: And washing it all up means 85 percent subsidy instead of 108 percent, no indirect financing, and no pledge of Congress to any appropriation.

H.M. Jr: And that would bring your room from seven....

Foley: That would bring your room rents from \$7 to \$5.70 in Harlem.

H.M. Jr: Now listen, gents, this is my position. The President asked for a financial formula. I gave it to him, see? On this basis the - you'll end up with a hundred percent thing. I got a lot of work to do, and I did what he asked me to do, gave him a formula. My chief objection to a financial - as finance officer is - when I see him today I'm going to beg him to release me from this thing, see, and let him put anybody on it he wants to, because I've got a lot of other things which I'm responsible for, which I can't do if I'm going to fool around with this housing. And I'm not - if you don't mind, I don't want to present this to him. We'll keep it and mark it "X - here lies the body." But - and I'd just like to talk to you a minute, Charley. He asked me to give him a financial formula. Now, out of friendship, I never dared show this (President's own formula) to Senator Wagner -

friendship for the President, see? I never showed this to him. I just simply say, "Well, here's your formula, Mr. President; I'll take that." And so what? "I'll take this." See? Now, I've given him one which I think any reasonable person, from the financial standpoint, would say, "All right" to.

West: Uh-huh.

H.M.Jr: And he on this thing - I mean he said, "Well, if anybody can't build a house on that basis, he's crazy."

West: Uh-huh.

H.M.Jr: But I'm not going to get into any argument with these housers. I mean Nathan Straus was in here - "\$12 per room wouldn't be a good investment?" I said, "Sure it would be a good investment. But what do you think we can expect, building and contributing toward its maintenance?" He said, "A dollar to a dollar and a half per room." I had great difficulty getting him to admit that. In other words, if they could contribute a dollar, dollar and a half, that anything between that and what it cost to pay the interest and the amortization he wants the Government to give. That's another way of approaching it, isn't it, huh? Some people don't think they can contribute a dollar and a half.

Gray: Well, what you're going to get out of these local contributions from local people is the moot point today.

H.M.Jr: What I mean - you take a building, tax-exempt. Federal Government lends the money. After you've paid for the maintenance charge, he says it costs about \$4 to run it; he says there will be a dollar and a half left after you maintain your building.

Gray: I couldn't - I'd have to have the figures on a specific project - very elaborate computation.

H.M.Jr: That's the highest. Do I make myself clear? That's a high figure, though, isn't it?

Krug: That is not far off, probably.

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- H.M.Jr: Well, let's say he's right - a dollar to a dollar and a half after maintenance, whatever the cost per room for the interest and the amortization - he wants the Government to make up the difference, which is another way of approaching it.
- Foley: That's right.
- H.M.Jr: But I'm not going to fight this battle, because I don't think it is my job and I've got too many things which the President gives me. We've got this tax thing which is thrown in our lap unexpectedly, which is a terrific - we're going up against the smartest people in America. We've got millions of dollars at stake. We're trying to get ready for that. I've got a lot of other things, just straight Treasury matters, and I think I've done what he asked me.
- West: Oh yes.
- H.M.Jr: My suggestion is that we turn this thing over to you fellows, let you battle with Wagner, let you fight it out. I mean that's going to be my suggestion. Just as soon as they get into this whole question of brick and mortar and land and taxes and rents, and all that stuff, I'm sunk.
- West: Well, your proper service has been performed when you submit a Treasury formula - financial formula.
- H.M.Jr: Which I did.
- West: Which you have done.
- H.M.Jr: I gave it to him Thursday and he liked it. And then Friday he had Bob Wagner for lunch.
- West: How did Bob react to this Friday at lunch?
- H.M.Jr: The President said he said it wouldn't work.
- West: Your plan wouldn't work?
- H.M.Jr: Well... (On phone) Senator Wagner please. Simply said \$7 a room is ridiculous; it doesn't serve any purpose. Well, I think he's all wrong; I think

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he's all wet. If I want to get in an argument, I can get into a lot of arguments. All right - well, the administration made the statement "Give everybody who wants a job in America a job." Did we do it? What? We did not.

West: Never did do it.

H.M.Jr: Well, I mean if we're going to house one-third - my feeling is we're approaching this thing. You've got a mechanism here now; why scrap this mechanism?

West: You can't do the thing overnight.

H.M.Jr: And we've made a lot of statements.

West: But you're approaching it, and if you approach the solution of the problem with a formula that is sound, which will accomplish the objective, then the volume isn't important; it can't be done overnight. You've started on the right course. Isn't that right?

H.M.Jr: I'm a much better friend of housing than some of these fellows, because, look, as a result of Resettlement - will they ever build another one of these communities?

West: They've got the thing discredited because of the weakness of the financial formula.

H.M.Jr: Of course they have.

West: Now, if you have a sound financial formula.....

H.M.Jr: Harry Byrd - the attack that he's going to put on these Virginia things - it will be most likely another decade before they can ever do another thing. On this basis they can go ahead.

Hello (On phone; conversation with Keyserling, Senator Wagner's secretary, follows)

June 7, 1937
11:56 a.m.

H.M.Jr: Hello?

Operator: Senator Wagner is in a committee meeting. Mr. Keyserling is on the phone.

H.M.Jr: Let me talk to him.

Operator: Go ahead.

H.M.Jr: Hello, Mr. Keyserling.

Keyserling: Good morning.

H.M.Jr: Morgenthau.

K: Yes.

H.M.Jr: As I understand it when the Senator left here - was I to hear from him?

K: My understanding of it was that he was to get in touch with you just as soon as he studied the proposal.

H.M.Jr: That's right.

K: Now he's been in New York and he just got back today.

H.M.Jr: I see.

K: At about - well, he just got back a little while ago.

H.M.Jr: Yes. Well, I'm here.

K: Well, I'll - I'll tell him as soon as he comes back to the office. He's gone over to a committee meeting.

H.M.Jr: And I'm leaving here tomorrow about noon to go up to see my son graduate from school.

K: I see. All right; I'll tell him then, Mr. Secretary.

H.M.Jr: Thank you.

K: Thank you very much.

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H.M.Jr: He's to get in touch with me.

No, I'm a much better friend than some of these people are, because this thing here - all the people, real estate and all the rest of those people that..... We're moving in the right direction and I'm satisfied to get this thing rolling. And after a while they can find enough money. But to do the other thing - what will happen, it will just be another Resettlement.

West: Surely.

H.M.Jr: I mean that's what I think.

Gray: \$5.70 is an awful low rent in New York City, including heat and hot water.

H.M.Jr: Why don't they put a little - why charge this all on housing? You see, that's why - why not do something about the wage scale and make it possible for these fellows to earn a little more money and pay a decent rent? I mean there's more crooked thinking and intellectual dishonesty on this thing than almost anything that I have ever been on. And it's taken McReynolds and me all this time to take off the cobweb and pull it aside and get to the bottom of it. God, you can't charge housing on the Treasury when the fact is that the poor devils don't earn more than a thousand dollars a year.

West: Well, they're ignoring the realities in the situation - is what they're doing.. The greatest service, the good service, that you can render to a sound housing program is to furnish them with a formula - financial formula...

H.M.Jr: ...which will stand up.

West: Which will stand up and which will approach the problem from the correct point of view.

H.M.Jr: Well, what I'm going to do - I'm going to tell him, "Boss, this is the best I can do. I don't say somebody else can't do better. But when it comes to sitting down and arguing with Keyserling and those boys, I think you ought to take the PWA housing group

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and put them up against it." I'm going to tell him that you know all about this thing.

West: I think we ought to be ready to undertake the job. We're explaining this and justifying it; I think we can. I think these gentlemen here know their job and know it well and can substantiate the propositions that they have made. Now, they've had three years of experience with the thing.

H.M.Jr: They've made a lot of mistakes, they must admit.

West: They admit it and are trying to correct those by adopting now the kind of program that will realize the objectives of sound housing.

H.M.Jr: Well, the President said, "Now, we don't want to start another Greenbelt and all that sort of stuff. We want to get that down to the five dollars per room."

Gray: Our figures show over there a cost of around nine or ten thousand dollars per room, including the relief labor, and rents - last time I was out there they had no rent schedule.

H.M.Jr: That's what I'm going to tell him. What happens I don't know, but I got my Dutch up on this. And if you (Foley) don't mind, I'm not going to show him your....

Foley: Well, Mr. Secretary, I want to make my position clear. I'm only trying to help, and I - here's something - if your proposal was entirely unsatisfactory to Senator Wagner and you still wanted to keep the thing alive and you wanted to try to adjust the differences, this is another approach. That's all I'm trying to do. I don't want to influence.....

McR: We're giving another 25 percent. We gave away an additional 25 percent; now you're giving them another 25 here and...

H.M.Jr: You're going to end up with a hundred percent. The thing I want to get the President to say, which he hasn't said yet, is, "No annual contributions." That's what you call them, don't you?

Foley: That's right.

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- H.M.Jr: See?
- West: We've gone into the thing; we can substantiate the proposition that we worked out with you the other day.
- H.M.Jr: You (West) have learned something about it too.
- West: Surely.
- H.M.Jr: You haven't put so much time on it.
- West: On the other bill all I did was to manufacture the legislation after the decisions had been made with reference to the provisions. My job has not been to go into it as an expert and determine what should be the substance of housing.
- H.M.Jr: Charley - I can talk in front of your own people - now, this Public Works bill isn't through yet, is it? Is there a Public Works bill?
- West: It's up in the House today.
- H.M.Jr: Has it gone to the Senate?
- West: No, it hasn't gone to the Senate.
- H.M.Jr: Now, supposing - I don't suppose it would work; Wagner wants a bill with his name on it. What I was thinking - could they "phenagle" some of this into that bill before it's passed?
- West: This can go through the House; no reason why it couldn't be amended.
- H.M.Jr: But it wouldn't be a Wagner-Steagall housing bill.
- West: No, it would just be a bill in extension of the PWA with a Senate amendment on housing which Wagner could put in.
- H.M.Jr: Well, if Wagner doesn't like it but he is convinced that we're sincere about it, maybe he'd rather let it go through this way than put his name on it.
- West: That is possible. That would be the quickest way, from the parliamentary viewpoint, of doing it.

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- H.M.Jr: I'd say, "I'm going to give you the \$7, Bob. We can't do this thing overnight, and we're slipping it through on that basis." Get just this thing in here, what we're talking about - right to sell and the bonds, everything that's in this first memorandum, put it in a PWA bill, and if Bob doesn't want his name on it, do it that way. Had you thought of that?
- West: No, I hadn't just thought specifically of that way, but Henry, that's a good way of doing it.
- H.M.Jr: If he's going to be pig-headed about it, put it through that way. You can't get through the other one.
- West: Don't you (Foley) think that would be a practicable way of doing it, that is, on the PWA extension? You know the substance of that.
- Foley: Well, Charley, I feel this way about it. That PWA extension bill has got to go through before the 30th of June in order to save those appropriations.
- West: Well, that's true.
- Foley: In order to meet our payrolls. Now, I wouldn't want to tie anything onto that independent bill that would be controversial and hold it up.
- H.M.Jr: Well, you people think it over.
- Foley: We could make it an independent bill.
- H.M.Jr: Then it would be a Wagner-Steagall bill. You can't slap - that would be a slap in the face.
- Gray: If you stop that extension bill, you stop all our housing under construction now.
- H.M.Jr: I grant you that's very important. You don't care to inject something of such a controversial nature.
- West: Henry, that has to be through, see, by....
- H.M.Jr: That's what I say, think it over.

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- Foley: Probably want to hold hearings on it, you see, and I'm afraid it would hold up the bill.
- West: Well, they would want to do it that way. It wouldn't be necessary, however. It would be germane, because of the fact that housing is now in PWA.
- H.M.Jr: Charley, think it over. I'll give you a ring after I've had lunch over there.

REVISED PROPOSAL FOR 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 reorganization of the executive departments of the government.

2. Loans and Grants - Local Contributions. Annual contributions of not to exceed $\frac{1}{4}$ of 1% above the going Federal rate of interest should be authorized, instead of the contributions which would now be permitted by the Wagner-Steagall Bill in the amount of 1% above the going Federal rate of interest. The purpose of such annual contributions would be to aid the local housing authority to meet its annual payments on account of the original and operating cost of its housing projects, so that rents may be charged which are within the rent-paying ability of the low-income group intended to be served by this program. However, this system of annual contributions should be authorized in such a manner as to conform to the fiscal policies of the Government. Therefore, the amount of new grant contracts which the Administration could make in any one year should be limited to \$5,000,000 instead of \$10,000,000 (which is the amount now permitted by the Wagner-Steagall Bill), the unutilized balance of the authorization to be cumulative. No new grant contracts should be permitted after June 30, 1940. These grants should not be payable from future appropriations but should be met out of a revolving fund consisting of the bonds of local authorities purchased by the Administration and of collections on such bonds.

The bill should also require that the Administration adopt regulations, with the approval of the President, fixing the maximum contributions available under different circumstances, giving consideration to cost, location, size, rent-paying ability of prospective tenants or other factors bearing upon the amounts and periods of assistance needed to maintain low rentals. These regulations would make it possible for the President to assure that the amount of subsidy granted for any particular type of project would not exceed the amount needed to permit the operation of the project for the benefit of the low-income group. Pursuant to such regulations, the maximum contribution could be limited to the larger Northern cities where construction and operating costs are so high that such a subsidy is needed in order to make possible rents within the financial reach of those who now live in the slums.

As a condition to such Federal aid, the bill would require that the proposed project be given full exemption (or its equivalent in the form of free services, donations or other aid) from state and local taxation,

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although not from special assessments and customary service fees. Such tax exemption or its equivalent 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 the going Federal rate of interest. 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. A system of annual contributions would provide an effective means of control, for such contributions would be continued only so long as the project is operated for the benefit of the low-income group. The bill would contain express provisions for reducing or terminating the annual contributions for any project in the event that the rents of the project are increased so that the dwellings are withdrawn from the financial reach of families of low income or in the event that families are accepted who are not within the low-income group.

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 their fair value for housing purposes and to accept the bonds of public housing agencies in payment of the purchase price. Such projects would then be eligible for annual contributions on the same basis as other projects. 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 plus such additional amounts as the Administration shall determine are consistent with maintaining the low-rent character of the housing project.

5. Financial Provisions. The Administration should not be authorized to issue its own bonds. Instead of the \$1,000,000,000 of guaranteed bonds which the Wagner-Steagall Bill now authorizes, the bill should 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

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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. 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 in a revolving fund, until expended. The Administration should be required to create and maintain adequate reserve accounts in the revolving fund so as to assure that it will be able to meet its annual contributions as same accrue.

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.

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ILLUSTRATION SHOWING OPERATION OF REVISED PLAN
OF FINANCING FEDERAL HOUSING PROGRAM

The proposed revised plan of financing the Federal housing program differs from that provided by the Wagner-Steagall Bill in the following respects: (1) the annual contributions would be made in an amount of not to exceed $\frac{1}{4}$ of 1% above the going Federal rate of interest, instead of annual contributions in the amount of 1% above the going Federal rate of interest; (2) the amount of the grant contracts which the Administration could make in any one year would be limited to \$5,000,000 instead of the \$10,000,000; (3) no new grant contracts would be permitted after June 30, 1940; and (4) the annual contributions would not be payable from Federal appropriations, but would be met out of a revolving fund consisting of the bonds of local authorities purchased by the Administration and of collections on such bonds.

Example of how this revised plan of financing would operate:

Assuming a project cost of \$1,000,000, the Administration would make a loan to the local authority of \$1,000,000 at not less than the going Federal rate of interest. In addition, the Administration would enter into a contract with the local authority in which it would agree to make annual contributions for a period of not more than 60 years. However, Congress would not be committed to make future appropriations to meet these contributions, as the Administration would be required to pay these contributions out of its revolving fund consisting of the bonds which it purchases from local authorities and the collections thereon. Thus, in this particular case, the Administration would hold in its revolving fund \$1,000,000 of bonds of the local authority, with serial maturities running over a 60 year period. It could use part of the money which it collects as principal and interest on these bonds in order to meet the annual contributions which it agreed to make for the projects.

The maximum annual contributions which the Administration could agree to pay to the local authority would be $\frac{1}{4}$ of 1% above the going Federal rate of interest, which would now amount to 2 $\frac{3}{4}$ % of the project cost or \$27,600 per year. The total of such annual contributions over a 60 year period would be \$1,650,000. Meanwhile, the Administration will collect on its \$1,000,000 loan, the sum of \$1,947,810, so that it would have a net balance of \$297,810 remaining after paying the annual contributions from the receipts on its loan. This transaction may be summarized, as follows:

| | |
|--|------------------|
| Total collections for principal and for interest at 2 $\frac{3}{4}$ % during 60 year amortisation period, based on equal annual payments for principal and interest: | \$1,947,810 |
| Total annual contributions at maximum rate of 2 $\frac{3}{4}$ % for maximum period of 60 years: | <u>1,650,000</u> |
| Net receipts of Government on loan after paying annual contributions therefrom: | \$ 297,810 |

The foregoing illustration is based on the payment of the maximum subsidy for the maximum period. Where a lesser subsidy is paid (which would be true in many cases), the net receipts to the Government would be greater than the amount indicated above.

Local Contributions: In order to be eligible for Federal contributions, the local authority must make a contribution of full tax exemption or its equivalent in the form of annual free services, donations or other aid. The value of such local contributions may be seen from the following figures showing what full taxation would mean on housing projects located in four different cities:

| Name of City and Project | Cost of Project | Full Amount of Annual Tax | Amount of Tax per Room per Month | Amount of Annual Tax in Terms of a Percentage of Project Cost. |
|--------------------------------------|-----------------|---------------------------|----------------------------------|--|
| Chicago, Ill. Trumbull Park Homes | \$3,031,000 | \$75,093 | \$3.60 | 2.5% |
| Cambridge, Mass. New Towne Court | 2,478,000 | 76,198 | 5.42 | 3.1% |
| Cincinnati, Ohio Laurel Homes | 7,104,000 | 19,773 | 2.97 | 1.68% |
| Birmingham, Ala. Smithfield Court | 2,534,450 | 54,774 | 3.78 | 2.16% |

Thus it is apparent that the local community will be making a substantial annual contribution toward the operation of housing projects on a low-rent basis.

Effect of Proposed Additional Subsidy on Rentals and Tenancy. This revised plan of financing would permit a larger subsidy than the 60% grant contemplated under the former proposed plan of financing. The result of the increased Federal subsidy in terms of reduced rentals and lower income group reached may be seen from the three following examples:

| | Rentals Based on 60% Grant | Rentals Based on 2% Annual Contribution for 60 Years | Hypothetical Family Income for Different Sizes of Families Based on Expenditures of 1/5 of Family Income for Rent, including Heat and Hot Water | With Rents Based on 60% Grant | |
|--|--|--|---|--|--|
| | | | | With Rents Based on 2% Contribution for 60 Years | With Rents Based on 2% Contribution for 60 Years |
| New York, Harlem River Houses | Dwelling \$5.88 Heat and Hot Water 1.22 \$7.10 | \$4.48 1.22 \$5.70 | 2 person families \$1230 or \$1350 3 " " 1350 or 1560 4 " " 1560 or 1740 5 " " 1560 or 1740 6 " " 1740 7 " " 1740 | \$ 990 or \$1085 1085 or 1250 1250 or 1395 1250 or 1395 1395 1395 | \$1085 1250 1395 1395 |
| Atlantic City, N.J., Stanley S. Holmes Village | Dwelling \$5.51 Heat and Hot Water 1.19 \$6.70 | \$4.44 1.19 \$5.63 | 2 person families \$1245 3 " " 1245 or \$1570 4 " " 1570 or 1890 5 " " 1570 or 1890 6 " " 1890 7 " " 1890 | \$1045 \$1045 or \$1320 1320 or 1590 1320 or 1590 1590 1590 | \$1320 1590 1590 |

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| | | | | | | |
|--------------------------|-------------|-------------|-------------------|--------|----------------|----------------|
| Indianapolis, Dwelling | \$4.92 | \$4.11 | 2 person families | \$1190 | \$1035 | |
| Ind., Rockfield Heat and | | | 3 " | " | 1190 or \$1480 | 1035 or \$1285 |
| Garden Apts. Hot Water | <u>1.27</u> | <u>1.27</u> | 4 " | " | 1480 or 1660 | 1285 or 1440 |
| | \$6.19 | \$5.38 | 5 " | " | 1480 or 1660 | 1285 or 1440 |
| | | | 6 " | " | 1660 | 1440 |
| | | | 7 " | " | 1660 | 1440 |

These examples have been picked for the purpose of showing the effect of the proposed larger Federal subsidy on the rentals and tenancy of projects located in large Northern cities where construction and operating costs are highest. It is evident that the proposed additional subsidy would make it possible to fix substantially lower rentals and consequently to reach a lower income group.

June 7, 1937.

MEMORANDUM:

TO: The Director of Housing
FROM: Acting Chief of Branch 5 - Management
SUBJECT: New York City Rents

I am listing below highlights of all available information in the Division on the need for housing, giving the source of the information and the rents quoted for families who need to be replaced from sub-standard housing accommodations:

I Source: Memo from Chief of Tenant Relations, N.Y.C. Housing Authority to Langdon Post, September 25, 1936.

1. Since the tenants for the Ten Eyck Houses will be drawn from the slum areas of the city as a whole, the need for such accommodations at a rental between \$6.00 and \$8.00 per room per month is obvious.
2. The need for new housing in Harlem in the \$6.00 to \$8.00 bracket is more pressing than ever before.

II Source: Report of January 25, 1937, to Mayor LaGuardia by the N.Y.C. Housing Authority.

1. "Only those who could pay a monthly rent of over \$14.00 per room were taken care of by (new) private construction."
2. "Those who paid about \$10.00 had. . . an intermittent flow of older dwellings (cast-off) obsolescent but still usable."
3. "The primary concern should be to reach the people who can pay only \$8.00 per room per month or less...."
4. "The testimony adduced after hearings and the data examined by the Authority disclosed that a critical shortage appears to be rapidly developing in low rent dwellings of all types, and that it has now reached the point where practically no dwellings which can be considered safe and habitable are available under \$8.00 per room per month."

III Source: Application of the N.Y.C. Housing Authority for the Queensbridge project.

1. "There are in N.Y.C. more than 468,000 families paying rentals of between \$5.00 and \$10.00 per room per month. A large majority of these families live in ancient, obsolete, sub-standard structures located in slum areas and it is impossible for them to obtain shelter within this price range that can, in any sense, be called decent. It is a well known and established fact that even with such maximum help as has been given private enterprise in the form of tax exemption, decent housing below \$10.00 per room in N.Y.C. cannot be provided at this time or in the future."

IV Source: Real Estate Analyst.

1. A comparison of the average advertised rents for the first five months of 1936 and 1937 for all housing in New York City (includes both sub-standard and standard) shows an average increase of 13.3 per cent.

| | Heated Apt. Units P.R.P.M. | Single Family Dwel. P.R.P.M. |
|------|---|---------------------------------|
| 1936 | \$17.59 | \$11.61 |
| 1937 | 19.05 - 8.3 % increase 13.73 - 18.3 % increase | |
| | Average increase 13.3 % | |

V Source: Memo to the Administrator justifying the Harlem rents, dated March 19, 1937.

1. A study of approximately 5,000 applicants indicates that with rents at \$7.00, 50 per cent of all applicants would be eligible on the basis of income.
2. The N.Y.C. Housing Authority in a letter dated March 12, 1937, has recommended rents of \$8.55 (consisting of \$7.10 dwelling rental including heat and hot water and \$1.45 utility charge)

VI Source:

June 7, 1937
11:56 a.m.

H.M.Jr: Hello?

Operator: Senator Wagner is in a committee meeting. Mr. Keyserling is on the phone.

H.M.Jr: Let me talk to him.

Operator: Go ahead.

H.M.Jr: Hello, Mr. Keyserling.

Keyserling: Good morning.

H.M.Jr: Morgenthau.

K: Yes.

H.M.Jr: As I understand it when the Senator left here - was I to hear from him?

K: My understanding of it was that he was to get in touch with you just as soon as he studied the proposal.

H.M.Jr: That's right.

K: Now he's been in New York and he just got back today.

H.M.Jr: I see.

K: At about - well, he just got back a little while ago.

H.M.Jr: Yes. Well, I'm here.

K: Well, I'll - I'll tell him as soon as he comes back to the office. He's gone over to a committee meeting.

H.M.Jr: And I'm leaving here tomorrow about noon to go up to see my son graduate from school.

K: I see. All right; I'll tell him then, Mr. Secretary.

H.M.Jr: Thank you.

K: Thank you very much.

June 7, 1937
3:10 p.m.

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H.M.Jr: Hello?

Operator: Dr. Burgess. Go ahead.

H.M.Jr: Hello?

Dr.
Burgess: Hello, sir.

H.M.Jr: Well, I'm accepting congratulations.

B: Well, sir, I - I send you mine most fervently.

H.M.Jr: Thanks. It looks swell.

B: It looks perfectly grand.

H.M.Jr: Yes.

B: Have you got figures for the country yet?

H.M.Jr: Kilby's here. At 2:00, the short note, 812;
the long, 932.

B: Well, that means we were about 50 - we were about
50%, weren't we?

H.M.Jr: 60 to 70.

B: Well, we are a little faster, of course, on getting
them in.

H.M.Jr: Any - any of the big banks didn't come in?

B: No; no. Haven't gotten very big ones from the
Guaranty yet, but I don't know whether they will
bring one in yet or not.

H.M.Jr: How late are you staying there?

B: Well, I'm - I'm taking a train to Washington you
know.

H.M.Jr: No, I didn't know that.

B: We have open market committee tomorrow there.

H.M.Jr: Yes.

B: And I'm leaving here in about an hour.

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H.M.Jr: Oh.

B: That's five o'clock our time - four o'clock yours, unless there's some good reason you want me for.

H.M.Jr: No. When - when - who can I talk to after you've left?

B: Madison.

H.M.Jr: Well, you're going to keep him there, aren't you?

B: Oh, yes, they'll be here until late tonight.

H.M.Jr: Yes, because I'm going to have a press conference at 5:30, which is 6:30.

B: Oh, yes. Well, we'll - they'll - they'll be here right through.

H.M.Jr: Wait a minute. I got a policeman standing next to me. He wants to talk to you.

B: (Laughs)

Dan
Bell: Hello, Doc.

B: Oh, hello Dan.

Bell: Do you think it is necessary to send out any instructions this time on policing?

B: Well, we're doing it, Dan.

Bell: Well, I assume they'll all do it without any instructions following the May 6 letter.

B: It isn't as bad as it has been at times.

Bell: Yes.

B: We're inclined not to do it, unless it look too bad, and assuming that the banks would follow previous instructions.

B: Why don't you send out a telegram to that effect on policing - please follow instructions as last December. Just something like that, so that it

will remind them that the job is to be done.

Bell: Well -

B: I'm afraid some of these fellows if they see any possible excuse will - will let some of these subscriptions in that should be examined, you know.

Bell: Yes; yes. You are doing it, eh?

B: We want to keep up the thing consistently, but I think you could do it very briefly that way without going into detail.

Bell: Yes. Just refer to last December's wire and the letter of May 6.

B: I know some of these fellows are very fearful of going ahead and doing anything beyond their instructions.

Bell: I see.

B: They're - they're a little timid about it.

Bell: Ah-ha. All right. Well, I'll see you tomorrow.

B: All right. I have some later figures here if the Secretary wants them.

Bell: All right. What are they?

B: About 800 million on the short and a billion on the long.

Bell: You don't know what your previous figures were?

B: Well, when - when did we give you the figures last?

Bell: 2:00.

B: Oh, well, yes - this is twice those.

Bell: Double, eh?

B: Just about double. Yes; just about double.

Bell: All right.

B: There's some more coming in. Socony-Vacuum for 50 million.

Bell: Oh, is that right?

B: Yes.

Bell: Good.

B: And a number of others.

Bell: Ah-ha. All right, Doc. Thank you.

B: Right.

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4

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Bell: Good.

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B: Right.

June 7, 1937
3:20 p.m.

H.M. Jr: Hello?

Operator: Mr. West. Go ahead.
Charles
West: Hello?

H.M. Jr: Charlie?

W: Yes, Henry.

H.M. Jr: Housing is yours, my dear.

W: Yes, sir. I just figured that's what you'd maneuver around and finally do.

H.M. Jr: It's yours.

W: What did he say?

H.M. Jr: Well, I told him that - what was what - that the President is now negotiating with the Hill, and that you were so much better negotiator than I - that I was just a child in knee breeches compared with you.

W: How modest you are.

H.M. Jr: And that you were the man for it - your training, etc. - and the President said, "It's a natural -"

W: (Laughs)

H.M. Jr: Now you can tell him what he wants; you're good. All I can tell you is that when he got arguing that \$7.00⁰ wasn't enough, I slapped that memorandum on him that he had written in April, and he said, "Fine; what's the matter with that?" He says, "10 million a year on that basis will -"

W: Yes.

H.M. Jr: "And we'll write it into the bill -"

W: Yes.

H.M. Jr: "That they won't have to pay any more for room than Wagner wants."

W: Ah-ha.

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H.M.Jr: "And we start with the group who pay the lowest. If anybody has been paying \$4.00, he gets the first choice.

W: Ah-ha.

H.M.Jr: "10 million a year for living."

W: Ah-ha.

H.M.Jr: See?

W: All right, sir. Now you want me to take that crowd of mine and go to bat on this thing.

H.M.Jr: That's the idea, and we'll give you any assistance which we have.

W: Your fellow over there - Mac - knows this thing in and out -

H.M.Jr: Yes.

W: - and with your permission, why we'll use him.

H.M.Jr: Fine. And I hope - I got a call now for Wagner calling me, and I'm going to tell him that from now on, he should see Professor West.

W: No, I got that label erased, Henry.

H.M.Jr: Oh, have you?

W: I'll have another by the time I get through with Wagner, won't I?

H.M.Jr: Yes. And if he can watch the peas jump from one shell to another, he's good.

W: Yes, I'll think he's pretty good.

H.M.Jr: (Laughs)

W: Well, I'll get my crowd in and I'll tell them that, and then we'll be prepared to meet with him.

H.M.Jr: I dropped a hint about finding emphasis on this thing, and the President didn't say yes and he didn't say no.

W: Ah-ha.

H.M.Jr: But he wants the rooms at the price that Wagner wants them and he doesn't want it to cost more than 10 million a year.

W: So that's the feeling on it.

H.M.Jr: So there you are, my dear.

W: Yes, brother. You - you are a magnificent negotiator.

H.M.Jr: (Laughs)

W: You - you've done, - this is your supreme effort, isn't it, Henry?

H.M.Jr: It is in housing.

W: (Laughs) Well, listen, we've made a good deal of progress in our deliberations since that day we met at your house a week ago.

H.M.Jr: Yes. Oh, yes.

W: And I'll get my crowd together and we'll be prepared to meet Wagner as soon as he wants to meet us.

H.M.Jr: Okay.

W: And get down to a working basis and see if we can't sell him on this formula.

H.M.Jr: Fine.

W: Henry, will you be there for a little bit?

H.M.Jr: Oh, yes.

W: I'll call you back on the murals just as soon as I have a session with Boileau.

H.M.Jr: Fine.

W: He's supposed to have some work by this time -

H.M.Jr: I - I'll be here until 5:30.

W: Well, I'll call you before then.

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H.M.Jr:

Okay.

W:

Goodbye.

June 7, 1937
3:25 p.m.

H.M. Jr: Hello?

Operator: Senator Wagner.

H.M. Jr: Thank you.

Operator: Go ahead.

H.M. Jr: Hello?

Sen.
Wagner: Hello?

H.M. Jr: Henry talking.

W: How is the hardest boiled man in the world?

H.M. Jr: (Laughs) Well, that's a compliment.

W: Well, I - I -

H.M. Jr: Will you put it in writing?

W: What?

H.M. Jr: Will you put it in writing?

W: No, I won't give you that much credit.

(Laughter on both ends)

H.M. Jr: Well, how is -

W: Well, I'll tell you - how - how is the softest fellow in the world, eh?

H.M. Jr: How is the fellow with the biggest heart in the world?

W: That's right; well, that's all right.

H.M. Jr: How is that fellow?

W: That's all right, Henry.

H.M. Jr: How is that?

W: Fine

You know I - I - I won the President back again.
I don't know whether he told you or not.

H.M.Jr: I know and I know what you've lost in the shuffle.

W: What?

H.M.Jr: You've lost me.

W: He's lost you?

H.M.Jr: You have.

W: I've lost you.

H.M.Jr: Yes, sir.

W: Well, what are you going to do now?

H.M.Jr: Look - from now on, Mr. Charles West is going to carry the ball.

W: What do you mean?

H.M.Jr: Exactly that I'm out.

W: Well, why are you out? You're not offended?

H.M.Jr: Oh, no, no, no.

W: You mean you're tickled to death to get out - that's what you mean.

H.M.Jr: No, I just mean that I worked like hell for two months to get a financial formula, and it didn't -

W: Well, we couldn't build anything under your formula, see?

H.M.Jr: So I asked the President to release me and to put Mr. West in my place and he's done that.

W: Well listen, Henry, to get down to \$5.00 a room - we couldn't have done it under your plan. It couldn't be done.

H.M.Jr: Well, you wait now until you see the President's formula, which I have had in my pocket in his handwriting since April 1 or April 6.

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W: Well, for Heaven's sakes, he isn't going to hand me that, is he?

H.M.Jr: That's what he's going to hand you.

W: Well, then I'll be - I'll - I'll be in another - why, he told me the other day that it was all right - the annual contributions were all right.

H.M.Jr: Well, I'll tell you, Bob. I just figured that I'd better stick to the Treasury where I've had a fair success, and stick to my business. And I asked him to release me.

W: Well, I'll tell you what I think I better do. I think I better run for Mayor of New York and get out of all this trouble.

H.M.Jr: (Laughs) You're in a good humor today.

W: Eh? I'm always in good humor.

H.M.Jr: Yes.

W: Except when one of these bills go wrong.

H.M.Jr: Well, I -

W: What do you think of it? Do you think I ought to run for Mayor of New York?

H.M.Jr: Well, -

W: I mean honestly.

H.M.Jr: Honestly? As - as a friend -

W: Yes.

H.M.Jr: - thinking of Robert Wagner?

W: Yes.

H.M.Jr: No.

W: Well, that's what I decided.

H.M.Jr: Okay. Am I your friend?

W: Yes. Well, you know our friend up there -

H.M.Jr: Who?

W: Your chief and mine?

H.M.Jr: Yes.

W: He put it to me strong. Gee, I looked at him. I said, "What's the matter, young fellow?"

H.M.Jr: Yes.

W: And apparently he had promised the leaders in New York that he would try to get me to do it.

H.M.Jr: Yes.

W: And when he got all through - it was the first time I think that I have ever said no to him.

H.M.Jr: Yes.

W: I just said no.

H.M.Jr: Ah-ha.

W: Well, he looked back a minute and then he said, "Well, you know I told them I was willing to bet three to one that you wouldn't."

H.M.Jr: And then, of course, he told me he really thought if I was of any use any where it would be down here.

H.M.Jr: Ah-ha.

W: So - well - why should a man borrow that headache, and these fellows are only after me because - because they feel they are in trouble. Otherwise, they wouldn't be a thousand miles.

H.M.Jr: Yes.

W: Don't you know?

H.M.Jr: Yes. Well, you asked me straight and I gave you a straight answer.

W: Yes. Well, every friend I have tells me the same thing. And I'm not going to do it. I'm not so big as all that, don't you know? They're not kidding

me but I think I'd fit into a situation there, don't you know?

H.M.Jr: I know.

W: That's what they're -

H.M.Jr: Well, you're doing a magnificent job down here.

W: In spite of the housing bill (laughs).

H.M.Jr: You're doing a magnificent job down here and we haven't got many like you.

W: (Laughs) Thanks very much, Henry. They ought to - what they ought to do is make the - oh, you vote in - where do you vote, in New York City?

H.M.Jr: No, I vote in Dutchess County.

W: Oh, well, then you're safe.

H.M.Jr: Yes.

W: (Laughs) Well, of course, it would be a joke if they came after you. Well, it just shows you what they'll do when they're in trouble. Otherwise, they don't come near you at all.

H.M.Jr: I don't want that trouble to come after me.

W: (Laughs) Well, I -

H.M.Jr: Well, I'm still impressive on housing on what I call a sound financial plan.

W: Yes, and I am on what I call one, too.

H.M.Jr: You may be after a week or so glad to come back to my proposal.

W: I see. Well, when am I to see Charlie West?

H.M.Jr: Charlie is at your disposal. He's at his office now.

W: Oh, where is he - over in the Interior?

H.M.Jr: Do you want me to have him call you?

W: No, I'll call him, Henry.

H.M.Jr: All right.

W: He's in the Interior, isn't he?

H.M.Jr: Yes; he's Under Secretary.

W: Yes. All right, Henry. We'll probably come back to you.

H.M.Jr: I never showed you that memorandum of the President's?

W: No, you didn't.

H.M.Jr: No.

W: No, you didn't.

H.M.Jr: No, I didn't. And I tried to work out something that would give you housing, but I - I honestly done the best thing for the Secretary of the Treasury.

W: Yours would give us houses but it wouldn't give us houses at \$5.00 a room.

H.M.Jr: That's right. You're right on that.

W: We couldn't do it.

H.M.Jr: Well, I'm here and I think I've demonstrated I'm your friend.

W: Oh, you bet. Gosh, you've been a patient man - with all these other things you've got to do.

H.M.Jr: And you call on me any time I can be of help.

W: Thank you very much.

H.M.Jr: Thank you, Bob.

W: Good-bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 7, 1937

TO Secretary Morgenthau
FROM Prepared by Mr. Daggit
Subject: Business and Price Situation,
Week Ending June 4, 1937

Summary

While certain developments during the week show the business outlook in a slightly more optimistic light, they are not sufficient to change our expectation of a somewhat greater than seasonal recession during the summer. A setback in the current level of activity (seasonally adjusted) will, in fact, be shown when this week's figures are published.

The following developments favor a more optimistic outlook:

- (1) Heavy rains in the drought areas where most needed, which have revived prospects for the wheat crop and improved the outlook for cotton and other farm crops.
- (2) An improved tone in the securities markets, due in part to a feeling that recent heavy selling of gold abroad may, at least temporarily, have spent itself.
- (3) A recovery in building contract awards during the week ended May 22, especially in heavy building, which partially offsets the unfavorable figures for the first half of May.

Other developments, on the other hand, are less favorable:

- (1) A continuation of the steel strike, which has materially reduced the rate of operations in the steel industry, and is likely to affect activity in other lines.
- (2) A decline in automobile production, after seasonal adjustments.
- (3) A further decline in commodity prices, which has carried both spot and futures indexes to new lows for the year.

Business Situation

The New York Times index for the week ended May 29 slightly extended its previous gain (See Chart 1), standing at 109.9 as compared with 109.3 (revised) for the previous week. For the current week, however, a sharp drop is expected when all figures become available, owing to declines in steel activity and automobile production.

Heavy rains in the drought areas have improved the agricultural outlook. They have revived winter wheat prospects to about the May 1 Government estimate and increased prospects for the spring wheat crop. Private estimates as of June 1, averaging 649 million bushels for winter wheat, reflect a material improvement over expectations current a few weeks ago. Barring unfavorable developments, the total wheat crop is expected to be about 878 million bushels, an increase of 40 percent over last year.

The cotton crop outlook has been improved by general rains in the Western drought areas and by favorable growing weather. Current crop expectations range between 14 million and 15 million bales, as compared with 12.4 millions produced last year.

Although the increased volume of crop production is a definitely favorable influence, it should not, in our opinion, be over-emphasized as a business factor. It will increase carloadings, provide additional profits for railroads, and reduce unemployment in farming states, but the indexes of industrial production will be affected only indirectly, and probably more during the first half of 1938 than during the latter half of 1937. The decline in prices for the new crops will offset to a considerable extent their influence in improving farm incomes. These conclusions are shared by Mr. Bean of the Department of Agriculture.

An improved sentiment in the securities markets has strengthened the stock market outlook. A broadening interest in bonds since the Social Security decision, extending to corporate issues, has tended to support stock prices and limit their reaction to unfavorable war and strike developments.

The President's assurance on Friday that no change in the gold price was contemplated, following recent heavy gold sales in the London market, brought an immediate improvement in the stock market (Chart 2), and was a stabilizing influence in the commodity markets. Uncertainty over the maintenance of the gold price had been an important depressing factor in world markets.

- 3 -

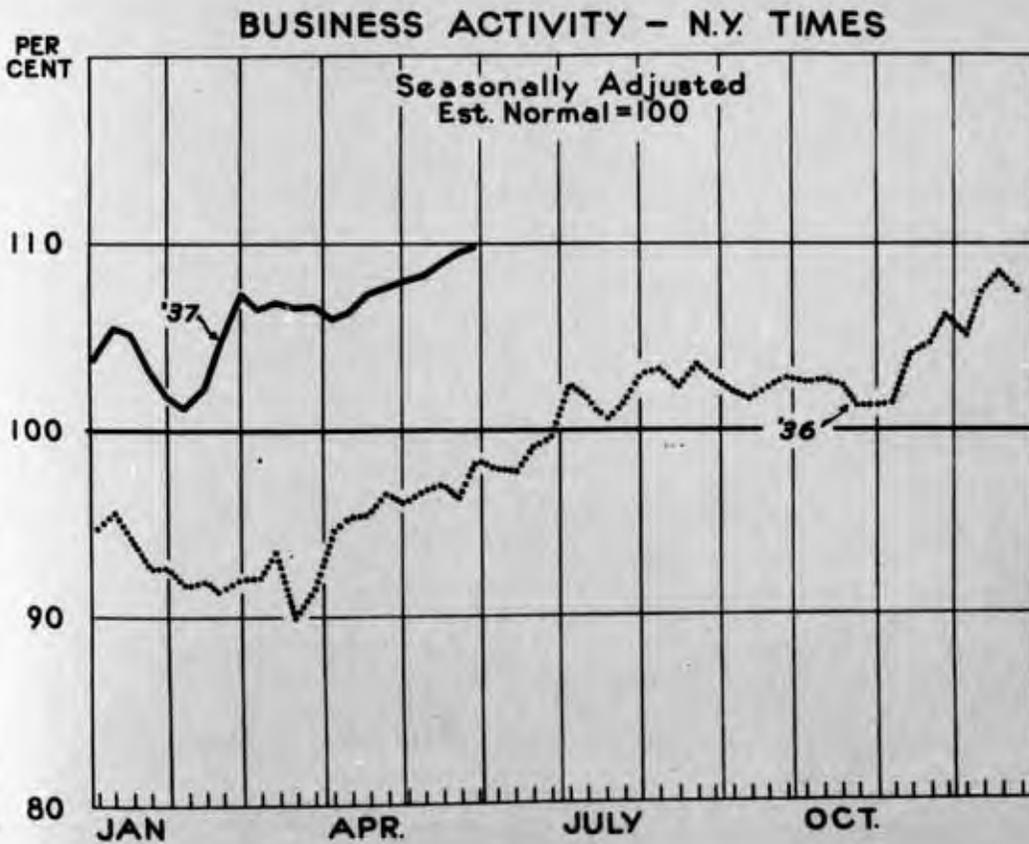
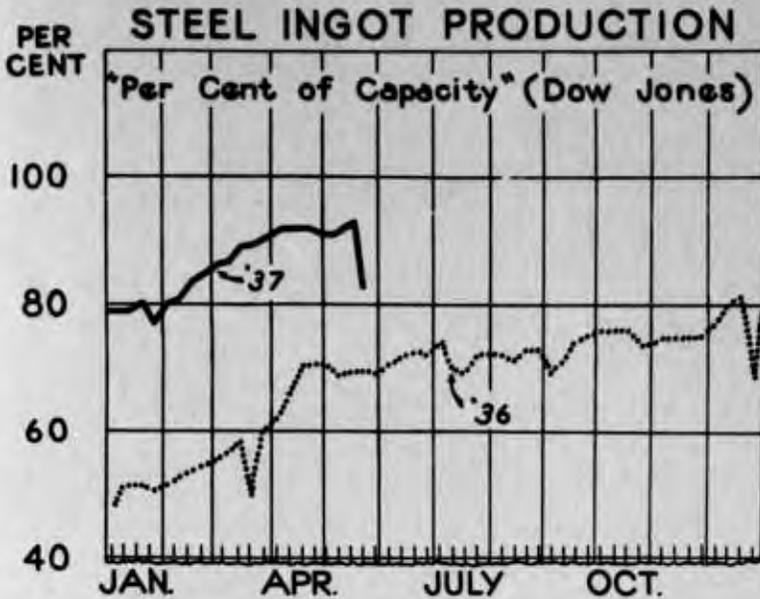
The steel strike appears the most unfavorable factor in the immediate business outlook. For the week ended May 31, which did not reflect the full influence of the strike, the Dow-Jones estimate of steel activity was reduced to 83 percent of capacity. (See Chart 1). The current rate is close to 77 percent. The strike reduces directly an important component of the weekly business index, and is also likely to have an unfavorable effect on car-loadings and electric power production. If long continued, it will reduce a number of series in the FRB monthly index of industrial production.

An apparent lack of concern among steel consumers over the strike situation seems to indicate that the present reduced rate is sufficient for the time being to satisfy current demand. New orders of the United States Steel Corporation for the week ended May 27 dropped to 199,000 tons, a new low for the year, as compared with an average level of 247,000 tons during the previous four weeks. Later figures, which will reflect strike influences, should provide a clearer indication of current demand.

Price Situation

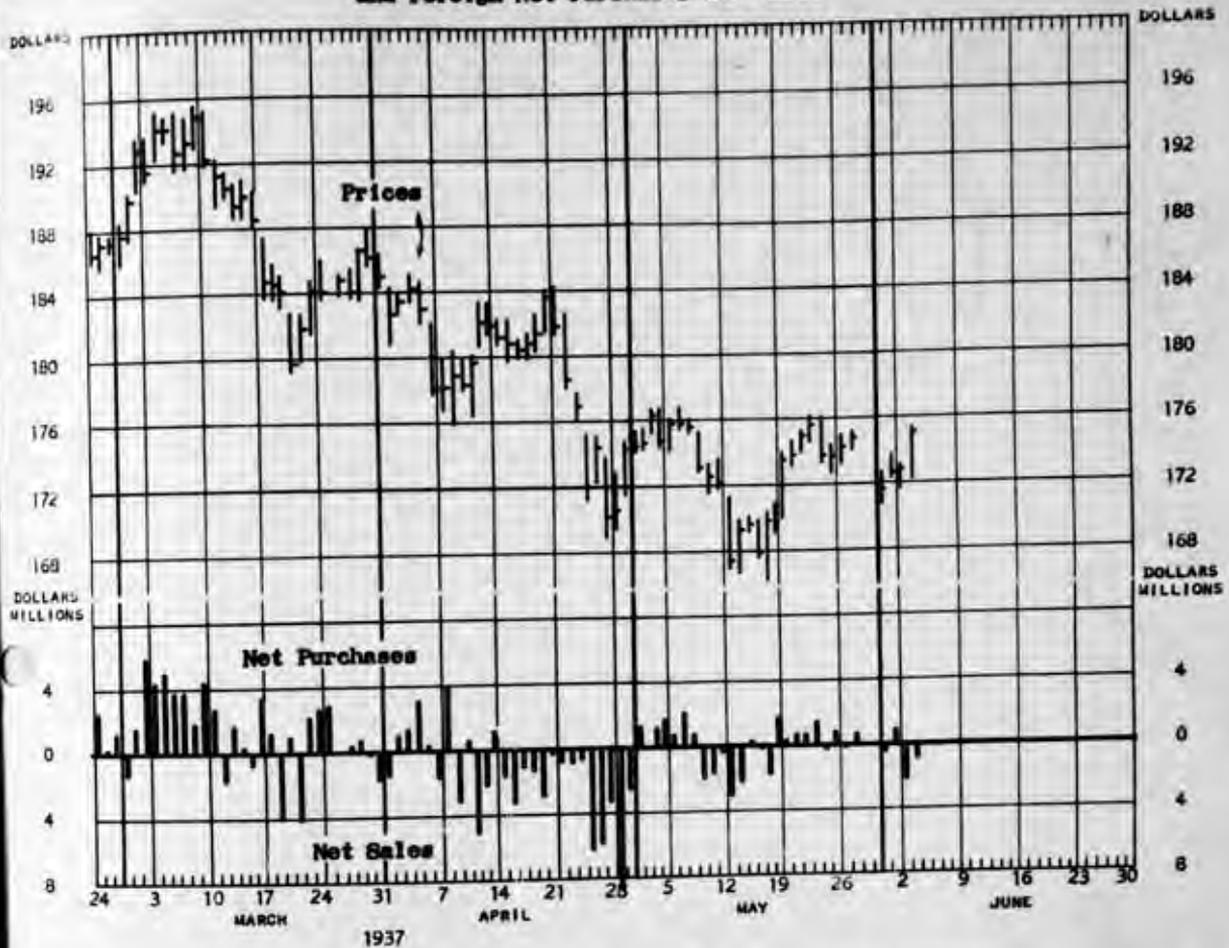
Commodity prices declined to new lows for the year, as uncertainty over the gold situation reduced the demand for many commodities and caused a general easing of prices. In addition, the beneficial rains over the drought areas brought heavy selling into the grain markets which resulted in wide breaks from last week's price levels. These combined influences reduced both the BLS index of spot prices and the Dow-Jones futures index to below the lows established last week.

Although the stock market outlook appears to have turned more favorable, we see as yet no definite evidence that the decline in commodity prices has run its course. Our reasoning, as discussed last week, leads us to expect a sagging price trend until an increase in industrial demand provides the basis for another rise.

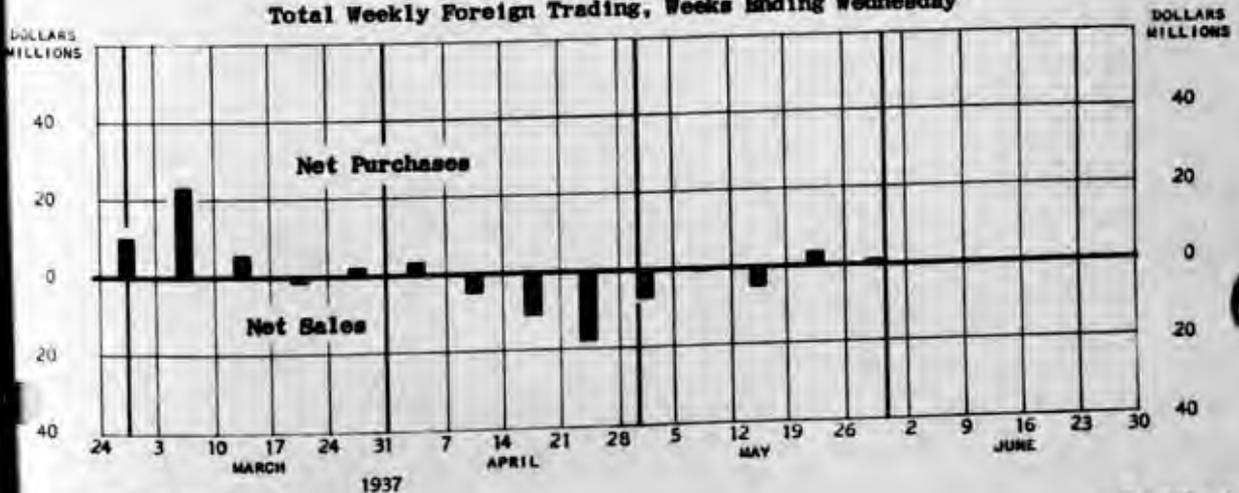


**STOCK PRICES AND FOREIGN TRADING
IN DOMESTIC STOCKS**

**Daily Movement, Dow-Jones Industrials
and Foreign Net Purchases and Sales**



Total Weekly Foreign Trading, Weeks Ending Wednesday



June 7, 1937
4:03 p.m.

H.M.Jr: Kilby, how does it look?
Edwin
Kilby: The 3:00 figures show 1150 and 1350.

H.M.Jr: Ah-ha. Well, get your wires off now to close the books.

K: All right, sir. Shall I bring them up to you to check now?

H.M.Jr: Okay.

K: Yes, sir.

June 7, 1937
4:10 p.m.

H.M.Jr: Hello?

Operator: Mr. West. Go ahead.

H.M.Jr: Hello?
Charles
West: Henry?

H.M.Jr: Yes.

W: Boileau is clearing that matter on the murals right now.

H.M.Jr: Yes.

W: We'll have word from the Secretary within a half hour, I think.

H.M.Jr: Wonderful.

W: So I'll call you before you leave. You're leaving about 5:00 or 5:30?

H.M.Jr: I'm leaving at - I've got a press conference at 5:30 and right after that I'll leave.

W: Well, I'll call you before then. We'll have word one way or the other.

H.M.Jr: Thank you.

W: And then we'll know where we stand.

H.M.Jr: Did you hear from Wagner?

W: Wagner is going to call - I've got a call in for him. I'll be talking with him shortly. Now, Henry, the top limit that you'll stand is 10 million?

H.M.Jr: That isn't my limit.

W: That's the President's.

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

W: Now that means annual appropriation?

H.M.Jr: That's what he said.

W: Yes.

H.M.Jr: But I think if you're going to handle it, you ought to talk to the President and get it first hand. That's my advice, if I may take the liberty of giving you advice.

W: Well, that's - that's my thought on it, too. I thought I'd see him.

H.M.Jr: I think it would be more satisfactory if you get it directly from him.

W: Yes, I thought if you agreed to that, I'll see him the first thing in the morning.

H.M.Jr: I'd much prefer it.

W: And have him tell me that.

H.M.Jr: Much prefer it. Okay.

W: Okay, Henry.

H.M.Jr: Thank you.

W: You bet.

June 7, 1937
4:23 p.m.

H.M.Jr: Hello?

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello, Marriner.

Marriner
Eccles: Hello?

H.M.Jr: Well, I guess you've heard about the issue.

E: Yes, I talked to Burgess about - well, I guess it was an hour ago.

H.M.Jr: Oh.

E: He didn't have the figures for the country, but I got the picture from New York. It looked very good.

H.M.Jr: Great success.

E: And the 400 - 400 million seemed to go all right. It outsold the shorter one, didn't it?

H.M.Jr: Yes, it still is.

E: Of course, that - I don't think that is conclusive on account of the premium. But there would - there ought to be a good secondary market with the huge oversubscriptions. I mean I - I - I think it is a fine success and it is going to be helpful.

H.M.Jr: I think so. I'm sitting here until 5:30 because I'm waiting to hear from the country and I want to give the figures out so that rather than wait the way they usually do until Friday and when they don't give a hoot any more.

E: Well, they - you're going to announce the closing tonight.

H.M.Jr: Oh, yes. And - and - and how much we've taken in, too - dollars. I mean just how much the subscriptions are.

E: Yes; yes - the total subscriptions.

H.M.Jr: I've never done that. I usually wait until Friday, but I - I want to get the full effect of this.

- E: Well, if you - with - with the huge oversubscriptions and closing it at the end of the first day, the psychology certainly ought to be favorable.
- H.M.Jr: I think so.
- E: And of course the action of - of the bond market was very good today, too.
- H.M.Jr: Good. Everything's good.
- E: So that we can be happy again for a few days.
- H.M.Jr: Oh, yes.
- E: Must be a relief to you.
- H.M.Jr: Oh, tremendous. Because it was - the thing turned so fast there in the last week. It was hard to keep up with all the boys, you know.
- E: Well, of course, I haven't had any apprehension about it failing because I know -
- H.M.Jr: No, but we couldn't let it fail.
- E: Yes, I know, but at the same time you want it to be a success, and not just a - just a questionable success.
- H.M.Jr: Yes, but if it was a failure, I have nobody to blame but myself. And, as I say, this isn't like a lot of other departments you know - Interior or any of those other things. You can make a mistake and they don't get charged with it for six months or a year.
- E: Yes, it doesn't - it doesn't - you're not sitting out on the end of a limb.
- H.M.Jr: No, I mean you just have to make a mistake once.
- E: The - I - I'm going to meet - that is, the Board is going to meet in the morning with these bank presidents, and in the afternoon they're going to have an open market meeting. I haven't said anything to - except to the Board here - about trying to establish a bill market throughout the country by announcing a buying rate, see? You remember I mentioned that to you a week or so ago?
- H.M.Jr: Yes.

E: And I talked to Wayne about it a little.

H.M. Jr: Yes.

E: And I talked to the Board at two meetings and discussed the thing very, very thoroughly with the Board and the staff here for quite a little while. And our people here think that it's - that it's a fine idea and that it - it will make - instead of making New York the money market to the extent that it has been, it makes the Reserves throughout the country much more effective.

H.M. Jr: Yes.

E: And it broadens the market automatically.

H.M. Jr: Yes. Well, now, you don't want to talk about any bills with your crowd tomorrow, do you?

E: Well, no, I didn't. I thought we would talk about a - getting a renewal of our authority for the executive committee, you see.

H.M. Jr: Yes, but I mean - you don't want to talk with us on this thing until next week, do you?

E: You mean on this thing I am discussing - this program?

H.M. Jr: No, about whether we'll go into a 90-day or something.

E: Oh. Well, we're ready to talk with you any time you want to talk.

H.M. Jr: Well, I've asked some of our boys to come to the house tonight, and we're going to see if we can have a meeting of the mind, and if we have, I may put something on a piece of paper and give it to you so you can keep it in your pocket in case you want to use it.

E: Ah-ha.

H.M. Jr: See?

E: Well, now, while - while the - the full committee - of course, you wouldn't want to meet likely with the

full committee.

H.M.Jr: I'd a little bit rather let it go until next week.

E: Well, if that would suit you better, it would suit us just as well.

H.M.Jr: Because, after all, next week is only the 15th, and we wouldn't - we might want to do something next Wednesday. That is a week from Wednesday. You see what I mean?

E: Yes. A week from Wednesday - well, let's see. I'll tell you what. Let's see how I get along with these fellows on this thing, and they'll be here tomorrow - all day tomorrow, and then we're going to have a meeting of the full committee tomorrow afternoon.

H.M.Jr: Yes. Well, that's the trouble. That's the reason I am calling you. I'm going to leave at noon tomorrow to go up to see my son graduate.

E: Oh, I see.

H.M.Jr: But Wayne will be here. And I'd just as leave let this thing - kind of get the reaction of this thing, and then take it up the very first thing next week.

E: I think that's soon enough. We can have the executive committee come down next week. Monday - say Tuesday of next week. That's soon enough because you don't make the announcement before Wednesday, do you?

H.M.Jr: Rather have Tuesday than Wednesday?

E: Well, no. When do you announce? You see you send out your - you send out your -

H.M.Jr: On - on Thursday.

E: Thursday.

H.M.Jr: Yes.

E: Thursday and Monday - well, Wednesday would be all right. Would Wednesday be -

- H.M.Jr: We could meet on Wednesday. The only fellow that ever kicks is Sinclair and he don't kick very hard.
- E: Well, he - he has his board meetings Wednesday, but he misses them occasionally. He likely won't - he didn't miss them last -
- H.M.Jr: Yes, he did last week.
- E: Well, then you - you'd suggest that we meet a week from Wednesday then.
- H.M.Jr: That's the 16th.
- E: Yes.
- H.M.Jr: Do you want to start a little earlier this time, or you - you'd like to meet before you come over here. Shall we say 10:30 Wednesday?
- E: Well, I - I thought this - that it saves sometimes a little time for you if we meet before -
- H.M.Jr: All right.
- E: - because it gives these fellows a chance to - to sort of talk the thing out. But we never - we never come to any action. It's more - it's more just an informal meeting of asking questions and having Paragon Goldenweiser over, you see? So that when we go over there, they're a little bit better prepared for a discussion.
- H.M.Jr: Well, let's say 11:00 on Wednesday.
- E: 11:00 on the 15th.
- H.M.Jr: 16th.
- E: 16th; that's right.
- H.M.Jr: And then we'll - we'll settle the bills - try to settle the bill thing then.
- E: Fine.
- H.M.Jr: And if we come to any conclusion before that, we'll give it to you so you can digest it.

E: Well, all right. Even if you don't come to a conclusion, if you've got some -

H.M.Jr: Or if we got some ideas.

E: If you have got some ideas, let us have them.

H.M.Jr: I'll - I'll get them to you through Taylor.

E: All right; fine.

H.M.Jr: Right?

E: That's fine. Good-bye.

June 7, 1937
4:59 p.m.

H.M.Jr: Hello?

Madison: Hello, Mr. Secretary.

H.M.Jr: Hello, Madison.

M: Yes, sir.

H.M.Jr: Now your figures are all in, aren't they?

M: Yes, sir.

H.M.Jr: And I got - see if it checks - New York on the 2 $\frac{1}{2}$ -year is a billion and 30 million?

M: That's right.

H.M.Jr: And on the long is a billion 83?

M: That's right. Those are our final figures.

H.M.Jr: Now - if you - have you looked up to see how much comes in - in - in the mail and one thing and another? I mean we're - what we're trying - looking back, we figured about 40% more comes in.

M: Yes.

H.M.Jr: What?

M: We - we think that there will be somewhere between 25 and 40% more. That's by past performances.

H.M.Jr: What's that?

M: We have an idea that between 25 and 40% more might be expected in the mail in the morning.

H.M.Jr: I see. 25 to 40.

M: Judging by past performances.

H.M.Jr: What did you say?

M: Judging by past performances -

H.M.Jr: 25 to 40.

M: Yes.

H.M.Jr: I see. And did any of the banks not come in?
M: As far as I see, all of our large banks are in.
H.M.Jr: Good.
M: I - I went over the list and I can't find any that are not in.
H.M.Jr: Good. Well, it looks pretty good, doesn't it?
M: Pretty good.
H.M.Jr: Yes.
M: Very good. I congratulate you.
H.M.Jr: Well, thank you very much. Thank you.
M: Anything I can do for you?
H.M.Jr: No, I don't think so.
M: All right.
H.M.Jr: If you don't mind - you'll be around another half hour?
M: Beg your pardon?
H.M.Jr: Be there for another half an hour?
M: I'd be glad to stay if you'd like to have me.
H.M.Jr: Yes, to see if something - stay until 6:30.
M: All right then.
H.M.Jr: Thank you.
M: I'll be glad to.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, London, England
DATE: June 7, 1937, 8 p.m.
NO.: 354
FOR TREASURY FROM BUTTERWORTH.

I conveyed your message together with your answer regarding the parliamentary questions to the Treasury who expressed appreciation.

I left at the same time, in strict confidence, the estimate mentioned in the last paragraph of my 350 of June 4, 8 p.m. The British Treasury says that the best guess it can give as to the amount of hoarded gold still in London is not more than £ 95,000,000, and not less than £ 75,000,000.

The progress towards stability in the London market begun on Saturday has continued today to such an extent that not a few persons in the city predict that the worst is well passed. The discount returned to 2 1/2 pence and there were only 352 bars at fixing which was rapidly concluded with official purchases made merely to facilitate its speedy conclusion.

BINGHAM.

EA:LWW

EMB

GRAY

Paris

Dated June 7, 1937

Rec'd 6:10 p. m.

Secretary of State,
Washington.

744, June 7, 4 p. m.

FOR TREASURY

The franc was under pressure today in a depressed and nervous market awaiting indications of Government's financial plans that might be available after Cabinet meeting scheduled for this afternoon (referred to below). We are told here exchange fund yielded very large amounts of sterling between 110.70 and 110.74. The dollar is firm at 22.45.

The security market was unsettled and rentes lost from 55 to 75 centimes. The recent national defense loan was quoted at a new low of 91 $\frac{1}{2}$.

Brief references to the financial and economic situation were made in Sunday speeches by leaders of the Government on the occasion of the anniversary of the Popular Front administration. In short summary of accomplishments of the latter, Blum recognized that the resumption of economic activity had not come up to expectations but rejoiced that so far the Government had avoided the financial and monetary crisis which had so often been predicted. War Minister

Daladier

EMB 2 No. 744, June 7, 4 p. m. from Paris

Daladier who was less optimistic stressed that a new distribution of wealth would not result in creating wealth, and warned that unless French production increased the social reform accomplished would inevitably be endangered. Minister of State Foure said that the Chamber would soon be asked to approve legislation relating to pensions of aged workers which would cost 5,000,000,000 francs annually. As this outlay could not be met from the oriental budget he would, he said, propose as a solution the nationalization of insurance and the key industries.

The problem of creating new resources for the Treasury is to be discussed by a member of the Cabinet late this afternoon. According to the press the Government will present proposals which will involve an increase in a large number of indirect taxes and that postage, tobacco, gas and electricity, railway transport, and petroleum will be affected. According to certain financial publications the Government is anxious to create a favorable climate for the issue of short term Treasury bills and that in this respect the Government contemplates "open market." operations.

RGC:SMS

BULLITT

RE RESERVE REQUIREMENTS ON FOREIGN
DEPOSITS IN U.S. BANKS

June 7, 1937
8:30 P.M.

Present: Mr. Taylor
Mr. Lochhead
Mr. White
Mr. Seltzer
Mr. Murphy
Mr. Harris

H.M.Jr: We've got another new complication which Danny will tell us in the morning. Danny doesn't know whether he's got enough money to run him to the 15th on account of your (Lochhead) heavy gold shipments.

Lochhead: He's used up nearly all the silver. It stands at about 46 million. He deposited about 16 million - was up to 64, now to 46.

Seltzer: Was up to 90.

H.M.Jr: Can he use that?

Lochhead: Sure, he can do that - deposit with the Federal.

H.M.Jr: How much have you got coming?

Lochhead: In silver or gold?

H.M.Jr: Gold.

Lochhead: Well, what scared Danny - he got hit hard because the Queen Mary arrived, had 20 million on board, of which 15 came to us, and then the British and Swiss used their ten million each, which meant 35 million. He got these two extra lots of ten. Now, I don't know of anything more, though.

H.M.Jr: Well, what's - why can't he use up that silver?

Lochhead: Well, I imagine - I looked at it when it dropped 16 million on that statement; I figured that's what he had done. I don't see any reason why he can't. I know they don't like it, but he can deposit silver certificates with the Federal Reserve to pay for the gold.

-2-

H.M.Jr: Who doesn't like it?

Lochhead: I know when we talked about forcing those in before, they said they didn't like to put it in any faster than they can get the currency out.

Seltzer: It has the same effect on excess reserves that spending the gold would have.

H.M.Jr: He's got 46 there.

Lochhead: Yes.

H.M.Jr: I don't think that will take care of him.

Lochhead: He may have used some of that today.

H.M.Jr: Well, he said he'd be in the first thing in the morning.

Now, did you (Seltzer) bring your yellow pad and piece of paper?

Seltzer: Yes, there it is.

H.M.Jr: Very good. Now, what have you got?

Seltzer: Do you want to read it?

H.M.Jr: No, now listen, I don't want to read.

Seltzer: Fine. Well, shall I start off?

H.M.Jr: If you please.

Seltzer: You've got....

H.M.Jr: I also called you "Professor" jokingly today. I said to Charley West, "All right, Professor West, now go ahead" - just sort of a trick I have. He said, "For Heaven's sakes, it's taken me three years to live that down." Do you know he taught in a high school?

Seltzer: Yes.

Well, this problem, as it sizes itself up to me, is something like this. It will work provided you don't discourage foreigners from continuing bank balances. If you make the reserve requirements so high on foreign

-3-

balances that the banks charge service charges for these balances, the foreigners are going to shift into Treasury bills and short-term securities. So there are two tentative proposals that would seem to meet that: one, to raise reserve requirements only up to, say, 75 percent on foreign balances; and second, eliminate the F.D.I.C. assessment on foreign balances. That saves them 1/12 of one percent.

H.M.Jr: Can't do that; that would be an entering wedge to remove the law.

Seltzer: In that case you'd have to cut your reserve requirements down further; that is, you've got to allow the banks enough money to invest from these foreign deposits to pay the cost of running the foreign accounts; otherwise, they'll put in service.....

H.M.Jr: Isn't that just what we want?

Seltzer: No.

H.M.Jr: Why not?

Seltzer: Because if these foreigners withdraw their deposits but keep the funds here by buying Treasury bills instead, you can't use any of your gold. You'll have the same excess reserves problem that you'd have otherwise.

White: That's why we mentioned about a month ago the necessity for a transfer tax to prevent them going into bills. However, I don't think that's serious, because I don't think they'll go into bills for a long time. And you can stop short - you (Seltzer) say less than 75; I would say 90 percent.

Murphy: There is another consideration along that line, and that is that you have to keep them short of bills that would be attractive to them. If we issued 30-day bills - I mean 90-day bills, it would be a direct invitation for them to go into them, because it would be just what they need. Our whole supply of bills has to be relatively unattractive - namely, nine months' bills.

White: There's a good deal of it that wouldn't be attracted, so that I don't think that's anything serious.

Seltzer: Still, look, Harry. Here you have these foreign

-4-

balances. Suppose they have a one-quarter of one percent service charge on their balances. They can buy a Treasury bill and avoid it completely.

- White: But I don't think they will put that service charge on unless you put it up to the maximum; no reason to put it up to the maximum until such time as we are out of this problem.
- Lochhead: The banks will probably put a minimum service charge, but it will not - it would be a minimum service charge and it would not be a percentage charge on their total account.
- White: Might be for checking or something.
- Lochhead: They would charge them according to the cost of carrying the account. In other words, it wouldn't cost the New York bank any more to carry a ten million dollar account, as far as service goes, than it does to carry a five hundred dollar account.
- Seltzer: Well, the F.D.I.C. assessment is an awful big item. If you have a 75 percent reserve requirement - the F.D.I.C. assessment costs one-third of one percent a year on the amount you have available for investment, and that's about all you can get out of a short-term investment. At one time our Treasury bill rate went down to where it just covered the F.D.I.C. assessment and the deposits represented - the time that all 50 million were taken by one buyer, that was almost exactly the amount that would cover the F.D.I.C. assessment on 50 million of deposits. A service charge on a 100 percent reserve would at least have to cover that 1/12 of one percent for F.D.I.C. and something extra for bookkeeping costs.
- White: That is doubtful. When you get up to beyond 75 percent, there is an advantage in these banks having these service charges, but they won't jack up on a service charge right away. They will when you begin - get up to 80 percent; they'll begin to cover that service charge, and as you approach a hundred they will raise it. But I think you'll be able to put on a substantial increase in the requirement without driving the funds out into short-term bills.
- Seltzer: I don't doubt you can carry 50 or 60 percent.

-5-

- Murphy: Do you think that would hold true, Harry, if you are putting out 90-days which would be just what they want, if there were 90-day bills that the accounts could go into?
- White: But didn't you tell us that there were so few that pretty soon on those short-term bills they'd have to go into one-year notes?
- Murphy: Well, there are no new 90-day bills yet at all, while a third of our bills are 9-months; but if we were putting out new ones that would merit the conversion of a very substantial amount, I think they would be converted.
- H.M.Jr: Well, from what I understand - the little talking I've done - the foreigners would not be interested in 9-months bills.
- Seltzer: They would, though, in 90-day bills.
- H.M.Jr: Oh yes.
- Seltzer: So we'd have to shy away from those.
- H.M.Jr: That would be very attractive to them, but the 9-months would not.
- Seltzer: Yes.
- White: Well, except that as 9-months bills approach maturity, why, they....
- Seltzer: Well, you can't figure it that way, though....
- H.M.Jr: No, they'd be into 90-day bills with both feet.
- Lochhead: Of course, I imagine you start in getting some evasion on these after a while, because what they would do would be to deposit the money in a subsidiary corporation, who in turn would deposit the money in a bank. That will start and develop; because I just know one case, Petcheck and Company, a Czechoslovakian bank. They have incorporated here in New York under Delaware laws another company which they use for investment purposes, to make their investments, through Dulles - one of the ones that organized that. Now, they could take and instead of putting their money into a bank they could lend that money to that corporation - no

-6-

interest, as far as that goes; then that corporation would in turn deposit the money with the New York Bank and it would be a domestic deposit. You're bound to find evasions like that creeping up - I don't say with all, because of course that's an exceptional case.

Murphy: I was going to say that, in so far as they deposit it, using the term deposit, with their agency here, the agency would be acting in the form of private bank and be subject to the same law.

Seltzer: That might take another form. Of course, you could go a good long ways with this thing without running into the difficulty of conversion of deposits into investments.

H.M.Jr: How much upset would any of you people get if we just simply said, "Well now, we can't think too far in advance; we'll just go ahead and start selling 90-day bills, and then we'll worry about December a little later on"?

Seltzer: Why, I thought if there's a good chance of this program being adopted in any substantial way, the thing for you to do is to continue your present program, put out a December concentration this next quarter.

H.M.Jr: When?

Seltzer: Any time during the quarter, June 15 to September 15; doesn't make any difference whether you issue them the first six weeks or the last six weeks; that will depend on your cash needs.

H.M.Jr: Well now, let's just see, if we started selling - what did we say, June 29?

Seltzer: O.K.

H.M.Jr: And then we sold....

Seltzer: It would be as of June 30.

H.M.Jr: Yes, how many weeks?

Seltzer: You could sell, say, six or seven issues.

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H.M.Jr: Supposing I wanted to go right through for 90 days.

Seltzer: For 90 days? I thought you wanted to set up now a December concentration.

H.M.Jr: No, I've got another idea. Supposing we start - I think there's five weeks in July, if I'm not mistaken, and five weeks in August. Let's see, 90 days is how many weeks?

Murphy: Thirteen.

H.M.Jr: Thirteen. That would get it right into some time in September, see? Well, that would give us, wouldn't it, 650 million dollars, so to speak, of new money - come right in somewhere into September. Right. Then - oh, we'll just say for September 16, see, we'd have 650 million 90-days.

Seltzer: And you'd have 350 of your regular concentration.

H.M.Jr: No, we haven't sold those yet.

Seltzer: The September ones are out.

H.M.Jr: I made it September 16, so they're out - paid off - or September 17 or 18 if you want. Then there's the 9-months bill, how much?

Murphy: A billion 950; that's the constant figure on those.

Seltzer: Nineteen hundred and fifty.

Murphy: Nineteen hundred and fifty millions.

H.M.Jr: That's two billion six.

Seltzer: Without any concentrations.

H.M.Jr: Without any concentrations. Now we find ourselves in the position we're selling - somewhere along in there, the 17th or 18th, we're selling each week 50 million of 90-days and 50 million of 9-months; we've got no concentrations. Now, supposing - I'm just saying supposing - we'll call it Plan A - we stop the 9-months for six weeks and put the concentration into December. For six weeks, see, sell December 15 bills in place of 9-months. Now, that would keep this amount

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constant here, wouldn't it?

- Seltzer: That would give you your money until September, in the third quarter; then you'd lose it at the end of - in December.
- H.M.Jr: Of course, we could always begin selling, if we wanted to - or if we wanted to keep on, sell 150 million a week; that would increase this to two billion nine.
- Seltzer: Yes, you could do that.
- Taylor: That would leave you for that ending December 15 period with nothing but 90-days and concentrations.
- H.M.Jr: Well, we'd still have a 9-months out, less six weeks.
- Seltzer: Six weeks of them.
- Taylor: Yes, but that would be - you'd sell them for six weeks so that you would have your concentration, and then you drop out your nine-months during that period, then pick them up again if you wanted to.
- Seltzer: Well, the net of that is to substitute these 90-day bills for concentrations.
- H.M.Jr: Not bother with the concentrations at all; just let the Fed take care of that. That's their job. I've talked to other people; they say they've had this before, and they never had any concentrations; it was up to the Fed to take care of that. That is their job. I say, "Why should we worry about that?"
- Taylor: But much bigger quarterly payments.
- H.M.Jr: Oh yes. But I don't like these concentrations, if that's what you call it. I don't like them. I mean it doesn't serve any particular commercial need, and you begin and you stop and you go in again.
- Seltzer: Without them, though, you get around the 15th of an income tax payment month a great wad of cash going into the Fed and it doesn't get out again...
- H.M.Jr: Yes, but that's the Fed's job. Why the hell should I

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be worrying about that? Why the hell should I be worrying about that? I worry too much about their job and they worry too little about mine. I'm just arguing with you in a friendly manner.

Harris: That's what the System was founded for?

H.M.Jr: What?

Harris: That's what the System was founded for, to control credit.

H.M.Jr: And we're doing their job for them; we're doing it every day. Think about it. Why should we worry about concentrations? Let them worry.

Taylor: Well, it all depends upon whether it all fits. I mean if you can have your concentrations which suit you all right and also take care of those pinches, if you want to call them that, then it might go.

H.M.Jr: But it isn't as though the corporations would buy them because they've got dividend dates; they don't pay their dividends on those dates. I mean it isn't even as though we were selling them into July 1 or January 1, on the big dividend dates. People don't pay their dividends on our tax date.

Taylor: No, they pay taxes, though.

Murphy: If the banks expect to be short, then that's a legitimate demand for them.

H.M.Jr: Let the Fed sweat about that. They're always talking about running the money markets. Why not let them do it once? If I started in right away selling 90-day bills, got out 650 million of them, then I wouldn't need anything in September; I'd be all right, because I'd have my 650 million dollars. I'd have 400 million more than Danny counted on, because he was counting on my selling 250 into December.

Seltzer: Provided the gold thing is cleared up.

H.M.Jr: I know.

Now I'm going to give you another one. Instead of

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the concentrations, supposing you need a little more gold. The few people I've talked to - they say, "Well, no trouble at all to increase those 90-day bills to a hundred million a week."

Seltzer: True.

H.M.Jr: Because they say, "You've got something" - I don't know who it was - "the business of the world - business around the world is done on a 90-day basis. Anything you buy or sell, import or export, the 90-day bill is the instrument they use." And they consider that around the world you'd have no - if you want to sell a hundred million a week, you can.

Seltzer: Certainly.

Harris: The commercial paper market and the bankers' acceptance market practically amount to nothing now, and that's where they were using the funds, and the call loan market is not particularly active.

Murphy: You can sell them readily enough, and there is a fine demand for them. But if the small demand for funds is posited on this gold program, it seems to me that the issuance of 90-day bills itself would make it much more complex and much more difficult to put it in the program.

Seltzer: It would be harmful to you.

H.M.Jr: Why?

Seltzer: If you want to use your gold - and if the foreign balances go into Treasury bills, you can't use your gold to that extent. If you were to offer a 90-day bill....

H.M.Jr: I can stop sterilizing if I want to.

Seltzer: Well then, of course, you increase your excess reserves. Then there is no problem. You can start about....

White: That wouldn't worry us. Fed can take care of that if they want to.

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- Murphy: Well, if you want to change that program, but that's a - there's a change within the limits that we're working. A large portion of the 90-day bills which you sell automatically create a need for more paper of that kind. It's like drinking salt water; the more you drink, the thirstier you get.
- H.M.Jr: But I don't like this concentration business. If we're going to do 90-days, when would you start? Before September, after September? I mean to sell into December. Do you want to - would you start September 1 to sell them?
- Seltzer: I'd rather see you with 6-months bills - a little more flexible; then you can go to three months bills whenever you think right.
- H.M.Jr: I'd rather go to 3-months right away. Let me just argue - supposing some of these foreigners begin to buy our 90-day bills. What's the matter with that?
- White: Well, the trouble is that what they buy the banks will have to sell, because the cash that the banks need in order to supply them with the funds would have to come out of their assets; they've drawn their balances.
- H.M.Jr: What would they sell?
- White: Well, I suppose they'd sell their - the most liquid assets.
- Murphy: I suppose they'd sell such bills as they'd have.
- White: They haven't got a great deal to sell.
- H.M.Jr: It wouldn't be a mass movement; it wouldn't be a quick thing. Look how long it's taken Switzerland to make up her mind to buy a few bills.
- White: I think you can very easily feel your way in this thing, because nobody's advocating sudden jumps. We're all advocating gradual movements, so that you can feel the market and know when to.....
- H.M.Jr: Well, Burgess is very, very, very strongly opposed to

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our increasing our outstanding bills. He thinks it's a tremendous mistake and it's a device which should be saved for emergencies. And he'd like to see the 90-day, but this idea of building it up to three or four billion dollars he thinks is terrible.

Taylor: Well, nobody's talking about four billion dollars.

Harris: Well, by law aren't you limited to three billion?

H.M.Jr: Oh no, oh no.

Harris: I was under the impression - does anybody know what it is?

Murphy: I think the legal limit is on bills, certificates, and notes combined, in any proportions.

White: It's much higher than that. We have ten on notes alone outstanding. I'd say it's 20 probably.

Taylor: 20 to 25.

Murphy: Maybe 25.

Lochhead: There was some estimate made of the amount of bills that you could have outstanding, wasn't there, Wayne? There was some figuring done on that, about how much the market....

Taylor: Well, partly from the standpoint of what the market would take, what was conservative from the standpoint of the Treasury in view of the increased receipts; again, from the standpoint of the relationship to its entire debt structure in the hands of the public, what would be a conservative figure; and from various standpoints, why, we got anything up to, say, three and a half billion, which would compare with, say, a two billion volume at another period when your receipts were much lower.

Lochhead: But how much margin would you figure you should keep for an emergency?

Taylor: Well, in other words, your margin which you figured in terms of, say, three billion dollars worth of bills

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in the market wouldn't be necessarily any greater than your margin for safety which you would have when you had two billion bills in the market on account of your greater receipts.

- Lochhead: Yes, but even if - you said you figure for three billions - if the market could take the three billion, you wouldn't want to have three billion out; you'd want to keep a reserve of half a billion dollars to use in emergency.
- White: When you're speaking of emergencies, you've got two billion dollars which is available - if I understand the same thing you mean by an emergency. You don't have to skate so thin; you can always absorb bills with your Stabilization Fund, as part of the definite, prescribed.....
- Lochhead: No, I didn't....
- White: Well, you're speaking of emergencies. I say.....
- Lochhead: If you have an emergency, you've got your sterilized gold before the other. No, I'm just thinking of keeping your regular program going, with the amount of bills you'd figure you'd have outstanding without having to have recourse to the gold in the Stabilization or the sterilized funds.
- White: Oh, that's different.
- Murphy: If we had three billion two of bills outstanding, that isn't the emergency top, would you say, Mr. Taylor? We could put it up another billion if we had to, it seems to me, without being out of line with any number of reasonable criteria.
- Seltzer: The funny thing about this raising reserve requirements on foreign balances - if the thing worked, the only way you'd be able to spend your gold would be to retire out of cash your September note maturity, 817 million - just retire it out of cash.
- H.M.Jr: Why? I don't follow you.
- Seltzer: Because our deficit expenditures will aggregate less than 200 millions, by Danny Bell's figures, from

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July 1 to December 31.

H.M.Jr: Yes.

Seltzer: And the only way you can get your money out, of course, is to spend it.

H.M.Jr: That's right.

Seltzer: And you'd retire your September note issue, that being the big thing that you can use it for.

Murphy: It would just about come out even. The New York banks would need 800 million dollars worth of reserves, and retiring the September issue on cash would just give it to them.

H.M.Jr: 800 million.

Murphy: 800 million, that is, the 75 percent reserves; so it would just break even.

H.M.Jr: That's why I'd like to spend a hundred million dollars worth of gold this week. I'd just kind of like to get another hundred million out. I can't help it if Danny hasn't got the money, Wayne (laughing).

Lochhead: Well, if you're thinking of raising the requirements to.....

H.M.Jr: Danny - I mean what - I can't help it.

Taylor: I understand.

H.M.Jr: I mean poor Dan's all worried tonight. Did you hear what he said about Archie? Terrible.

Lochhead: Oh yes. If you were going to raise your reserve requirements on foreign deposits, say, up to 75 percent, the only good that does is to unsterilize that amount of gold. Well, if that is true about 75, it's true about 26 right today.

H.M.Jr: Unsterilize it.

White: That will help.

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- Lochhead: So you wouldn't have to jump at all. You would simply say that you were going to release the amount that is already held in reserve, and that would loosen up.....
- Seltzer: Except they went from a point in time; they didn't go back to the year 1.
- Murphy: You have to have some benchmark to start with.
- If you have retired about 50 million dollars worth of national bank notes since the original sterilization announcement, it would be very easy to simply reimburse the general fund for that retirement, which would put about 50 million dollars in your effective working balance by what would have the color of a perfectly routine transaction - in fact, would be one if it were so declared.
- White: Danny doesn't want to let me put that in. We'll have to fight that out with Dan. He and I disagree. He claims it was a washout and we claim it wasn't a washout, and that was one of the qualifications that we had in the memorandum.
- Seltzer: It isn't a washout. It's a washout in part against silver that we put out, that's all. But you have a net balance of around 25 million; it's not a washout.
- H.M.Jr: Well, I carried a figure and you say - I carried a figure of 134 million free gold, and you (Seltzer) say it's 190; but I carry 134.
- White: Danny Bell said 134 two weeks ago.
- H.M.Jr: He said 134 the last time we talked to him.
- White: Sixty is allocated.
- Murphy: There's no law....
- Seltzer: That's your regulation.
- H.M.Jr: But for some reason - all we need is a hundred million.
- White: Well, I thought at the time you decided you could take

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it out of the working balance without introducing any alteration in the understanding that exists.

- H.M.Jr: Out of the working balance?
- White: Yes.
- H.M.Jr: That's what I'm talking about.
- White: I thought there was no question of that.
- H.M.Jr: That's what I'm talking about, in case he needs it tomorrow.
- White: Because that never was included in the original understanding - just a gratuitous gift.
- H.M.Jr: I'd simply say we figured too close and we needed another hundred million, which is the reason. Just stick another hundred million in. We just figured too close - which is true.
- White: Who could have figured on a billion dollars of gold in three months!
- H.M.Jr: No, I'm perfectly serious.
- White: I thought we were in favor of doing this two weeks ago.
- H.M.Jr: We never put it up to Federal Reserve.
- Murphy: You don't have to.
- H.M.Jr: Why?
- Murphy: Because that wasn't included in the press release or any announcement that's been made. It's old gold that existed on the date of the announcement; never been any commitment on it.
- H.M.Jr: It's one of the "Old Gold" puzzles.
- Taylor: That isn't going to help you; the minute the certificates start climbing up - whether it's five million dollars or whether it's 437 million, why you get a headline the minute they move, and it isn't worth moving them for 25 million, or a hundred.

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- H.M.Jr: Well, we cross that the first thing in the morning. Dan says he'll have the figures the first thing tomorrow morning.
- Taylor: Assuming he's got 46 million dollars in silver....
- H.M.Jr: We'll use that first.
- Taylor: ...and assuming you go on to your 90-day bill issue practically immediately....
- H.M.Jr: Well, he'd want to start it Wednesday. He's talking about starting it Wednesday - a week from this Wednesday - announcing it this Thursday.
- Taylor: Well, won't that do your trick without concentration? Why doesn't that do the trick for you?
- H.M.Jr: Well, you wouldn't want to start concentrations now, but he didn't know - when's the 15th; it's Tuesday, isn't it?
- Murphy: Yes.
- H.M.Jr: Well, this other money doesn't come in until Wednesday. They don't pay until Wednesday. I can't sell any more until next Monday. And by next Wednesday the money....
- Lochhead: Aren't tax receipts starting to come in now?
- Taylor: Yes, they're coming in. Got about 8 million, 9 million bucks so far this month.
- Lochhead: Have to speak in bigger figures than that in the next few days.
- H.M.Jr: You know where the phone is on the next floor, Archie. Go up and ask Dan whether he spent all his silver certificates. Ask him if he knows, Archie - if he knows tonight yet any more about that - whether that 46 - whether it's down to 50 million, whether that would do it, what's the matter with these silver certificates. See? Please.
- (Lochhead goes out to phone)
- H.M.Jr: Well, just let's leave that aside, because that's just a crisis, that's all. We can leave that to one

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side. Would anybody here be upset if we started the 22d or 29th to sell 50 a week of 90-day bills without deciding what we're going to do at the end of the picture?

- Seltzer: Well, I personally prefer the 6-months to the 90-days, figuring it gives you a freer hand. If you need money you raise more that way. If you don't need money, you can always go to the 3-months. And 6-months bills would be less attractive to foreigners than 3-months bills.
- H.M.Jr: Yes, but the thing - the argument that I've gotten from these large bankers in New York is that the 90-day bill would give them what they need in case of more shifts in excess reserves, and they need it very, very badly; and they won't have to be selling their bonds and they leave their portfolio alone, see; and the one instrument that they need worse than anything else right now is a 90-day bill. I mean that's what they've told me, see? And the six-months won't do the trick.
- Seltzer: And how about Eccles' plan as to buying....
- H.M.Jr: He talked to me tonight about how did I feel about his going ahead. I said, "Well, it can't do any harm."
- Murphy: It does away with the 90-day - with the need for 90-days.
- Taylor: I don't think it does.
- H.M.Jr: I wish a couple of you fellows would talk to commercial bankers the way I have on this 90-days.
- White: No question, I think, they always have liked it.
- Seltzer: They'd like nothing else but.
- Taylor: Well, how does it help the Treasury?
- Seltzer: That doesn't help the Treasury.
- Murphy: I'd say it hurts the Treasury, in two respects. First, if we should go ahead with this raising of the requirements on foreign balances, it is very likely

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that a substantial proportion, perhaps half, of the money that we borrow on the 90-days, is money which otherwise would not have been forced into that market. Secondly, there is the school of thought that we should save our potential bill expansion for emergencies. Of course, the 90-day bills are the emergency bills, and we're putting them out now - would be. The only way the Treasury can gain is by a saving in rate, and it seems to me that the demand is really for a 90-day bill at a 9-month rate.

- Taylor: Why would the 90-day bills be the emergency bills? I think they'd be just the opposite. Your emergency bills would be the longest bill you could sell.
- Seltzer: Probably sell certificates for an emergency anyhow.
- Taylor: If it's a real emergency, you don't want to have to move around that fast. It's dead wrong to think of 90-day bills as emergency bills.
- H.M.Jr: I can't see the six months as - I mean the 90-day bill fills a definite commercial need.
- Taylor: That's your stock in trade.
- H.M.Jr: And the reason I'm interested is it will mean that these fellows won't be selling their portfolios if they get frightened; they won't be dumping fifty, a hundred million, two hundred million dollars worth of bonds, because they can let their bills run off. They can't do it now, see; they're absolutely frozen, and when the crop thing begins to move they say they're so tight that the only thing they can do is sell their bonds, and that's what keeps them constantly on edge. Six-months won't do that.
- Murphy: If Eccles proposal was working, they could always sell their 90-day bills to the Federal.
- H.M.Jr: I talked - they don't give a damn whether Eccles does it or not; it's just window dressing; it doesn't make a damn bit of difference. They'll take the 90-days; they'll take fifty, a hundred, they'll take 150 million a week. And Eccles suggests this; I don't want to always disagree with him; he wants to do it, he thinks he's helping. What's the harm?
- Taylor: And it's good anyhow.

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- H.M.Jr: And if we want to sometimes use the 6-months....
- Taylor:6-months or 9-months, that backs you up on that.
- White: The very fact that they like the 90-days indicates that that is what they would be more apt to go into. However, from the other point of view, I think it is true that the 90-day bill sells more by virtue of the fact that it does fit commercial needs and induces a large demand for those bills, which presumably should lower the borrowing cost. So if it weren't for the sterilization program, I should be in favor of the 3-months bills. Therefore, the thing to measure is the extent to which you would be borrowing on a 90-day bill that you would not have to borrow if you had 60-day bills - not have to borrow at all. I think you put it....
- H.M.Jr: You don't mean 60-days.
- White: I meant 6-months. I think you put it too high, but there is some shift.
- Murphy: I wouldn't feel that the objections to the 90-day bill were strong if it wasn't for this proposal.
- White: I think it is less strong than what he says. I don't think it is important. If you get up to 50, 60 - when you get beyond 75 percent, or when you go from 60 to 75, I think it is important not to have - to have as few 3-months bills as possible.
- H.M.Jr: Have you got to the point that you're ready to recommend that we increase the reserves against the foreigners?
- White: At once.
- H.M.Jr: What?
- White: At once.
- H.M.Jr: You have?
- White: I'd go from - the first jump I'd make would be from 26 - give them some time - to 50 percent.
- Murphy: At that point I think your 90-day bills get dangerous - at 50 percent.

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White: Well, I don't think - feel your way. If you would go to 50 percent, that would give you at once 25 percent on - what is it, a billion and three?

Seltzer: Billion six.

White: But I mean in the member banks, in the New York banks.

Seltzer: A billion three for the member banks.

White: The others would have to pay 25 - they'd have to pay the full 50, because they haven't had to do this at all before. But it would give you immediately half a billion dollars.

Seltzer: Only about 30 million.

White: Not if you went to 50 percent.

(Lochhead returns)

Lochhead: Dan says that, first of all, he's got calls in this week for 70 million dollars; we'll have 70 million dollars to spend on gold in the next ten days. And then, on the silver, he said we could in an emergency force that into the Federal book. He was surprised to know it was down as low as 46. He hadn't noticed that drop of 16 million. But it could be done that way. So really you've got 70 plus 46; you've got about 120 million dollars you can use in the next ten days, and I don't see anything more than 50. I think we'll make it with 50 million, because the market was very small today.

H.M.Jr: Well, if the Federal doesn't like those silver notes, we better give them gold.

White: It seems to me their objection to silver certificates is of the fifth order of importance. I wouldn't give it a wink.

Lochhead: I don't worry at all, because the law says that you can use the silver certificates.

H.M.Jr: Supposing we use all 46 million of the silver.

Taylor: O.K., why not?

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H.M.Jr: Then what? Will that see Danny through?

Lochhead: With the 70 million he has on calls, yes.

H.M.Jr: What?

Lochhead: As far as I can see, it's going to carry him through. I can't figure on a hundred million coming in in the next ten days unless we get another.....

H.M.Jr: Or would you rather use the silver?

Lochhead: Well, if he doesn't want to pull out the balances..... That would be the way to call his balances.

Taylor: He's already got his calls out, so those move down anyhow - over into the Federal anyhow, don't they?

H.M.Jr: Is it too late to use the silver certificates?

Lochhead: He can put those in any day. He can put those in on a moment's notice. The only thing to do is to telephone and those silver certificates go in.

H.M.Jr: I think to be consistent - I think we ought to discuss this with the Federal Reserve first before we use any of Taylor's gold. What? Don't you think so?

Taylor: Yes, sir.

H.M.Jr: Well, I think that that's the answer, to tell them to use that up first.

Lochhead: Well, when you say use that up, do you mean use that before you use the gold or use it up before he uses the balances he's called? He's called for 70 million dollars in the next ten days.

Taylor: Fifty-fifty.

H.M.Jr: Well, how can he do it? Is it too late to put the silver in?

Lochhead: No. He's got the calls out. I think he's got a call out for his funds out of the commercial banks, and that means he transfers his balances from commercial

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banks to the Federal. But in addition to that, he can put his silver certificates in, and that increases....

H.M.Jr: And spend that?

Lochhead: And spend that. That gives him a little bit bigger balance, that's all.

Taylor: Not running very heavy balances now.

Lochhead: No.

H.M.Jr: I think he was up to 140 today, wasn't he?

The other thing about it, he doesn't know how many people are going to pay for these bonds with cash. Now, there's going to be quite a few, because I was surprised today to see the number of insurance companies - Ford came in, too, and Chrysler. I mean that's new kind of customers for us. And in big wads. Mr. Ford may say Sunday night through Mr. Cameron that the Treasury mismanages, but he still likes their notes if he can get enough of them.

Lochhead: Probably likes the Treasury better than he does the international bankers.

H.M.Jr: Maybe he thinks they're synonomous. He said that our tax bill was conceived by international bankers.

Well, Harry, in this memorandum of Gardner does he say anything about increasing reserve requirements for foreigners?

White: No. But I think that Currie wrote the memorandum on it.

Taylor: He doesn't close that possibility.

white: No, but I don't think he mentions it. But Currie wrote a memorandum on it.

H.M.Jr: What do you think would happen if we did that?

White: Why, I think if there would be any difference of opinion, it would be again on the question of making

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it automatic. That is, they would want you to work it both in case, in other words, there was a purchase of securities from the deposits or in case more gold came in - or at least I mean less gold went out - the other way.

H.M.Jr: Don't go so fast. Start all over.

White: What?

H.M.Jr: Say it all over again.

White: I think that the way the difference of opinion, if any, would exist - and they would like the idea except that they would wish it automatic, automatic in the sense that it would work both ways; that if the balances on foreign account were drawn down, so that the excess reserves were increased, you would re sterilize that.

H.M.Jr: I see. In other words, they'd have a call on me.

White: But I question that you would still maintain your present program, in a sense. Now, that's where the difference of opinion, if any, would be. I think they'd probably approve it.

H.M.Jr: That is, that's something you think we ought to do pretty soon.

White: I think so.

H.M.Jr: Well now, supposing we went half way. What effect would this have? Would that drive this foreign money into the bill market?

White: Well, if we went half way there's beginning to be room for difference of opinion. I think you'd have to go and get the opinion of men closer to the source than I am. My opinion would be that if you went to 50 percent, you wouldn't drive any in to any significant extent. You could get that - it would be a half billion dollars that you could get right away.

H.M.Jr: What's your reason for doing it?

White: The reason for....

H.M.Jr:raising the reserve requirements.

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White: Oh, there are five reasons.

H.M.Jr: Well, give me one.

White: One reason is it would reduce your financing problem. (B) The expense of maintaining the inactive account is, I think, from any point of view inexcusable. The burden ought to belong on the banks who benefit from those deposits, or on the foreigners who for some reason or other prefer dollars to any other accounts, and the funds ought to be taxed there. The Treasury certainly oughtn't to borrow that in view of the fact that the criticism which is being directed against the Treasury policy is hung on that peg, plus the fact that the criticism of that point is creating a broader interest in the whole gold problem, it is raising the gold problem. A good deal of the talk of digging up gold from one hole and burying it in another centers around the fact that we have to borrow in order to sterilize that gold; it would reduce that somewhat. It wouldn't eliminate it, but I think it would reduce it very substantially.

And then, in so far as there would be a service charge and in so far as that service charge wouldn't drive them into bills, you'd have a slight, a very slight, deterrent; it might be that certain funds wouldn't come here, and there might be - I wouldn't weight that very heavily because I don't think it is very important.

H.M.Jr: Well, the banks wouldn't like it.

Lochhead: Oh no, the banks wouldn't.

H.M.Jr: They wouldn't like it because it would discourage foreign funds from depositing with them.

White: Oh, there's another important point that I'd like to mention; there might be some difference of opinion. But I think it is a splendid opportunity to extend Federal control over private banks and non-member banks, and here is one vehicle upon which you could do it very definitely. Congress would be glad, I think, to give you that power, whereas you'd have considerable difficulty getting any other form of extension, and it is a very important opening

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wedge in a direction which I think we definitely ought to go, and will go as time goes on.

H.M.Jr: You mean have this over state banks as well as....

White: Over state and private banks. Now, there's a disagreement. Wayne has a different idea on that. Wayne would prefer to have only member banks...

Taylor: ...eligible to receive foreign deposits.

White: ...to receive foreign deposits.

H.M.Jr: - That wouldn't be any good, because our good friend Mr. - the Chairman of the Banking in the House...

Murphy: Steagall.

H.M.Jr: ... - he'd never stand for that.

Taylor: I think he would on the foreign bank thing. That doesn't affect the foreign deposits thing.

H.M.Jr: Foreign deposits only go to member banks?

Taylor: Yes.

H.M.Jr: But he wouldn't stand that we have the right to control the excess reserves of non-member banks who control foreign accounts.

Taylor: Therefore, you are forced into what I am talking about.

H.M.Jr: That foreigners could only deposit with members.

Taylor: That's right.

H.M.Jr: That isn't what you....

White: No, I have the other point of view.

H.M.Jr: It all depends on who's going to fight it; but believe me, I wouldn't want to undertake any more fights on it.

White: Well, they'll fight it just the same; the banks are not going to like to lose those deposits.

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- H.M.Jr: But that isn't Mr. Steagall's - Mr. Steagall would fight till Doomsday before having the Federal Government doing anything over state banks.
- White: Only with respect to foreign deposits. They wouldn't have anything over...
- H.M.Jr: Well, I don't know; the thing that makes me hesitate about all this thing, it would mean legislation and opening up the whole thing on the Hill, see - the whole question.
- White: But the time is ripe; we've got every good argument in favor of it, because what you're hammering away at is foreign funds, foreign gold coming here and putting American people to an expense.
- H.M.Jr: Eccles would have to go up and sell this, wouldn't he?
- White: He's in favor of it - was.
- H.M.Jr: What?
- White: He's in favor of it.
- Seltzer: He'd have a relatively easy time - "See here, you do this thing and the Treasury won't have to borrow money and pay interest and sterilize this gold; it is sterilized automatically by these reserves."
- H.M.Jr: "Eccles comes to the rescue of the Treasury."
- Lochhead: It would encourage people on the Hill, like Thomas - you're going to have more and more....
- H.M.Jr: What was his bill today?
- Lochhead: It is that instead of using this sterilized gold, that you take away the bonds that the Federal Reserve has.
- H.M.Jr: Well, I'm for that.
- Lochhead: That's going to build up; it's been a little slow in coming.
- Taylor: This not only looks like the most possible, but it seems to have sufficient merit from various angles

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so that even your crowd that is all for unit banking, which is concentrated around in places which aren't a bit interested in foreign deposits.....

White: It's only 26 banks that have - I mean 26 virtually - 26 banks have got virtually all the foreign...

Lochhead: I got rough figures from.....

Seltzer:of a billion, 660.

H.M.Jr: Let's hear Archie.

Lochhead: Total deposits in the second district - foreign deposits - were one billion, 666 million.

H.M.Jr: Say it again.

Lochhead: One billion, 666 million.

H.M.Jr: Where is this?

Lochhead: Deposits in all the banks in the second district.

White: Which are 95 percent of the total.

H.M.Jr: You (White) act as though you found out about this. I asked Archie for it at 8:20; that's why we got it. But you act as though you discovered this.

White: No, I saw it first because Archie telephoned it to me.

Lochhead: There's 26 banks in New York holding one billion, 524 million of that amount.

H.M.Jr: Yes.

Lochhead: That's 26 banks holding one billion, 524 million of that one billion, 666 million. That would be over - about 94 percent, I suppose.

H.M.Jr: Well, I told you we'd get 95 percent.

Lochhead: Now then, you've got in there 285 million of these foreign deposits held with non-member banks, and if you put any rule through which would just apply to

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members, of course, all the money would shift there.

H.M.Jr: You'd have to protect that.

Lochhead: You'd have to protect that; there's no doubt about that.

H.M.Jr: And I think the easiest way to do it is Taylor's way; otherwise, I think you're going to take on a fight, a terrific lobby on that.

Taylor: Your big private non-member banks, if you want to call them that.

Lochhead: You've got people, of course, like Morgan and some of the others - Kuhn-Loeb, J. Henry Schroeder.

Taylor: There's no reason in Christ's world if they're accepting foreign deposits why they shouldn't be part of your banking system.

Lochhead: And the others you're going to have are these fellows such as Canadian Bank of Commerce, Bank of Montreal, French-American Banking Corporation, Bank of Nova Scotia.

H.M.Jr: When you say 26, is that included in that?

Lochhead: Those banks are included.

H.M.Jr: Now, if you subtract those, how many you got left that handle foreign accounts?

Lochhead: The non-member banks?

H.M.Jr: Non-member banks.

Lochhead: Have just about 13.

H.M.Jr: That's more like it; that's more like it.

Lochhead: 13 banks in New York.

Taylor: But those are members.

Lochhead: 13 members.

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H.M.Jr: When you concentrate your deposits, roughly how much of the deposits are in those 13 banks?

Lochhead: In those 13 banks....

Taylor: Which 13?

Lochhead: The 13 member banks at the present time have about one billion, 200-odd million.

H.M.Jr: You can control that. And you didn't get Chicago?

Lochhead: No, we didn't get Chicago. We'd have to go direct to Chicago, and Boston, San Francisco. But it wouldn't mean anything to any great extent.

H.M.Jr: Well, if you made it so that it would only have to be member banks, your whole foreign deposits would be in, say, 15 banks.

White: Then all you'd have to do would be to fight the 15 non-members.

H.M.Jr: Well, that would be easy.

Taylor: That's duck soup for you.

H.M.Jr: How many total non-member banks are there? Ten thousand, aren't there? About ten thousand. Well, I'd rather fight this than the ten thousand. Harry, the feeling on that is something.....

White: Well, that's another matter. Of course, it might have the advantage of shoving some more into the banking system.

Taylor: You take Morgan, for example.

Lochhead: Has about 60-odd million.

Taylor: And that is a major portion of Morgan's business.

White: He may join the System.

Taylor: Well, why the hell shouldn't he join the System if he wants to be in the commercial banking business?

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- H.M.Jr: Very interesting, isn't it? Very interesting.
- Did you know that the Discount Corporation of New York was a bank and could take war loan deposits? This only came out the other day. I didn't know that. That's where they have it all over these Government bond dealers. I didn't know that they buy this stuff on....
- Harris: They don't require the leading Government bond houses to put up any deposit on these subscriptions - like Solomon, First Boston.
- H.M.Jr: But they haven't got any war loan account to buy on credit.
- Harris: No.
- H.M.Jr: Carry those things for a year if they want.
- Well, I guess, Harry, the thing I've got to do is to make up my mind about this question of reserves against foreign accounts. But you don't feel that if we went at that gently the 90-day bill thing would offset it?
- White: No, not till we got in the range between - there may begin to be difference of opinion between the range of 50 and 65 percent.
- H.M.Jr: Well, what about their going into commercial paper?
- Taylor: There isn't any.
- H.M.Jr: Supposing there is and money becomes available.
- White: Well, they prefer bills to commercial paper. They'd go into commercial paper second.
- H.M.Jr: How far along is the Federal Reserve on the question of raising these reserves on foreign deposits?
- White: I don't know. I know they had a memorandum on it sometime ago.
- H.M.Jr: What happened to it?

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- White: I don't know. I didn't see what the memorandum was, but....
- Taylor: We were sterilizing, so it wasn't anything that had to be answered.
- Harris: I think it would help the corporate bond market if the Treasury in the near future could raise most of their funds in the short-term money market, because corporate financing should pick up. I noticed one comment in Moody's today that they thought it was a fine gesture on the part of the Treasury, if you want to call it such, that they raised their money in the short-term market, and let the long-term market settle down to give corporations an opportunity to look forward to some financing, which they have been laying off so long.
- Lochhead: Yes, but do you think that makes a difference of 9-months to 90-days?
- Harris: No, I mean if you were planning in September or December....
- H.M.Jr: That's why we wanted the notes.
- Harris: If you were going in September or December to go back into the bond market.... We've got over two billion dollars worth of refinancing to do before this year is out.
- H.M.Jr: That's why I wanted the notes, and look at the tone it's given the bond market.
- Taylor: Mr. Moody is right, but there was some self-interest in that too.
- Murphy: Suppose we do go into this raising reserves and it takes six months, and we get out our 90-day bills; once they are out, it's going to be awful hard to get them back in; it's like taking candy away from a baby, they want them so badly. The minute you start reeling them in again, it will be a really major operation, if they should even partially raise the reserves, wouldn't you say, Harry?
- White: I would prefer to see us start conservatively, and keep the 3-months bills with 6-months as a start.

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- Taylor: You place this fellow in the - I mean the banker - in this position. The only thing that will drive his accounts into the bill market is if he puts on the service charge, isn't it? Well, if he puts the service charge on, he cuts himself out of what he wants, an attractive rate, which is the bills, isn't it?
- Murphy: Well, of course, taking a banker individually, he can't do - he can't be influenced by the effect of his individual action on the market, because if he doesn't, somebody else will. In considering the transaction, just the merits of the individual transaction, he will put a service charge on the accounts if they become absolutely a loss; and if we raise the requirements, say, above 50, they probably will do that. I don't know just what the breaking point is; you'd have to get commercial bankers to tell you that.
- Taylor: There are these foreign investors. If he is as smart as I think he is, he's going to figure that he's going to drive them into the bill market, which will raise the price on his bills, so that then he's....
- Seltzer: Of course, he isn't going to have as much money to invest in bills if they draw his funds out.
- Taylor: Well, it's - it is a factor.
- White: He loses from two angles. He loses from the fact that he gets less money to invest, and then his bill rate is high - gets less on bills.
- Taylor: If he puts the service charge on, he's competing against himself in the bill market, which is the market that he wants to be in.
- Seltzer: You've got this definite cost of 1/12 of one percent. As that becomes concentrated in a smaller and smaller portion of the deposits, as you get up into these astronomical reserve requirements, then it becomes a question right there of one-third of one percent on the effective balance, if the requirements are 75.
- White: There is another factor that hasn't been mentioned. If it should be found that the incoming gold is becoming more of a serious problem and you want to

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check it, then this would be the first step; it would have to be accompanied later by some form of transfer tax, possibly. But it isn't just right now - but I mean if the problem would become more serious, it would be easier to impose that transfer tax later, after this thing is running smoothly. You'd know just about how much to put on. You could gather from the experience of this thing a good deal of information as to the knowledge of whether you need any transfer tax or how high it is, so that when you do raise your reserve requirements, you'd be in a position to handle it

- Murphy: Well, a very small transfer tax, of course, would offset the whole thing.
- White: Yes, well, that's why I say - but it's the administration of the transfer tax.
- Murphy: It is something new to place a transfer tax on original purchases. Supposing that the people bought them at the time of issue and held them to maturity. We don't enforce any other transfer taxes on the first sale.
- White: Those are the problems. Not adopting it now. There are several other administrative problems.
- H.M.Jr: You know, you and I have talked this now for about three months - that this thing might work itself out, you know.
- White: Might.
- H.M.Jr: It might.
- White: And it might not. But it might.
- Lochhead: I've really felt better this last week about it.
- H.M.Jr: I tell you what I'm going to do. If it's quiet tomorrow - the gold market - I'm going to go up to Bob's graduation; I don't think I'll be back till Sunday night. I mean I've had enough now for a while; I'm completely tired out mentally. I need a couple days on the farm; it would do me a lot of good, and I'd come back with a lot of new ideas.

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- Taylor: Well, particularly to take on this thing.
- H.M.Jr: Well, I may take White up with me, ask him to come up Friday and spend Friday and Saturday on the farm, and I'll work a couple afternoons; may have him come up there and I'll spend a couple afternoons going to school.
- Lochhead: The Secretary generally gets his ideas when he comes down on the midnight train. I can always tell when you come down on the train.
- H.M.Jr: I don't sleep so hot.
- Lochhead: He doesn't sleep all night and he comes in bright and early.
- White: Well, in any case we can get all the data and all the stuff ready.
- H.M.Jr: I think bringing you two (White and Seltzer) together on this is very important, because there seems to be.....
- White: We're not so very far apart.
- H.M.Jr: And I told Mr. Eccles that I wouldn't take up this question of new financing until a week from Wednesday.
- White: Then you're not going to raise this problem tomorrow.
- H.M.Jr: No, not after tonight's conversation, no. But I told him I was going to take it up Wednesday a week, and if we came to - had any ideas in the meantime, why, Mr. Taylor would communicate them. But I don't think we've got anything tonight to communicate. He's got his hands full tomorrow.
- White: Of course, they'd have to cooperate very closely with any such arrangement, because there would be a period over which they'd have to absorb the bills while this is going on.
- H.M.Jr: Well gentlemen, I think we'll call it quits. As I understand, if the silver's gone, we spend Taylor's gold. God, I never saw a man hang on to gold in my life like that....
- Taylor: Don't call that my gold.
- H.M.Jr: Your "goldilocks," huh?

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, June 7, 1937.
6/5/37

Press Service
No. 10-45

Secretary of the Treasury Morgenthau is today offering for subscription, at par and accrued interest, through the Federal Reserve banks, \$800,000,000, or thereabouts, Treasury notes in two series, each for \$400,000,000, or thereabouts. Both series will be dated and bear interest from June 15, 1937. One series, designated Series D-1939, will bear interest at the rate of 1-3/8 percent, and will mature in two years and three months on September 15, 1939. The other series, designated Series A-1942, will bear interest at the rate of 1-3/4 percent, and will mature in four years and nine months on March 15, 1942. The notes will not be subject to call for redemption prior to maturity.

The Treasury notes will be accorded the same exemptions from taxation as are accorded other issues of Treasury notes now outstanding. These provisions are specifically set forth in the official circular issued today. The notes will be issued only in bearer form with coupons attached, in the denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

Subscriptions will be received at the Federal Reserve banks and branches, and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Subscriptions from

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banks and trust companies for their own account will be received without deposit but will be restricted in each case and for each series to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Subscriptions from all others must be accompanied by 10 percent of the amount of notes applied for.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice. All subscriptions will be received subject to allotment and subject to the reservations set forth in the official circular. Payment for any notes allotted must be made or completed on or before June 15, 1937, or on later allotment.

Special Treasury bills aggregating \$300,000,000 mature immediately after June 15, and about \$157,000,000 interest on the public debt becomes payable on that date.

The text of the official circular follows:

UNITED STATES OF AMERICA

TREASURY NOTES

1-3/8 percent Series D-1939 Due September 15, 1939

1-3/4 percent Series A-1942 Due March 15, 1942

Both series dated and bearing interest from June 15, 1937

1937
Department Circular No. 575

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, June 7, 1937.

Public Debt Service

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for notes of the United States in two series, designated 1-3/8 percent Treasury Notes of Series D-1939 and 1-3/4 percent Treasury Notes of Series A-1942, respectively. The amount of the offering of each series of notes is \$400,000,000, or thereabouts.

II. DESCRIPTION OF NOTES

1. The notes of Series D-1939 will be dated June 15, 1937, and will bear interest from that date at the rate of 1-3/8 percent per annum, payable on a semi-annual basis on September 15, 1937, and thereafter on March 15 and September 15 in each year. They will mature September 15, 1939, and will not be subject to call for redemption prior to maturity.

2. The notes of Series A-1942 will be dated June 15, 1937, and will bear interest from that date at the rate of 1-3/4 percent per annum, payable on a semi-annual basis on September 15, 1937, and thereafter on March 15 and September 15 in each year. They will mature March 15, 1942, and will not be subject to call for redemption prior to maturity.

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3. The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes, or gift taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

4. The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

5. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

6. Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case and for each series to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Subscriptions from all others must be accompanied by payment of 10 percent of the amount of notes applied for. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced

allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for notes allotted hereunder must be made or completed on or before June 15, 1937, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for notes allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve bank of its district.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.;
Secretary of the Treasury.

Mr. Moty

UNITED STATES OF AMERICA
TREASURY NOTES

| | | |
|------------|---------------|------------------------|
| 1½ percent | Series D-1939 | Due September 15, 1939 |
| 1¾ percent | Series A-1942 | Due March 15, 1942 |

BOTH SERIES DATED AND BEARING INTEREST FROM JUNE 15, 1937

1937
Department Circular No. 878
Public Debt Service

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, June 7, 1937.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for notes of the United States in two series, designated 1½ percent Treasury Notes of Series D-1939 and 1¾ percent Treasury Notes of Series A-1942 respectively. The amount of the offering of each series of notes is \$400,000,000, or thereabouts.

II. DESCRIPTION OF NOTES

1. The notes of Series D-1939 will be dated June 15, 1937, and will bear interest from that date at the rate of 1½ percent per annum, payable on a semiannual basis on September 15, 1937, and thereafter on March 15 and September 15 in each year. They will mature September 15, 1939, and will not be subject to call for redemption prior to maturity.
2. The notes of Series A-1942 will be dated June 15, 1937, and will bear interest from that date at the rate of 1¾ percent per annum, payable on a semiannual basis on September 15, 1937, and thereafter on March 15 and September 15 in each year. They will mature March 15, 1942, and will not be subject to call for redemption prior to maturity.
3. The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes, or gift taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.
4. The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.
5. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.
6. Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form.

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2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for notes allotted hereunder must be made or completed on or before June 15, 1937, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for notes allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve bank of its district.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.
2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, Jr.,
Secretary of the Treasury.

(Filed with the Division of the Federal Register, June 7, 1937)

1937

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, June 8, 1937.
6-7-37.

Press Service
No. 10-47

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 1-3/8 percent Treasury Notes of Series D-1939 and of 1-3/4 percent Treasury notes of Series A-1942 closed at the close of business Monday, June 7, 1937.

Subscriptions placed in the mail before 12 o'clock midnight, Monday, June 7, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made on Friday, June 11.

ccOoo

PARAPHRASE OF SECTIONS ONE AND TWO.

FROM: American Embassy, Paris, France

DATE: June 8, 1937, 9 a.m.

No.: 746

FROM COCHRAN.

Last night I returned from Brussels, where on Monday morning I visited Governor Franck at the National Bank of Belgium. In the evening I talked with Deman at the Ministry of Finance. During the day Belgian officials were entertaining the Kung delegation.

Belgium had not acutely felt the gold problem, Franck said. In Belgium he said much of the gold hoarding had terminated when the belga returned to gold, nearly(?) new parity, so that there is no big domestic dumping of gold at the present time. Some gold from the market is coming to his bank, but it is on the other hand yielding some gold too.

The Belgian Bank Governor expressed appreciation of the facilities which the American Treasury extended to him through the Federal Reserve Bank of New York of selling gold in Brussels against dollars since, when the export point from Brussels to New York was reached, arbitragurs failed to intervene to ship gold. Development of an important discount on gold in Belgium had been prevented thereby. Market speculators were kept out by such intervention as his bank had made. His operations in gold against dollars, he said, had been but five hundred thousand

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thousand dollars on Saturday, whereas on Friday they had been four million six hundred thousand.

The immediate need, Franck thinks, is for the British and American stabilization funds to cooperate to such an extent that the London gold market remains clear, and that the present excessive discount on gold be reduced to a small margin. Dehoarding does not worry him enough to urge a statement on the gold price by all six parties. He is in definite favor of the six countries undertaking the study of control of gold production. Franck thinks that the situation would be much helped if these powers could announce the beginning of such studies, and that "maintaining the price of gold steady" was the purpose of them. The remarks made by Franck follow so closely the terms of a personal letter which he wrote to Eccles on May 11 that I quote this letter in full lest you personally may not have seen a copy thereof:

END SECTIONS ONE AND TWO.

BULLITT.

EA:LWW

JR

SPECIAL GRAY

Paris

Dated June 8, 1937

Rec'd 10:47 a.m.

Secretary of State,
Washington.

746. June 8, 9 a.m. (SECTION THREE).

"The gold problem is growing and we feel that cooperation between the central banks of the tripartite agreement might well become necessary.

I enclose copy of an address of mine on the matter.

An amount of not less than 4000 million gold francs or approximately 1,300 million dollars represents the addition of (begin underlining) new (end of underlining) mined gold to the stock of the world in 1936 and about 1,100 million dollars the addition to your monetary stock alone. In effect the process was more complicated as gold came from India and the East, other gold came from dehoarding, other from monetary fluctuations. But in the long run the final result is striking: an addition equal to about the total new gold production was absorbed by your Treasury. In more or less smaller proportions the same story may be told for London, Brussels, Amsterdam, Switzerland. Can this process continue long? This increased production has begun in 1931 and has gained strength every year since. It is predicted even in 1940 the increase will be such as to double the (END SECTION THREE)

BULLITT

KLP:CSB

ddm

SPECIAL GRAY

PARIS

Dated June 8, 1937

Rec'd 11:41 a.m.

Secretary of State

Washington

746, June 8, 9 a.m. (SECTION FOUR)

annual production of 1930. Where will it stop? Naturally some reaction will develop by the rise of costs of production but the gap to be bridged over is very large and it may take a very long time before some relief comes in that way.

Now it is clear that there is no monetary use for such an over production and that we are already buying gold that we do not want to have.

We are thus confronted with a most grave problem.

A similar problem arose some 35 years ago with raw diamonds.

Diamonds were then flooding the market. At first it was believed that things would adjust themselves.

But it was soon discovered that if allowed to continue the fall in price would destroy the market.

A syndicate was formed and succeeded in keeping the sale of raw diamonds under control. The mines restricted production and fared well by it; they considered under the influence of the syndicate that after all their reserves of diamonds were not inexhaustible and that it was wiser

for

-2- No. 746 from Paris June 8, 1937

for them to have their stock last longer and be sold at a good price than to rush it on ruined market within a limited number of years.

BULLITT

KLP
WWC

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TREASURY DEPARTMENT
Office of the Director
Financial and Economic Research

MG

SPECIAL GRAY

Paris

Dated June 8, 1937.

Rec'd 12:05 p.m.

Secretary of State,
Washington.

746, June 8, 9 a.m. (Section Five).

The London raw diamonds syndicate is still functioning and has entirely saved the situation.

Cannot the same managed production be introduced as far as gold is concerned?

Gold as a basis of the monetary system is a public interest.

The central banks and equalization funds are representing a very large proportion of the buying capacity of the gold market. As there is no free minting of gold the effect of the excessive gold production is less rapid; but the arbitrage operations will nevertheless force the gold or substantial part of it into the central bank or equalization fund. How long are they going to absorb it? Can they continue indefinitely to buy? And if they stop, the market will be left without sufficient demand and fall very heavily.

Restriction of supply will then follow but after
what

MG

Page 2,
#746 from Paris (Section Five)

what cost and with what consequences? To the contrary should our six central banks and/or equalization funds not allow the matter to drift - and decide no longer to buy gold except from such mines as would accept plan of combined and restricted production: the mines would

BULLITT

CSB

FS

SPECIAL GRAY

Paris

Dated June 8, 1937

Rec'd 11:56 a.m.

Secretary of State,
Washington.

746, June 8, 9 a.m. (SECTION SIX)

have to restrict their production or lose the chance of selling. The assay firms which we employ are not numerous and they can be instructed to limit the assaying to the mines which accept the plan of managed production. Only the gold bearing the mark which we would establish would be accepted by us.

No doubt the other central banks would support us.

The real difficulty is Russia. But the Russian Government should be approached through the Russian State Bank. They have after all the same interest not to spoil the value of their alluvial gold which will not last forever. And if they are in need of ready money, central banks may advance it on their gold up to a reasonable amount.

The advantage of a limitation of gold production would strike at the root of our difficulties.

It would:

- (1) Avoid the boom in prices which is certainly bound

FS 2-No. 746, June 8 from Paris (Section Six)

bound to come if nothing is done.

(2) Maintain the price of gold and thereby the value of the assets of the exchange stabilization funds and/or central banks.

(3) Stop or at least moderate the influx of gold (END SECTION SIX)

RR:KLP

BULLITT

RB

SPECIAL GRAY

Paris

Dated June 8, 1937

Rec'd 2:20 p. m.

Secretary of State

Washington.

746, June 8, 9 a. m. (SECTION SEVEN)

It could be moderated or given up at any time. Could the same results be secured by reducing the price we pay for the gold?

One. It seems probable that Russia would not on that account limit her production. Cost price consideration scarcely weights with her. Other producers would make less profit but many would still make enough to continue production on the present scale. So the real evil, i.e., the excessive production would scarcely be touched.

Two. Would not lowering the gold price finally lower prices all round thus greatly disturbing the move all over the world?

Three. In any case lowering the gold price means undoing the monetary measures which were taken by devaluation of the pound, the dollar, and finally all other currencies.

Disharding on a large scale might very well follow

and

RB

-2-#746, June 8, 9 a. m. from Paris
SECTION SEVEN

and strike at the root of the return to confidence which has so laboriously been built up.

For all these reasons it seems that an effort to limit production might well be carefully studied. There are certainly practical difficulties to overcome

BULLITT

CSB

PARTIAL
PARAPHRASE OF SECTION EIGHT OF TELEGRAM NO. 746
of June 8, 1937, from the American Embassy, Paris.

but they do not appear insuperable and or existing
stock largely hoarded (omission) view.

We have an open mind in the matter but we strongly
(omission) that we ought not to allow things to simply drift
on.

Should you think that the matter is worth-while to be
investigated further I would thank you for telling me and
also suggest that you on your side have the problem con-
sidered in this light and keep me informed.

We naturally for the time being avoid giving any pub-
licity to this research work".

In his conversation with me Minister of Finance Deman
indorsed the views which Franck had expressed to me and
had incorporated in his letter to Eccles. Deman is of the
opinion that international agreement toward control of pro-
duction is the one satisfactory method of solving the prob-
lem so as to preserve gold as a real currency basis.
He does not favor revaluing gold now that we are recover-
ing from certain of the economic difficulties which led to
devaluation in the first place. Achievement of as great
stability in currencies as possible is his desire.

Belgian commodity and security markets he said were
sharply affected by the gossip of a prospective change in
the American gold price. He said that all of this uncer-
tainty complicates his problem of converting certain of
Belgium's outstanding foreign obligations, most particular-
ly the Mendelssohn loan, in florins which loan has a gold

- 3 -

clause guarantee.

END SECTION EIGHT.

BULLITT.

EA:LWW

SECTION NINE

Deman believes it is wrong that doubt as to the policy which several important goldholding and purchasing countries may contemplate following with regard to the price of gold should have repercussions of a worldwide nature. In order to overcome this, Deman welcomes cooperation between the six party group and exchange of views for the proposal of controlling gold production. In his mind there was a little question as to whether the six countries alone could achieve an agreement which would effectively control the production of gold, particular in Russia, but he felt that the obstacles to success could be surmounted.

The following passage from Tripp's annual report to the Netherlands Bank which Deman had not seen until I showed him my proof copy of an English translation quite took his interest. (End Section Nine)

EA: DJW

EDA

SPECIAL GRAY

PARIS

Dated June 8, 1937

Received 5:31 p.m.

Secretary of State

Washington

746, June 8, 9 a.m. SECTION TEN.

"The output of gold is no doubt a factor which in the long run strongly affects the world's economic and financial well-being. History may be cited in support of this contention. Under present circumstances the yearly output of gold is chiefly determined - apart from the effects of the exhaustion of old or the discovery of new mines - by the general price level. A steep fall in commodity prices will be followed by an increase in gold production whilst a decline in gold production is only to be found after a very strong rise of commodity prices. It follows that the remedial action will only set in after the evil has manifested itself in the shape of violent and harmful price fluctuations. If planning is called for anywhere it is with regard to the production of gold. In the interest of the producers themselves as well as in that of the world as a whole, it is highly desirable that the annual output of gold be so regulated as to insure a harmonious and healthy growth of trade and

general

EDA - 2 - #746, June 8, 9 a.m. Section ten from Paris
general production throughout the world.

It should not be inferred, however, that gold
exerts an unfavorable influence on world economic and
financial conditions and that it should therefore cease
to be the basis of the international monetary system.

BULLITT

SMS:EDA

PARTIAL PARAPHRASE OF SECTION ELEVEN OF NO. 746
of June 8, 1937, from the American Embassy, Paris.

Apart from the undeniable fact that conditions prevailing at present are mainly due to currency tinkering in various countries it must be remembered that the experience of the recent past has once more proved that gold is an indispensable instrument for making international payments. Especially in times like the present when nationalism is rampant and the isolation of several countries is particularly pronounced such an instrument is more than ever urgently needed. It is as such an instrument that gold renders its most excellent services."

The Minister of Finance said he would tell Van Zeeland of my visit to Brussels. On Tuesday a lunch for the Chinese Delegation is being given by the National Bank of Belgium. I was told by Deman that he is not aware that any new funds from Belgium are being sought by Kung; Deman said that enough had already been lost by Belgium on investments in China. Maurice Frere was visiting in London and I did not get to see him.

Kindest regards were sent to Secretary Morgenthau by both Deman and Franck.

I reported my Brussels visit to Secretary (omission) of our Embassy.

END MESSAGE.

BULLITT.

EA:LWW

June 8, 1937
9:05 a.m.

H.M. Jr: Knoke?

Knoke: Good morning, Mr. Secretary.

H.M. Jr: How are you?

K: Fine, thank you. You asked me yesterday to think over 24 hours the problem -

H.M. Jr: Just - just hold on a minute. Wait a minute.

(Pause)

H.M. Jr: Go ahead, Knoke.

K: I want to say first I have discussed it with nobody. That includes Archie Lochhead. I have only given him certain figures, but I have spoken to nobody.

H.M. Jr: Good.

K: Therefore, this is my personal opinion.

H.M. Jr: Yes.

K: I have two points. The first is I am doubtful as to the effectiveness for the following reasons: Under the present setup - by that I mean the 49 banking laws and the amount you can probably catch is, as I figure it out, a maximum of about \$650,000,000.

H.M. Jr: Yes.

K: For reasons which are - which are familiar. This \$650,000,000, in all probability, would be further reduced by transfers from members to non-members.

H.M. Jr: Yes.

K: And here I think is a point. Among the non-members, I have a notion that those who would benefit most are the foreign agencies. People like Royal, Bank of Montreal, Canadian -

H.M. Jr: Well, we had that on -

K: - and foreigners wouldn't, in my opinion, hesitate to increase their balances with those banks.

- H.M.Jr: Well, we talked about that last night, and we came to the conclusion that if we did this, we'd have the law read that foreign deposits could be placed only with member banks.
- K: Well, ah - I'm not familiar with the legal - if that can be done that would meet - that would meet my -
- H.M.Jr: Well, we had that in mind and that the deposits from foreigners - and we thought that would get down to about 13 or 15 banks, and we'd have about 95% of it in not over 15 banks.
- K: Well, that - that - if that can be done -
- H.M.Jr: Yes.
- K: That - that point of mine would be met.
- H.M.Jr: Well, we - we wouldn't do it unless we could do it.
- K: Yes, I see.
- H.M.Jr: Only member banks -
- K: Yes.
- H.M.Jr: Could - could take foreign deposits.
- K: Yes.
- H.M.Jr: Only member banks.
- K: Yes, I see.
- H.M.Jr: So - I mean we wouldn't put it through unless we could get it that way.
- K: I understand.
- H.M.Jr: Now that's objection one.
- K: The second is the difficulty of - of fair administration for the following reasons.
- H.M.Jr: The what?
- K: The difficulty of fair administration. By that I mean - ah - foreign banks for the purpose of sound financing

of foreign purchases of our commodities -

H.M.Jr: Yes.

K: Will have to maintain a certain minimum balance with -
in this country.

H.M.Jr: Yes.

K: Now even in 1934, when - at the end of 1933, when
balances reached their lowest -

H.M.Jr: Yes.

K: - they never dropped below 400 million dollars.

H.M.Jr: I see.

K: So it seems to me that \$400,000,000 will have to be -

H.M.Jr: Exempt?

K: - would have to be exempt. The difficulty there is
a fair method of - of exempting.

H.M.Jr: I see. Well, that's another point.

K: Well, those are my two points. Generally speaking,
again giving my personal opinion -

H.M.Jr: Yes.

K: I like both methods at present in use; that is, the -
ah - sterilization of silver and the increase of - of -
reserve requirements. I prefer the former.

H.M.Jr: Ah-ha.

K: But I'm aware of the possibility of increasing political
pressure there, such as Thomas' bill of yesterday.

H.M.Jr: Yes.

K: But I still - in spite of that, I prefer the former.

H.M.Jr: All right, Knoke. Thank you.

K: All right, sir.

H.M.Jr: Good-bye.

June 8, 1937
9:29 a.m.

Operator: Governor Harrison.

H.M.Jr: Hello, George?

George Harrison: Congratulations, Henry.

H.M.Jr: Thank you. I'm accepting them.

H: Well, I think it was a grand job.

H.M.Jr: I think it was pretty good myself.

H: It has gone off beautifully.

H.M.Jr: Yes.

H: And I'm delighted to see that the - they're so well levelled out, the subscriptions.

H.M.Jr: Yes, it - it worked better than I thought it would.

H: Yes, it was better than I thought it would.

H.M.Jr: Yes.

H: And now we can't just let them drop around too much afterwards.

H.M.Jr: No, no.

H: And I don't think they will because with that over-subscription, there'll be a lot of people who won't get what they want, so that even though some want to sell -

H.M.Jr: That's right.

H: There would be a buying demand.

H.M.Jr: Yes.

H: No, I don't think you will have any trouble with them at all the way it looks now.

H.M.Jr: No.

H: All right. Well, I just wanted you to know I was thinking of you and -

H.M.Jr: Well, thanks for the help.

H: Very glad.

H.M.Jr: I appreciate your assistance.

H: Well, I didn't do anything.

H.M.Jr: Oh, yes, it's helpful to have you here and, as I say, in this business of mine, I've got to only be wrong once.

H: Yes. Well, we'll be around all day today I guess on our open market.

H.M.Jr: I'm going up at noon to Deerfield to see my boy graduate.

H: Oh, are you today?

H.M.Jr: Yes.

H: Oh, first rate.

H.M.Jr: Yes.

H: Well, I don't think there's anything that we need to do about open market now. I think it is really going to handle itself all right. But - well, I'll probably see you some time next week then.

H.M.Jr: Okay.

H: Fine. Good-bye.

June 8, 1937
9:34 a.m.

H.M.Jr: Hello?

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello?

Marriner
Eccles: Hello?

H.M.Jr: I take it now that with your crowd here you'll want to skip lunch today.

E: Well, it's whatever you like. I don't have any lunch arrangement with them. I'll - I'll be through and I could come over if you want.

H.M.Jr: Well -

E: Whatever you say.

H.M.Jr: I didn't know with all your crowd on.

E: Yes.

H.M.Jr: Eh?

E: Well, I have a letter I'll send over to you to -

H.M.Jr: I thought I would leave town about noon today.

E: Oh, I see. Well, then - that's all right then.

H.M.Jr: What?

E: I say that's fine.

H.M.Jr: I think I'll leave town about noon.

E: Yes. I sent a letter that I got from the Governor of the Bank of Belgium, -

H.M.Jr: Yes,

E: - over to Wayne.

H.M.Jr: Yes.

E: And he suggested that I - I thought he was going to show it to you and have you read it, but apparently he didn't.

H.M.Jr: Yes, he did.

E: Oh, did he?

H.M.Jr: Yes.

E: Well, is it okay then?

H.M.Jr: Okay to what - to answer it?

E: For me to send it?

H.M.Jr: He didn't show me your answer - no.

E: Well, I sent the answer over to him -

H.M.Jr: I'll ask him about it.

E: - and he made a suggestion or two, and I have it on my desk.

H.M.Jr: Well, I'm perfectly - if - if you and Wayne get together, it's okay by me.

E: Well, it was all right with him.

H.M.Jr: Well, then go ahead.

E: He cleared it.

H.M.Jr: All right.

E: Well, then I'll send it.

H.M.Jr: All right.

E: Will you be back - you'll be back the end of the week - the first of the week.

H.M.Jr: If everything goes well, I'll get back Sunday night.

E: Ah-ha. Where is your son graduating?

H.M.Jr: Deerfield.

E: Deerfield.

H.M.Jr: Yes.

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E: Yes. Well, that's fine. I hope you have a pleasant trip.

H.M.Jr: Thank you.

E: All right.

H.M.Jr: Good-bye.