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MM

CODAT

Paris

Dated September 10, 1937

Rec'd. 9:40am.

Secretary of State

Washington, D.C.

1267, September 10, noon.

FROM COCHRAN.

I talked with Cariguel at Bank of France at 10:30 this morning. He said that French control had after investigation come to realize that French purchases of sterling since first of month were entirely speculative, with no commercial buying. Consequently they decided not to serve the speculators with sterling so cheaply. Yesterday they therefore let the franc slip but even then the control yielded around four million pounds for the day.

When I talked with him the sterling rate was one thirty-eight and one half to three fourths. He intimated that he would intervene to hold the rate within another couple of francs. Market very active.

Realizing that his fund is sufficiently well endowed with gold and foreign exchange to have permitted a gold defense yesterday, such a strategic move as Cariguel describes is plausible. At the same time it is realized that there are sufficient adverse economic and political factors in France to give ground for bear speculation against the franc. Blum's latest speech urging votes for

- Socialists

1267, September 10, noon from Paris. -2-

Socialists in order that Popular Front program can be carried through has had disturbing effect. Some financial observers fear that with franc weakening now, the Left parties may have more success in denouncing the moderate policies which Chautemps and Bonnet have followed and may be returned stronger than ever in the local elections.

BULLITT

RR:KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: September 10, 5 p.m.

NO.: 1269

FROM COCHRAN

I was told by the usual market contact at 3:45 p.m. that French control had come into market to offer sterling at 140.10 and had brought the rate down to 139.5, at which level large quantities were continued to <sup>be</sup> given up. At that hour my contact still had order to purchase 150,000 pounds for a customer. During the day he had made purchases for large commercial concerns in which American cotton interests were included. My contact believes that British control lost over \$10,000,000 yesterday and has taken one and a quarter millions from them today. Again <sup>French</sup> /rentes are lower. It is known that the fund supporting rentes yesterday spent several hundred million francs.

The LONDON FINANCIAL NEWS says in Lombard Street Column today: "As a display of incompetence the tactics employed by French control yesterday would be difficult to beat."

According to the FINANCIAL TIMES the franc break is due less to international situation than to the realization of adverse domestic French factors such as I have recently summarized.

Yesterday

Yesterday a vote of confidence was received by Van Zeeland from the Belgian Senate. Press reports state that Finance Minister announced that Franck, Governor of the National Bank, would leave his office at the end of this year. The age limit of retirement will in the future be 67, according to a Royal decree; Franck is 68.

I shall go to Rouen Saturday morning for Quesnay's funeral, and will return in the late afternoon to Paris.

BUELLITT

EA:DJW

RECEIVED  
 FEB 11 1938  
 DEPARTMENT OF STATE  
 OFFICE OF THE SECRETARY

COPY

*Confidential*

5

10:AJA

September 11, 1937.

Memorandum for the President

From Mr. Altmeyer

Subject: Amendments to the Social Security Act.

I should greatly appreciate an opportunity to confer with you relative to the above subject as soon as possible. The immediate reason is that, as you know, last February Senator Harrison as chairman of the Senate Committee on Finance acting at the request of Senator Vandenberg agreed to the creation of an advisory council on social security. The matter came up during the course of a hearing before the Senate Committee on Finance and it appeared at that time that there was no alternative but for the Social Security Board to agree, although reluctantly, to the creation of this advisory group. Some time thereafter an advisory group was appointed jointly by a subcommittee of the Senate Committee on Finance and the Social Security Board. Aside from the wisdom of the appointment of such a group, the mistake was made of not consulting the House Committee on Ways and Means. Nothing has been done to utilize the services of this advisory group although Senator Vandenberg has become more and more insistent that a meeting be called. I have talked with Senator Harrison several times about the matter. He still feels that it was wise to consent to the creation of this advisory group and that we ought to call a meeting. However, he suggested that before doing so I discuss the matter with you.

The problem of what to do with the advisory group is a part of the much larger problem of what we should look forward to by way of future amendments to the Social Security Act. This is likely to become a very hot partisan issue.

Some time ago we were warned that the Republican National Committee was already supplying material to various nationally known columnists relative to the Social Security Act the substance of which, in a little more refined version,

was that the payroll taxes constituted a method whereby the government was collecting pennies from the poor to finance a wasteful government. Recently, John Hamilton in his speeches has claimed as an accomplishment of the Republican members of Congress that they "forced the Democratic Social Security Board to start action to adopt the Republican proposal to increase and hasten old age benefits and to keep at a low level payroll taxes on employers and employees by doing away with a needless 47 billion dollar reserve." While these attacks are to be expected, nevertheless they need to be reckoned with because both the A. F. of L. and the C. I. O. labor leaders and unions have publicly indicated dissatisfaction with the present provisions of the Social Security Act and particularly the payroll tax provisions. While, of course, we should not be stampeded into taking unwise action, I think that it is most necessary to consider at this time the general character of the Administration's policy regarding amendment of the Social Security Act.

As a matter of fact, I think it is possible not only to offset these attacks on the Social Security Act, but really to utilize them to advance a socially desirable program, fully in accord with present fundamental principles underlying the Social Security Act and within our financial capacity. You will recall that some time ago at a conference in your office Harry Hopkins outlined a long time program dealing with unemployment and relief. I have indicated to Mr. Hopkins and the Secretary of Labor how the insurance approach in the Social Security Act should fit into this long time program and they have reacted favorably to the general idea. The discussions I have had with them may be summarized as follows:

1. The full reserve feature of the old age insurance system may be essentially sound, but is under considerable attack by both conservatives and liberals. The position of the liberals is more consistent than the position of the conservatives since they recognize more clearly that if we go off the reserve plan it is most important not only to bring the budget into balance, but provide for rapid retirement of the government debt through the imposition of higher progressive taxes. This necessity arises out of the fact that unless we do so we will reach a period in the future when we must either raise payroll taxes to almost twice the present contemplated maximum, or provide a large government subsidy which together with

the service charges on the government debt may prove unbearable.

2. If we go off the reserve plan with our eyes open it is more desirable to do so by increasing and extending both the size and character of the benefits provided instead of reducing the present tax rates which are relatively low.

3. Specifically, we should convert our old age insurance system into an old age, permanent invalidity and survivors' insurance system, as follows:

- (a) Start monthly benefit payments not later than January 1, 1939, instead of January 1, 1942, and liberalize the monthly benefits payable during the early years.
- (b) Provide an extra allowance for wife of old age benefit recipient.
- (c) Provide benefits for surviving widows and orphans, regardless of age of deceased.
- (d) Provide benefits for permanent total disability.

4. As regards unemployment compensation it is feasible and desirable to extend the system so as to include unemployment due to temporary disability not arising out of the employment. This proposal would not meet with objection from the medical profession; in fact, it stands a good chance of eliciting active support from the medical profession. The increased cost would be less than 1% of the payroll.

5. The extension of a considerable part of this program to a greater proportion of the population, particularly agricultural workers, domestic employees and the self-employed can probably be accomplished through changing to a combined payroll and earned income basis for computing taxes and benefits. Such extension should be dependent upon solving the administrative problems involved and upon popular demand. Even now, important excluded groups, such as banks, seamen, and religious and charitable organizations are urging extension of coverage to them.

6. The foregoing program would supplement the program of unemployment and relief outlined by Mr. Hopkins and as time went on take care of a larger and larger segment of

the problem, without affecting the Federal budget during the next fifteen years and without the necessity of increasing the present total payroll taxes more than 1% (figured on the payroll) during that period of time. Eventually it would be necessary to provide another step-up in payroll tax rates under the proposed old age permanent invalidity and survivors' insurance system so that instead of a maximum of 3% from the employer and employee, the maximum might be 4% from each. However, this step-up need not occur until 1952. Beginning some time after 1952 a government subsidy would be necessary which would increase each year, due chiefly to the fact that the system would not reach its maturity for about 40 years.

Because of the magnitude of the problems involved, I should like to suggest that you appoint a very small unofficial, unpublicized group, including Miss Perkins, Harry Hopkins, Henry Morgenthau, Henry Wallace, and myself to explore these problems and to report to you from time to time the course of their thinking.

I should also like to have your suggestion as to what to do about the advisory group described in the attached newspaper release of May 10, 1937.

STATEMENT BY THE FEDERAL OPEN MARKET COMMITTEE

For release in Monday morning  
newspapers of September 13, 1937

September 12, 1937.

The Federal Open Market Committee met in Washington on September 11 and 12 and reviewed the business and credit situation. In view of the expected seasonal demands on the banks for currency and credit during the coming weeks the Committee authorized its Executive Committee to purchase in the open market from time to time sufficient amounts of short term U. S. Government obligations to provide funds to meet seasonal withdrawals of currency from the banks and other seasonal requirements. Reduction of the additional holdings in the open market portfolio is contemplated when the seasonal influences are reversed or other circumstances make their retention unnecessary.

The purpose of this action is to maintain at member banks an aggregate volume of excess reserves adequate for the continuation of the System's policy of monetary ease for the furtherance of economic recovery.

As a further means of making this policy effective, the Open Market Committee recommended that the Board of Governors of the Federal Reserve System request the Secretary of the Treasury to release approximately \$300,000,000 of gold from the Treasury's inactive account. The Board of Governors acted upon this recommendation and the Secretary of the Treasury agreed to release at once the desired amount of gold. This will place an equivalent amount of funds at the disposal of the banks and correspondingly increase their available reserves.

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This action is in conformity with the usual policy of the System to facilitate the financing of orderly marketing of crops and of autumn trade. Together with the recent reductions of discount rates at the several Federal Reserve banks, it will enable the banks to meet readily any increased seasonal demands for credit and currency and contribute to the continuation of easy credit conditions.

INTERNATIONAL  
PAPER COMPANY  
MADE IN U. S. A.

BB

CODAT

11

Paris

Dated September 12, 1937

Rec'd 9:45 a.m.

Secretary of State,  
Washington.

1277, September 12, noon.

FROM COCHRAN

Simultaneous explosions ten o'clock last night wrecked wing of one building and damaged another few blocks distant in Etoile Trocadero section Paris. Both buildings used as offices by French Employers Association. To janitor at each place there had been delivered yesterday evening wooden box addressed to official of the association, which undoubtedly contained time bombs. Offices were vacant at time of explosion. Victims so far discovered were two policemen who were on sidewalk outside of building Rue Presbourg. Debris has not yet been sufficiently removed to determine whether any other victims.

Morning press expresses popular belief bombs placed by extremist labor agitators bitter against Employers Association and incensed by letter Premier Chautemps addressed to labor leader Jouhaux threatening government eviction of sitdown strikers. Naturally this evidence of labor violence if so accepted or proved will add to official and political agitation with resulting pressure on furthering frame.

BULLITT

RR

September 13, 1937

10:30 a.m.

PRESENT:

Secretary Morgenthau  
Mr. Magill  
Mr. Oliphant  
Mr. Taylor  
Mr. Gaston  
Dr. Riefler  
Dr. Viner  
Dr. Haas  
Mr. Lochhead  
Mr. Bell  
Mr. Upham  
Mr. McReynolds  
Mrs. Klotz

HM, Jr: I will tell you what happened over the week-end.

Saturday night (this is all daylight savings time) at 9:45, Mr. Taylor telephoned me and sketched briefly what the Federal Reserve program would be in regard to tight money. At that time they were talking about asking me to release \$200,000,000.00 worth of gold and that their announcement would say that they were going to operate in the open market up to \$250,000,000. I told Mr. Taylor that I thought that \$200,000,000 would not be effective and that I hoped that they would make it \$300,000,000. He said he felt Saturday night would be a bad time to talk to Eccles because he had had a pretty hard day of it.

Sunday morning, after giving the matter very careful thought, I called Ransome at 10:25 and told him that I felt that if they put in \$200,000,000 worth of gold that it would not convince the public and the matter would fall flat. I strongly urged that they use \$300,000,000. He said that he agreed with me and that he would do what he could. I told him that if they made it \$300,000,000, I could support the program enthusiastically, but not otherwise.

At 12:30, Eccles talked to me for about 40 minutes, reviewing the whole field, and I found him very calm and collected and no heat in his voice. At this time they had decided not to mention the amount of money that they were going to use in the open market as they felt that they did not want any fixed amount in the minds of

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the public as to the absolute amount of reserves that would be kept in the money centers.

I then told him that I felt that \$300,000,000 was necessary; that I wanted to see this program a success; I wanted it to last until after the first of January and I hated to see him take two bites of the cherry; that somebody had been to see the President -- I did not know who -- and that he talked to me about \$300,000,000 or \$400,000,000. I again impressed on Eccles that I could be enthusiastic about \$300,000,000 because I felt the program would click. I told him I thought \$200,000,000 would convince nobody.

He gave me all the talk about they wanted to let the public know that they could do it through the open market, and so forth and so on, simply repeating what he had told me when I had seen him on Thursday. He also told me that when he saw me on Thursday that he had not been completely informed as to my position and that, therefore, we had misunderstood each other.

I also told Eccles that if they used \$300,000,000 gold we most likely would not have to borrow any new money between now and the 15th of December. He said, "You don't want me to tell them that?" and I said, No. He said, "If I told them that, they will think that you want to deposit the gold in order to help out your financing."

When Eccles hung up I did not have a good deal of hope that he would make it \$300,000,000. Much to my surprise, he called me at 2:30 and told me that they had decided to make it \$300,000,000.

And then I told him I was simply delighted and could enthusiastically tell the President about it and also the public. He then said, "Now you be sure when you see the press that you won't give them the impression that the Treasury brought any pressure on the Federal Reserve to do this." I said, "Varriner, you can tell your story. You can see the press. Before I see the press I will be glad to talk to you and get your viewpoint."

I might add that when I talked to Ransome he had it very much in mind that I was to get out a statement Sunday night, but I got the distinct feeling that Eccles wanted this to be his show and I felt that I was more interested in the success of the program than I was in the publicity and, therefore, was more than willing to take a back seat.

I finally reached the President at 7 o'clock in the evening and told him about it. He seemed pleased. He said, "Will this show a reduction in the public debt?" and I said, "No, but it will

-3-

keep us from showing an increase in the public debt, because we most likely will not have to borrow any new money."

Nothing has happened in a long time that I am so pleased and happy about.

And the only thing I want to say, Herbert, in this room, is that on the first day we got the same kind of break as when we sterilized. Then this publicity man, Elliott Thurston, started to run away and from then on there was a lot of poison spread. Now I am perfectly willing to call up Eccles or Thurston and put them on notice.

Mr. Gaston: Has anybody said anything to you about the Waley-Eaton letter?

HM, Jr: No; I haven't seen it.

Mr. Gaston: Well, it said this thing originated in the Treasury Department on account of Secretary Morgenthau's insistence that something should be done. Harry Eaton called me up Saturday evening and said he had that story; that everybody knew these conversations were going on between Treasury and Federal Reserve and also that two different people, not in the Treasury, gave him the story that the thing originated in the Treasury on Secretary Morgenthau's insistence that something be done, and was I able to confirm or deny that? I told him I could not confirm or deny; I did not know.

HM, Jr: Wayne, I think maybe at lunch we can say something. I think it's a milestone, because I think we have been able to undo a very, very bad situation. I think it would have gotten steadily worse.

Oh, yes. Then Eccles said to me, We are going to pass a resolution recommending to you that you discontinue 9-month bills and sell 90-days. I said, Please don't do that. It's quite all right to tell me so informally, but I don't want anything on the record. And he agreed to that. After all, I don't want them passing resolutions on what kind of bills we should sell.

Dan, how do we deposit the \$300,000,000 gold?

Mr. Bell: The deposit of it is simple. The Federal Reserve Banks getting it out in the hands of commercial banks is a little more difficult. I have figured out a 10-day period, assuming that you would deposit gold in Federal Reserve Banks as and when you needed

it to keep the balance around \$100,000,000, and that would require a deposit of gold on September 15th of \$58,000,000, and on the 17th of \$47,000,000, and on the 18th, \$90,000,000, and on the 22nd and 29th, \$25,000,000 each. If you pay the bills then maturing or to be issued by the credit, that would make a total for the month of \$245,000,000 and that also represents what would go into the market -- out payments.

HM, Jr: My thought is I would like to get it into the bloodstream as rapidly as possible.

Mr. Bell: The other way is depositing the balances with banks, which we have never done, and which raises the question as to whether we should deposit them uniformly throughout the country and you have 2200 depositaries. We could pick a dozen or two dozen in Chicago or New York. It would be simple, but I am afraid you would be accused of playing favorites and I don't recommend it, but I do think this whole \$300,000,000, by allowing maturing bills to be paid off in cash and the new issue to be paid for by credit, will be in the market by October 8th or 9th, because you will call anywhere from \$50,000,000 to \$75,000,000 the first six days and they mature on the 6th.

Dr. Riefler: You would have to be raising new money after that.

Mr. Bell. Right. After that, we have to call in the regular way to meet our expenditures.

Dr. Riefler: It would mean if you meet maturing bills you would have to issue bills.

Mr. Bell: That would be a roll-over from that time on.

Dr. Viner: Is it possible for the Treasury to buy bills with very short maturities?

Mr. Bell: Oh, yes.

Dr. Viner: That would be another way to speed up.

Mr. Bell: Yes.

Dr. Viner: Any strong objections to that?

HM, Jr: Yes; I object.

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Mr. Bell: I am showing you by this way how to go into the market.

Mr. Lochhead: I raise the question whether or not you could make a book entry of \$300,000,000 sterilized gold into the regular account. That would increase your balance, but of course it would not go into the market until you paid off the bills or show a transfer of one lump sum of \$300,000,000.

HM, Jr: I want to have it show up on the statement. If it is \$1,327,000,000, I want it to show \$1,027,000,000.

Mr. Bell: That can be done. All I am trying to show you is how to go into the market.

HM, Jr: We have agreed to transfer \$300,000,000. Where do you transfer that from, sterilized gold to general fund?

Mr. Bell: Yes, and deposit it in the gold certificate redemption fund of the Federal Reserve Board to be distributed among various Federal Reserve banks. You may leave that to me and the Board where it shall go.

HM, Jr: Who does do that?

Mr. Bell: I put it in the banks where we need it. Of course, we only need it for three or four weeks. The banks where we need to meet Government obligations maturing.

HM, Jr: Have we done that before?

Mr. Bell: Oh, yes. I do that every day -- one o'clock transfers between banks.

Mr. Taylor: That would be mostly in New York.

Mr. Bell: Your large payments of maturing bills and interest comes in New York next week.

HM, Jr: Is that the usual procedure?

Mr. Bell: Yes, sir.

HM, Jr: And then in order to get it out, you feel that these bills we pay for every Thursday for a while they should be paid off by credit?

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Mr. Bell: Yes, sir. That will put about \$100,000,000, if you allow the next three to be paid off by credit.

HM, Jr: We don't call on them for money? We can do it by credit?

Mr. Bell: That's right.

HM, Jr: Who objects to that? Riefler?

Dr. Riefler: All right.

HM, Jr: Dr. Viner?

Dr. Viner: All right. I don't see any other way.

Dr. Riefler: Your straight expenses you meet out of the balances in the Federal Reserve. You deposit \$300,000,000 and get expenses out of that and keep bills that are now in the market rolling by having them renewed?

Mr. Bell: We will have renewing bills paid out of general fund and as new bills come in and are accepted, by giving us credit on the banks that buy them.

Dr. Riefler: So your balance in member banks remains constant.

Mr. Bell: Yes.

Dr. Riefler: And that will get money in the markets in three weeks?

Mr. Bell: I should say three weeks; maybe the 8th or 9th of October.

HM, Jr: That's as fast as you can do it.

Dr. Riefler: As fast as you can do it unless you make a special deposit.

HM, Jr: They don't need it any faster. Dan, bring me down at five minutes of one a time-table of what you are going to do, so I can show it to Eccles. He's having lunch with me. Just how we do this thing. I don't want to move too fast. Anybody see anything the matter with that?

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Mr. Bell: You want this gold deposited today?

HM,Jr: Yes. I have agreed to it. That's the main thing.

I take it if no one objects, no one can think of any better way. Is that right?

(No comment from the group.)

Check!

In looking over this question of the 9-months and 90-days, it seems to me that we would not want any 90-day bills coming due until after the first of January because we then have to begin to double up. So looking on the calendar, January 6th is a Thursday. If we went back 90 days from then would be the time, I would say, for replacing the 9 months, so the first day would come on January 6th.

Mr. Bell: You mean maturity.

HM,Jr: As maturity.

Mr. Bell: Be issued about October 6th.

HM,Jr: October 7th. So we would start the new thing on October 7th. I thought this out all by myself! And on January 6th, after the money strain is over, then we could begin to sell. Either have to sell bills or something else. That gives us time to think about it. I don't see that we have to do an awful lot of arguing, but I would like you to think about it this week, but it seems to me that beginning with October 7th, which is Thursday ....

Mr. Bell: Wednesday, October 6th.

HM,Jr: Then on Wednesday, October 6th, we begin selling 90-day bills which would fall due on January 5th.

Mr. Taylor: You might anticipate that by starting to sell tax bills into March instead of your roll-over.

HM,Jr: That's all right, but I think -- look, Wayne: we have one coming due on the 15th. We would sell two more, the 22nd and the 29th.

Mr. Bell: That's right.

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HM, Jr: Two more 9-months issues. And then start on something else. You would not want to anticipate anything anyway until after the 29th.

Mr. Taylor: I was thinking you could substitute tax bills for your 9-months bills.

HM, Jr: I am willing. I don't want to argue about it, but I don't have to announce anything. The rest of this month we will sell 9-months. Two more issues. They can support the market for two more issues.

Dr. Haas: I think, Mr. Secretary, we can have the whole plan written for you this afternoon if you want it. We had it written for this morning, but I'm glad we have to change it.

HM, Jr: Why don't you give it to me so I can have it for a little talk while these gentlemen are here. Let's have a little talk about it Wednesday and maybe at Thursday morning's press conference we can agree as to what we want to do.

Dr. Viner: I hope to get away tomorrow.

HM, Jr: Well, are you going to have a program for me on Sir Frederick Phillips?

Dr. Viner: Yes.

HM, Jr: Let's leave it this way: when you fellows have had your own meeting and agree on the bills and on Sir Frederick Phillips, ring the bell and let me know. All right?

I am just tickled to death. Aren't you, Wayne?

Mr. Taylor: Yes.

HM, Jr: I am riding on top of the world.

Mr. Taylor: It all dove-tailed in and came out in the right order and is satisfactory.

HM, Jr: Kintner (New York Herald Tribune) certainly hands it to the Federal Reserve. He practically calls them a liar in this morning's paper. They denied his story of Friday.

Mr. Gaston: They said the conversations were taking a different

-9-

turn since he talked to them before.

HM,Jr: Anybody call you?

Mr. Gaston: A couple called me after the conference, but just technical things they wanted to know.

HM,Jr: Now we have had our fun.

MEMORANDUM

Conference in the Secretary's Office, 11:30 a.m., September 13, 1937.

Present: Secretary Morgenthau, Mr. Oliphant, Admiral Peoples, and Mr. McReynolds.

Mr. Oliphant explained that the subject he wishes to raise was relating to the question of identical bids submitted by bidders for merchandise to be purchased by the Government. He recalled the fact that great quantities of data on this subject had been submitted to the Department of Justice many months ago.

He states that in May of this year the Treasury submitted to the Attorney General a request for his opinion as to what the Treasury's duty is with respect to the acceptance or rejection of identical bids, and that on June 30th the Attorney General had advised that in cases where identical bids indicated collusion between bidders, it would be illegal to conclude a contract on the basis of such bids, but that the conclusion in each particular case would depend upon the facts in that case.

He recalled that instructions were then issued to the Director of Procurement that thereafter in cases of identical bids, submission was to be made to the Department of Justice for advice whether facts in that case were such as to require the cancelation of the bids.

The first case that came along was the case of tires. The data in connection with those bids were submitted, with all material, to the Attorney General, requesting his advice, and the Attorney General concluded that the Director of Procurement would be justified in rejecting all bids submitted. He stated that in conformity with this ruling, the bids were rejected and new proposals were issued last Saturday, and that efforts are being made to secure new bids, not only from independent dealers not previously submitting bids, but also from the dealers whose bids had been canceled.

The Secretary asked Admiral Peoples for such comment as he cared to make, and he stated the difficulties that the Procurement Division found itself confronted with as a result of this interpretation, particularly

- 2 -

in view of the probability that other Government departments would proceed to do their own purchasing without eliminating identical bids. The following memorandum was presented by Admiral Peoples:

"Re: Identical bids; conference with General Counsel on Secretary's letter of July 15.

General Counsel takes the position that the acceptance of identical bids, by lot or otherwise, being regarded as "prima facie the result of collusive action and of a combination in restraint of trade" is a criminal act for any government official to enter into any contract thereon.

Every executive department and every independent establishment making purchases is up against a practical proposition, and that is that men to be kept at work on W.P.A. jobs, materials for ships being built in Navy Yards, the several hundred thousand trucks delivering mail, the C.C.C. Camps operating all over the country must have materials and equipment with which to work, and such materials and equipment include a few primary essential commodities such as cement, tires, steel, brass tubing, communication cable, batteries, and the like, on which identical bids have been received.

Such being the case then all departments by executive order should be required at once to follow out the procedure prescribed in the letter from the Attorney General dated August 10, 1937, and of the Secretary's letter of July 15.

If, on the other hand, Procurement alone is unable to accept by lot any tied bid pending a decision by the courts as to the facts as to collusion, it simply means that either the W.P.A. Administrator in all their projects must discontinue the use of cement or they themselves make their own purchases.

If, on the other hand, any existing agency, like the Navy or the Army, continues to accept by lot an identical bid, and not the Treasury Department, it becomes a matter of inconsistent policy on our part by taking action under a law which is applicable to all executive departments alike. This law was passed in 1914.

In other words, if it is illegal for Procurement to accept an identical bid it certainly is illegal for any other agency of the government to do likewise. The same law has been in effect for many years and has been equally applied. Materials have had to be bought with that law in operation, the contracts have been audited, vouchers paid and passed by the Comptroller General.

Therefore, I believe it becomes a matter of executive policy.

- 3 -

I am in entire sympathy with this whole movement; in fact for many years during my duty in the Navy Department I have had referred case after case of identical bidding to the Department of Justice for action under the collusive law, and I sincerely hope that there will be a successful issue in the case of cement and tires or any other commodity. But, from a practical point of view I believe it unwise to deny ourselves the right of purchasing an article urgently needed by the government under an identical bid (other than those where the principle of patents or licenses or proprietary makes apply) for the simple reason it is contrary to the interests of the government to do so.

The Federal Trade Commission and the Department of Justice are, under the law, the only agencies of which I am aware, authorized to investigate matters of collusion. This it has done in the case of the cement people, and has instituted suit against 90 odd manufacturers to break up the system of identical bidding.

I believe that if this suit holds all industries will discontinue the practice of identical bidding and it will be the most wholesome thing that has come into commercial practice by preserving the principle of free and open and unrestricted public bidding.

If, on the other hand, suits are instituted against the tire manufacturers for collusive bidding under our opening of July 21, and if that suit holds, it will have a most wholesome and salutary effect upon every line of industry.

In the meantime, we are up against a practical proposition. We must get cement or other items (upon which identical bids may be received) to the W.P.A. workers who are going to use it. It is obvious that men must have material with which to work, and cement is one of the principal items.

I well recall that during the Wilson Administration the coal producers throughout Virginia, West Virginia, and Pennsylvania were all indicted on the grounds of collusive bidding; much publicity was given to the fact that this was going to result in cheaper prices to the consumer; but the courts then held otherwise.

A partial solution of our practical problem would be that if under any opening identical bids are received on certain commodities, and a higher bid is received, to regard the lower identical bids as "prima facie the result of collusive action of a combination in restraint of trade" to reject them as such and accept the higher bid. This would require concurrence of the General Accounting Office in view of its many decisions on the subject of Acceptance by Lot in the case of tied bids.

- 4 -

Under the President's order of June 1936, reports of tied bids, together with the bids themselves were sent to the Department of Justice; the Procurement Division alone sending over a truck load. A continuation of that order would seem to be the practical step to take.

So for the foregoing reasons, I think it most important that one of the best cases which has been investigated by the agency of the government authorized by law to investigate the matter of collusive bidding be pressed, and first decided that that case in itself will have a far-reaching and salutary effect upon other industries who now follow the principle of competitive bidding."

(Signed) C. J. Peoples  
Director of Procurement.

The Secretary stated that he, as Secretary of the Treasury, should write a letter to the President, advising him of the policy which is being pursued in the Treasury, and stating that he believes this policy can only be carried out successfully if the President agrees and will support it by issuing an executive order requiring all of the departments of the Government to conform to the same policy.

The Secretary requested Mr. Oliphant to prepare such a letter and draft of order, such letter and order to be initialed by Admiral Peoples and cleared with the Department of Justice before submission to the President. The Secretary stated that he would then ask the President for a conference with the Treasury representatives and the Attorney General. The letter should give the entire background on identical bids so that the President will have the whole picture before him.

The Secretary stated that it seemed desirable to have this matter presented to the President as soon as possible, but he did not want to take any action until the matter was prepared in a satisfactory form.



# TREASURY DEPARTMENT

25

## PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON Sept. 11, 1937

MEMORANDUM:

Re: Identical bids; conference with General Counsel on Secretary's letter of July 15.

General Counsel takes the position that the acceptance of identical bids, by lot or otherwise, being regarded as "prima facie the result of collusive action and of a combination in restraint of trade" is a criminal act for any government official to enter into any contract thereon.

Every executive department and every independent establishment making purchases is up against a practical proposition, and that is that men to be kept at work on W.P.A. jobs, materials for ships being built in Navy Yards, the several hundred thousand trucks delivering mail, the C.C.C. Camps operating all over the country must have materials and equipment with which to work, and such materials and equipment include a few primary essential commodities such as cement, tires, steel, brass tubing, communication cable, batteries, and the like, on which identical bids have been received.

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If, on the other hand, Procurement alone is unable to accept by lot any tied bid pending a decision by the courts as to the facts as to collusion, it simply means that either the W.P.A. Administrator in all their projects must discontinue the use of cement or they themselves make their own purchases.

If, on the other hand, any existing agency, like the Navy or the Army, continues to accept by lot an identical bid, and not the Treasury Department, it becomes a matter of inconsistent policy on our part by taking action under a law which is applicable to all executive departments alike. This law was passed in 1914.

In other words, if it is illegal for Procurement to accept an identical bid it certainly is illegal for any other agency of the government to do likewise. The same law has been in effect for many years and has been equally applied. Materials have had to be bought with that law in operation, the contracts have been audited, vouchers paid and passed by the Comptroller General.

Therefore, I believe it becomes a matter of executive policy.

I am in entire sympathy with this whole movement; in fact for many years during my duty in the Navy Department I have had referred case after case of identical bidding to the Department of Justice for action under the collusive law, and I sincerely hope that there will be a successful issue in the case of

-2-

cement and tires or any other commodity. But, from a practical point of view I believe it unwise to deny ourselves the right of purchasing an article urgently needed by the government under an identical bid (other than those where the principle of patents or licenses or proprietary makes apply) for the simple reason it is contrary to the interests of the government to do so.

The Federal Trade Commission and the Department of Justice are, under the law, the only agencies of which I am aware, authorized to investigate matters of collusion. This it has done in the case of the cement people, and has instituted suit against 90 odd manufacturers to break up the system of identical bidding.

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In the meantime, we are up against a practical proposition. We must get cement or other items (upon which identical bids may be received) to the W.P.A. workers who are going to use it. It is obvious that men must have material with which to work, and cement is one of the principal items.

I well recall that during the Wilson Administration the coal producers throughout Virginia, West Virginia, and Pennsylvania were all indicted on the grounds of collusive bidding; much publicity was given to the fact that this was going to result in cheaper prices to the consumer; but the courts then held otherwise.

A partial solution of our practical problem would be that if under any opening identical bids are received on certain commodities, and a higher bid is received, to regard the lower identical bids as "prima facie the result of collusive action of a combination in restraint of trade" to reject them as such and accept the higher bid. This would require concurrence of the General Accounting Office in view of its many decisions on the subject of Acceptance by Lot in the case of tied bids.

Under the President's order of June 1936 reports of tied bids, together with the bids themselves were sent to the Department of Justice; The Procurement Division alone sending over a truck load. A continuation of that order would seem to be the practical step to take.

So for the foregoing reasons I think it most important that one of the best cases which has been investigated by the agency of the government authorized by law to investigate the matter of collusive bidding be pressed, and first decided that that case in itself will have a far reaching and salutary effect upon other industries who now follow the principle of competitive bidding.

*H. S. Peoples*  
Director of Procurement



OFFICE OF THE DIRECTOR

## TREASURY DEPARTMENT

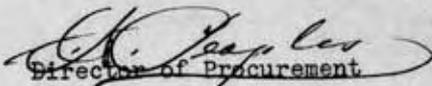
PROCUREMENT DIVISION

WASHINGTON

Sept. 13, 1937

MEMO. FOR MRS. KLOTZ:

The Secretary today asked me to send to you for your files a carbon copy of my report to him showing the status of aeroplanes delivered, and remaining to be delivered under existing contracts with the War and Navy Departments.



Director of Procurement

Sept. 9, 1937

Memorandum for the Secretary:

Subject: Army and Navy aeroplanes under  
existing contracts

In accordance with the oral instructions of the Secretary I delivered personally to the War and Navy Departments at 11:30 yesterday, the accompanying request for certain information desired with regard to the status of existing contracts for aeroplanes for each department.

Their reports have this moment been handed to me personally and are forwarded herewith.



Director of Procurement

CJP:RMC

September 8, 1937

From: Director of Procurement  
To: Assistant Secretary of War

Subject: Aeroplanes due under contract

The following information is desired for the Secretary of the Treasury by tomorrow morning with regard to existing contracts for aeroplanes for the War Department.

- (a) Name of contractor
- (b) Total quantity contracted for
- (c) Type of plane
- (d) Price per plane
- (e) Quantity delivered
- (f) Quantity yet to be delivered
- (g) Estimated date of delivery

Also total amount of unobligated balance of funds available for new planes yet to be contracted for.

(Signed) G. J. Peoples

Director of Procurement

September 8, 1937

From: Director of Procurement  
To: Director of Aeronautics  
Navy Department

Subject: Aeroplanes due under contract

The following information is desired for the Secretary of the Treasury by tomorrow morning with regard to existing contracts for aeroplanes for the Naval service:

- (a) Name of contractor
- (b) Total quantity contracted for
- (c) Type of plane
- (d) Price per plane
- (e) Quantity delivered
- (f) Quantity yet to be delivered
- (g) Estimated date of delivery

Also total amount of unobligated balance of funds available for new planes yet to be contracted for.

(Signed) G. J. Peoples

Director of Procurement

SEP 8 1937

Director of Procurement,  
Treasury Department,  
Washington, D. C.

Dear Mr. Directors:

In compliance with your letter dated September 8, 1937, Subject: Aeroplanes due under contract, there is attached hereto a report of the Status of Airplanes Due Under Contract with the War Department.

Sincerely yours,

Secretary of War.

Incl.

*over Sept.*

STATES OF AIRPLANES FOR UNDER CONTRACT

Name of Contractor	Quantity Contracted For	Type	Plans	Price Per Engine	G.P.S.	Delivered	Remaining	Estimated Date of Delivery
Northrup Corp.	100	Attack	\$22,000	\$9,422	\$4,100	84	16	Sept-1936
Douglas Aircraft Co.	133	Bombers	\$69,197	16,408	15,617	16	117	June 1936
" " "	177	Bombers	\$79,680.38	18,860	27,241	0	177	Jan. 1939
Boeing Aircraft Corp.	77	Bombers	\$19,250	9,598	4,189	3	74	Feb. 1938
Stearns Aircraft Company	72	Primary Trainers	6,293	2,380	2,000	6	66	Feb. 1938
North American Aviation, Inc.	85	Battle Combat	14,445	5,263	5,094	0	85	July 1938
" " "	109	Observation	28,914	7,799	6,046	0	109	Nov. 1938
" " "	19000	3-Place Battle Trainers	10,686.90	3,614	3,518	63	127	Jan. 1938
Boeing Aircraft Co.	13	Bombers	246,410	40,000	25,600	0	13	Jan. 1939
Charles Aircraft Company	13	Attack	82,497	15,690	6,747	3	10	Nov. 1937
" " "	210	2-Eng. Pursuit	17,885	10,117	7,824	0	210	Feb. 1939
Albany Aircraft Co.	5	High Altitude Observation	114,868	13,892	7,029	1	4	Oct. 1937
Kellett Autogyro Corp.	7	Autogyro	34,782.42	none	none	0	7	Apr. 1938

*Oct. 1936 - 1935*

Delivered indefinite due to strikes on 117 Regular Army, 33 Organized Reserves, 40 Eng. units.

This report does not include four experimental airplanes which are being purchased under secret contracts.

Total amount of unobligated balance of funds available for new planes yet to be contracted for is \$14,394,060

**ADDITIONAL CONTRACTS IN PROCESS OF PROCUREMENT**

<b>Name of Contractor</b>	<b>Quantity</b>	<b>Type</b>	<b>Estimated Price Completed</b>	
Curtiss Airplane Co.	13	Pursuit	\$83,835	Service Test
Bell Aircraft Co.	13	Fighter	292,661	Service Test
North American Aviation, Inc.	5	Bombers 2-eng.	419,040	Service Test
Boring Aircraft Co.	13	Bombers-4-eng.	280,056	Exercise Option
Northrop Corporation	35	Attack	37,717	Exercise Option
	36	Transport 2-eng.		Circular Proposal opens 12/28/37
	26	Amphibian		" " " 2/24/38
	13	Basic Trainers		" " " 1/4/38
		2-eng.		
Stearman Aircraft Co.	20	Primary Trainers	10,673	Exercise Option
North American Aviation, Inc.	7	Observation	42,759	Exercise Option
" " " "	45*	3 Place		
		Observation	42,759	Exercise Option
		3-place		
" " " "	95	Basic Combat	24,457	Exercise Option
" " " "	34**	Basic Combat	24,457	Exercise Option

*Total 265*

\*National Guard

\*\*Organized Reserves

The procurement of these airplanes will leave no unobligated balance.

MANUFACTURER	QTY. CONTRACTED FOR	TYPE	QUANTITY			ESTIMATED DATE OF DELIVERY
			PRICE PER PLANE	DELVD	UNDELVD	
The Northrop Corp.	54	Bomber	\$41,720.85	0	54	1-9/30/37; 5-12/30/37; 10 per mo. thereafter
The Grumman Aircraft Engineering Corp.	81	Fighter	26,728.35	1	80	2-9/30/37; 6-10/20/37; 8 per mo. thereafter
				under trials		
Bellanca Aircraft Corp.	1	Utility	26,944.88	0	1	9/30/37
			(15 at — 39,458.00	0		
The Grumman Aircraft Engineering Corp.	15	Utility	(15 at — 30,600.00 less 0	0	15	1-11/15/37; 4 per mo. starting Jan. 1938; 1-2/38; 4-7/38;
	15		{engine & propeller not yet contracted for	0	15	4 per mo. thereafter
The Lockheed Aircraft Corp.	4	Utility	50,041.55	0	4	1-8/25/37; 2-9/15/37; 1-10/1/37
United Aircraft Corp. Sikhsy Aircraft Div.	10	Utility	10 at 150,350.00	0	10	1-10/1/37; 3-11/1/37; 3-12/1/37; 3-1/1/38; 1-2/1/38; 3-3/1/38
	4		4 * 147,049.80	0	4	
Army Air Corps	40	Training	17,617.16	0	40	1 under test at Wright Field; 6 per mo. after acceptance of 1 under tests
Naval Aircraft Factory	80	Training	80 at 9,905.90	9	71	10-9/24/37; 15-10/24/37; 12-11/18/37; 11-11/30/37; 18-12/20/37; 5-12/30/37
	15		15 * 10,014.00	0	15	3-1/28/38; 3-2/4/38; 3-2/11/38; 3-2/18/38; 3-2/25/38
Consolidated Aircraft Corp.	50	Patrol	50 * 104,302.64	2	48	1-9/3/37; 8-9/30/37; 12-10/30/37; 13-11/30/37; 14-12/30/37;
	66	bomber	66 * 106,717.88	0	66	1-9/27/37; 1-12/30/37; 10-1/30/38; 12-2/28/38; 15-3/30/38; 15-4/30/38; 12-5/30/38
Curtiss Wright Corp. Curtiss Aeroplane Div.	83	Scout bomber	30,990.50	7	76	20 per mo.
United Aircraft Corp. Chance Vought Aircraft Div.	54	Scout bomber	44,354.15	1	53	5-9/30/37; 8-10/31/37; 8-11/30/37; 10 per mo. thereafter.
				under trials		
Curtiss Wright Corp. Curtiss Aeroplane Div.	83	Scout observa- tion	26,580.54	0	83	3-1/1/38; 10-2/1/38; 17 per mo. thereafter
			22 at 33,348.61	0	22	1-7/15/38; 1 per week thereafter for 21 weeks
Naval Aircraft Factory	22	Scout observa- tion	22 * 30,579.16	0	22	1-12/9/38; 1 per week thereafter
Douglas Aircraft Corp.	114	Torpedo- Bomber	37,200.00	1	113	4-8/25/37; 2-9/25/37; 12 per mo. thereafter
				under trials		

Note 1 - None of the data submitted includes cost of spare parts.  
 Note 2 - Total amount of unobligated balance of funds available for new planes yet to be contracted for \$15,110,000.

Note 3 - Data include cost of power plant; cost of radio and other govt. furnished equipment not included.  
 Note 4 - Experimental planes are not included.

*Scary*

Sept. 13, 1937

**MEMO. FOR MRS. KLOTZ:**

The Secretary today asked me to send to you for your files a carbon copy of my report to him showing the status of aeroplanes delivered, and remaining to be delivered under existing contracts with the War and Navy Departments.



Director of Procurement

CJP:EMC

Sept. 9, 1937

Memorandum for the Secretary:

**Subject: Army and Navy aeroplanes under  
existing contracts**

In accordance with the oral instructions of the Secretary I delivered personally to the War and Navy Departments at 11:30 yesterday, the accompanying request for certain information desired with regard to the status of existing contracts for aeroplanes for each department.

Their reports have this moment been handed to me personally and are forwarded herewith.

  
Director of Procurement

CJP:RMC

September 8, 1937

From: Director of Procurement  
To: Director of Aeronautics  
Navy Department

Subject: Aeroplanes due under contract

The following information is desired for the Secretary of the Treasury by tomorrow morning with regard to existing contracts for aeroplanes for the Naval services.

- (a) Name of contractor
- (b) Total quantity contracted for
- (c) Type of plane
- (d) Price per plane
- (e) Quantity delivered
- (f) Quantity yet to be delivered
- (g) Estimated date of delivery

Also total amount of unobligated balance of funds available for new planes yet to be contracted for.



Director of Procurement

September 8, 1937

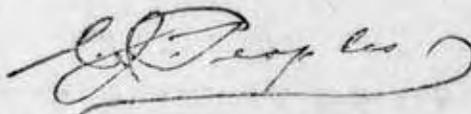
From: Director of Procurement  
To: Assistant Secretary of War

Subject: Aeroplanes due under contract

The following information is desired for the Secretary of the Treasury by tomorrow morning with regard to existing contracts for aeroplanes for the War Department.

- (a) Name of contractor
- (b) Total quantity contracted for
- (c) Type of plane
- (d) Price per plane
- (e) Quantity delivered
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Also total amount of unobligated balance of funds available for new planes yet to be contracted for.



Director of Procurement

ADDITIONAL CONTRACTS IN PROCESS OF PROCUREMENT

<u>Name of Contractor</u>	<u>Quantity</u>	<u>Type</u>	<u>Estimated Price Completed</u>	
Curtiss Airplane Co.	13	Pursuit	\$83,835	Service Test
Bell Aircraft Co.	13	Fighter	292,661	Service Test
North American Aviation, Inc.	5	Bombers 2-eng.	419,040	Service Test
Boeing Aircraft Co.	13	Bombers 4-eng.	280,056	Exercise Option
Northrop Corporation	35	Attack	37,717	Exercise Option
?	38 <sup>37</sup>	Transport 2-eng.		Circular Proposal opens 12/28/37
?	26	Amphibian		" " " 2/24/38
?	13	Basic Trainers 2-eng.		" " " <del>1/4/38</del> 2/8/38
Stearman Aircraft Co.	20	Primary Trainers	10,673	Exercise Option
North American Aviation, Inc.	7	Observation	42,759	Exercise Option
" " " "	45*	3-Place Observation	42,759	Exercise Option
" " " "	25	3-Place Basic Combat	24,457	Exercise Option
" " " "	34**	Basic Combat	24,457	Exercise Option

\*National Guard

\*\*Organized Reserves

The procurement of these airplanes will leave no unobligated balance.

War Dept.

Sgt.

## STATUS OF AIRPLANES DUE UNDER CONTRACT

Name of Contractor	Quantity Contracted For	Type	Plane	Price Per Engine	G.F.E.	Delivered	Remaining	Estimated Date of Delivery
Northrop Corp.	129 100	Attack	\$22,000	\$9,422	\$4,400	84 <sup>100</sup>	16 <sup>29</sup>	Sept. <sup>May</sup> 1937*
Douglas Aircraft Co.	133	Bombers	\$69,197	16,408	15,617	16 <sup>54</sup>	117 <sup>79</sup>	June 1938.
" "	177	Bombers	\$59,680.38	18,860	17,241	0 <sup>L</sup>	177 <sup>L</sup>	Jan. <sup>Aug.</sup> 1939
Seversky Aircraft Corp.	77	Pursuit	\$19,250	9,598	4,189	3	74	Feb. <sup>June</sup> 1938
Stearman Aircraft Company	72	Primary	5924 6,293	2,380	2,000	6 <sup>17</sup>	66	Feb. <sup>May</sup> 1938
North American Aviation, Inc.	135	Trainers	13 978 14,445	5,263	5,094	0	135	July <sup>Oct</sup> 1938
" "	164 109	Combat	25 580 28,914	7,799	6,046	0	164	Nov. <sup>Feb.</sup> 1938
" "	224 190**	3-Place				81 63	143	1938 <sup>1939</sup>
" "	190**	Basic	10,686.90	3,814	3,518	63	127	Jan. <sup>Feb.</sup> 1938
Boeing Aircraft Co.	26 13	Trainers					26	1938
" "	13	Bombers	207 150 246,410	40,000****	25,600****	0	13	Jan. <sup>Aug.</sup> 1939
Curtiss Airplane Company	13	Attack	82,497	15,690	6,747	13	10	Nov. 1937
" "	210	2-eng.						
" "	13	Pursuit	17,885	10,117	7,824	0	210	Feb. 1939
Sikorsky Aircraft Co.	5	"				5	13	1939
" "	5	Amphibian	114,868	13,892	7,029	1	4	Oct. 1937
Kellett Autogiro Corp.	7	Observation				1	6	1937
" "	7	Autogiro	34,782.42****			0	7	Apr. 1938

\*Delivery indefinite due to strike.

\*\* 117 Regular Army, 33 Organized Reserves, 40 Navy.

\*\*\*Estimated.

\*\*\*\* Airplane Complete.

Total 177 121

This report does not include four experimental airplanes which are being purchased under secret contracts.

Total amount of unobligated balance of funds available for new planes yet to be contracted for is \$17,294,060.

12

14, 018 597 (Each - 17)

2,18,274,060 is the

13 Jan 39 figure given by

the War Dept.

CONTRACTOR	QTY. CONTRACTED FOR	TYPE	PRICE PER PLANE			QUANTITY		ESTIMATED DATE OF DELIVERY
			DEVELOP	UNDER TRIALS	UNDEVELOP	DEVELOP	UNDER TRIALS	
The Northrop Corp.	54	Bomber	\$41,720.85	0	54	1-9/30/37; 5-12/30/37; 10 per mo. thereafter		
The Grumman Aircraft Engineering Corp.	81	Fighter	26,728.35	1	80	3-9/30/37; 6-10/20/37; 8 per mo. thereafter		
				under trials				
Bellanca Aircraft Corp.	1	Utility	26,944.88	0	1	9/30/37		
		(15 at -	39,458.00	0				
The Grumman Aircraft Engineering Corp.	15	Utility	(15 at - 30,800.00 less	0	15	1-11/15/37; 4 per mo. starting Jan. 1938; 1-5/1/38; 4-7/1/38;		
	15	(engine & propeller not yet contracted for		15		4 per mo. thereafter		
The Lockheed Aircraft Corp.	4	Utility	50,041.55	0	4	1-8/25/37; 2-9/15/37; 1-10/1/37		
United Aircraft Corp.	10	Utility	10 at 150,350.00	0	10	1-10/1/37; 3-11/1/37; 3-12/1/37; 3-1/1/38; 1-2/1/38; 3-3/1/38		
Sikorsky Aircraft Div.	4	"	4 " 147,049.80	0	4			
Army Air Corps	40	Training	17,617.16	0	40	1 under test at Wright Field; 6 per mo. after acceptance of 1 under tests		
Naval Aircraft Factory	80	Training	80 at 9,905.90	9	71	10-9/24/37; 15-10/24/37; 12-11/18/37; 11-11/30/37; 18-12/20/37;		
	15	"	15 " 10,014.00	0	15	5-12/30/37; 3-1/28/38; 3-2/4/38; 3-2/11/38; 3-2/18/38; 3-2/25/38		
Consolidated Aircraft Corp.	50	Patrol	50 " 104,302.64	2	48	1-9/3/37; 8-9/30/37; 12-10/30/37; 13-11/30/37; 14-12/30/37;		
	66	Bomber	66 " 106,717.88	0	66	1-9/27/37; 1-12/30/37; 10-1/30/38; 12-2/28/38; 15-3/30/38; 15-4/30/38; 12-5/30/38		
Curtiss Wright Corp. Curtiss Aeroplane Div.	83	Scout bomber	30,990.50	7	76	20 per mo.		
United Aircraft Corp. Chance Vought Aircraft Div.	54	Scout bomber	44,354.15	1	53	5-9/30/37; 8-10/31/37; 8-11/30/37; 10 per mo. thereafter.		
				under trials				
Curtiss Wright Corp. Curtiss Aeroplane Div.	83	Scout observation	26,580.54	0	83	3-1/1/38; 10-2/1/38; 17 per mo. thereafter		
		22 at	33,348.61					
Naval Aircraft Factory	22	Scout observation	22 " 30,579.16	0	22	1-7/15/38; 1 per week thereafter for 21 weeks		
		"		0	22	1-12/9/38; 1 per week thereafter		
Douglas Aircraft Corp.	114	Torpedo-Bomber	37,200.00	1	113	4-8/25/37; 2-9/25/37; 12 per mo. thereafter		
				under trials				

Note 1 - None of the data submitted includes cost of spare parts.  
 2 - Total amount of unobligated balance of funds available for new planes yet to be contracted for \$15,000,000.

Note 3 - Data include cost of propeller and power plant; cost of radio and other govt. furnished equipment not included.  
 Note 4 - Experimental planes are not included.

*Copies for the Secretary's files* 42

December 21, 1937

**MEMORANDUM FOR THE SECRETARY**

**Subject: Army and Navy aeroplanes under existing contracts**

There are attached hereto reports from the War Department and the Navy Department indicating the status of existing contracts for aeroplanes for each Department, prepared in accordance with oral instructions from the Secretary.

Attention is invited to the fact that the Navy report shows 60 training planes to be obtained from the Army which are also included in the 234 planes under contract with North American Aviation, Inc., indicated on attached report from the War Department.

The last 5 items indicated on the report from the War Department are covered under recent appropriation of \$14,000,000, and as further indicated, awards therefor have not yet been made.

**Director of Procurement**

**Attachments**

**HSC:gm**

WAR DEPARTMENT  
OFFICE OF THE ASSISTANT SECRETARY  
WASHINGTON, D. C.

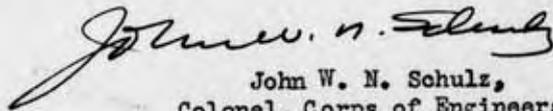
December 20, 1937.

Director of Procurement,  
Procurement Division,  
Treasury Department,  
Washington, D. C.

Dear Sir:

In compliance with verbal request of this date,  
there is attached a report of the Status of Airplanes due  
under Contract with the War Department.

For The Assistant Secretary of War:



John W. N. Schulz,  
Colonel, Corps of Engineers,  
Director of Current Procurement.

1 Encl.

December 20, 1937.

Director of Procurement,  
Procurement Division,  
Treasury Department,  
Washington, D. C.

Dear Sir:

In compliance with verbal request of this date,  
there is attached a report of the Status of Airplanes due  
under Contract with the War Department.

For The Assistant Secretary of War:

1 Encl.  
JWS/EMR

John W. N. Schuls,  
Colonel, Corps of Engineers,  
Director of Current Procurement.

STATUS OF AIRPLANE PURCHASE CONTRACT

Name of Contractor	Quantity Constructed	Type	Place	Price Per	G.P.M.	Delivered	Estimated Date of Delivery
Harbour Corp.	129	Attack	\$22,000	\$ 9,422	\$ 4,400	100	29 May, 1937
Douglas Aircraft Co.	138	Bombers 2-eng.	69,197	16,408	15,617	54	79 Jan., 1938
Douglas Aircraft Co.	177	Bombers	99,680.38	18,860	17,211	0	177 Aug., 1939
Beverly Aircraft Corp.	77	Ferrets	19,290	9,998	4,189	3	74 June, 1938
Stearman Aircraft Co.	92	Primary Trainers	5,924	2,380	2,000	12	60 March, 1938.
North American Aviation, Inc.	180	Battle Combat	13,978	5,263	5,094	0	180 Oct., 1938
North American Aviation, Inc.	164	Observation 3-Place	28,980	7,799	6,046	0	164 Feb., 1939
North American Aviation, Inc.	224 <sup>000</sup>	Battle Trainers	10,686.90	3,814	3,518	81	143 Feb., 1938
Boeing Aircraft Co.	26	Bombers 4-eng.	207,150	40,000 <sup>000</sup>	25,600 <sup>000</sup>	0,	26 Aug., 1939
Curtiss Airplane Co.	13	Attack 2-eng.	82,497	15,690	6,747	13	0
Curtiss Airplane Co.	210	Ferrets	17,885	10,117	7,824	0	210 Feb., 1939
Curtiss Airplane Co.	13	Ferrets	34,480	—	—	0	13 Jan., 1939
Ellersley Aircraft Co.	5	Allison Eng. Amphibian Observation	114,868	13,892	7,029	5	0
Kellett Autogiro Corp.	7	Autogiro	34,782.42 <sup>000</sup>	—	—	1	6 April 1938
and 117 Regular Army, 67 Organized Reserves, 40 Navy.					TOTAL	269	1161

new Airplane Complete.

**ADDITIONAL CONTRACTS IN PROCESS OF PROCUREMENT**

<b>Name of Contractor</b>	<b>Quantity</b>	<b>Type</b>	<b>Estimated Price Completed</b>	
Bell Aircraft Company	13	Fighters	\$292,661	Service Test
North American Aviation, Inc.	5	Bombers 2-eng.	419,040	Service Test
	37	Transport 2-eng.		Circular Proposal opens 12/28/37
	26	Amphibian		" " " 2/24/38
	13	Basic Trainers 2-eng.		" " " 2/8/38

The procurement of these airplanes will leave no unobligated balance.

CONTRACTOR	CONTRACTED FOR	TYPE	PRICE PER PLANE	DELIVERED	UNDELIVERED	ESTIMATED DATE OF DELIVERY
The Northrop Corp.	54	Bomber	\$41,720.85	1	53	2-1/30/38; 2-2/28/38; ten per mo. thereafter
The Grumman Aircraft Engineering Corp.	81	Fighter	26,728.35	1	80	3-per week Dec. 1937, then 4 per week thereafter
Bellanca Aircraft Corp.	1	Utility	26,944.88	0	1	1/15/38
The Grumman Aircraft Engineering Corp.	15	Utility (15 at	39,458.00	0	15	1-3/15/38; 4 per month thereafter
	15	(15 at	38,980.00	0	15	1-7/1/38; 4 per month thereafter
The Lockheed Aircraft Corp.	4	Utility	50,041.55	4	0	
United Aircraft Corp.	10	Utility (10 at	150,350.00	0	10	1-12/22/37; 3-2/4/38; 3-3/22/38; 3-5/12/38
Sikorsky Aircraft Div.	4	(4 at	147,049.80	0	4	1-6/1/38; 3-7/22/37
Army Air Corps	40	Training	17,617.16	7	33	8 per month
Naval Aircraft Factory	80	Training (80 at	9,905.90	36	44	3 per week
	15	(15 at	10,014.00	0	15	3-2/14/38; 3 per week thereafter
Consolidated Aircraft Corp.	50	Patrol bomber (50@	104,302.64	25	25	10 per month
	66	(66@	106,717.88	1	65	2-2/28/38; 6-3/30/38; 8-4/30/38; 10 per month thereafter
Curtiss Wright Corp. Curtiss Aeroplane Div.	83	Scout bomber	30,990.50	69	14	14 by 30 December 1937
United Aircraft Corp. C. G. Vought Aircraft Div.	54	Scout bomber	44,354.15	1	53	8-12/31/37; 5-1/31/38; 10 per month thereafter
				under trials		
Curtiss Wright Corp. Curtiss Aeroplane Div.	83	Scout observation	26,580.54	0	83	3-1/1/38; 10-2/1/38; 17 per month thereafter
Naval Aircraft Factory	22	Scout observation				
	22	(22 at	33,348.61	0	22	1-3/10/38; 4 per month thereafter
		(22 at	30,579.16	0	22	1-9/1/38; 1-10/14/38; 4 per month thereafter
Douglas Aircraft Corp.	114	Torpedo-Bomber	37,200.00	11	102	6-12/31/37; 6-1/31/38; 12 per month thereafter
Consolidated Aircraft Corp.	33	Patrol bomber	113,665.00	0	33	1-6/30/38; 1-9/30/38; 6 per month thereafter

Note 1 - None of the data submitted includes cost of spare parts.  
 Note 2 - Total amount of unobligated balance of funds available for new planes yet to be contacted for \$8,986,684.00.

Note 3 - Data include cost of propeller and power plant; cost of radio and other govt. furnished equipment not included  
 Note 4 - Experimental planes are not included.

MEMORANDUM OF THE DAY'S ACTIVITIES

48

September 13, 1937

To: Secretary Morgenthau  
From: Mr. Magill

1. Revenue revision

Mr. Randolph Paul of New York who helped us in the tax loophole investigation spent several hours with me today discussing possible changes in detail in the revenue act. I requested him to come primarily on account of the detailed knowledge he has gained through the publication of his five-volume textbook on the Federal income tax. Mr. Paul left a memorandum containing proposals for some 25 amendments of particular provisions which he regards as legally inadequate at present.

Mr. Paul made the interesting suggestion that we ought to enlist some of our friends at the bar to publish articles and the like in the next few months on some of the fundamental questions. The propaganda at present is of course almost wholly from the other side of the fence.

2. Bureau administration

Mr. Graves and I spent one and a half hours together going over the general program for his work. He will discuss it further with the Commissioner tomorrow. The Commissioner called me around five o'clock to inquire what my understanding was of Graves' assignment; apparently the Commissioner had some fear that his prerogatives were going to be infringed. I told him in substance that I believed you had in mind that Graves should make a survey of the Bureau procedure and report to you, to the Commissioner, and to myself regarding possible improvements which can be made. The Commissioner said that there was a lot of work which could be done but he wanted it clearly understood what the scope of Graves' operations would be. He particularly mentioned that he did not want the situation to develop as it had in the Alcohol Tax Unit, where he said Mr. Berkshire did not feel that he had control over his own personnel.

I spoke to Mr. McReynolds and Mr. Graves about my conversation with the Commissioner. Mr. Graves felt that he could satisfy the Commissioner in his conference with him tomorrow that his prerogatives would not be encroached upon.

*Rm*

September 13, 1937.  
11:55 a.m.

H.M.Jr: Hello

O: Mr. Bell. Go ahead.

H.M.Jr: Hello

Bell: Hello

H.M.Jr: Hello - Dan.

B: Yes.

H.M.Jr: If you care to, I would be delighted to join you in writing a letter to the President over our joint signatures recommending to him that he - ah - reduce the salaries of the CCC boys to \$21.00 and cut the enrollment to 200,000 and point out the net saving.

B: Ah - would you do that over - in a letter or would we talk to him about it.

H.M.Jr: Well let's put it in memorandum form.

B: Did you - ah - have any chance to talk to him on the budget?

H.M.Jr: Ah - not on next year's budget. I did on the present one.

B: Yes, what did he think about it?

H.M.Jr: Well he was quite shocked.

B: Was he?

H.M.Jr: Yep - quite shocked.

B: I don't see why.

H.M.Jr: What?

B: (Laughs) I don't see why.

H.M.Jr: Well -

- 2 -

B: All the things he's been going through.

H.M.Jr: I know but - ah - I'd like to do something on that CCC thing.

B: Yes, well I'll get a memorandum on it.

H.M.Jr: He gets back tomorrow morning.

B: Yeah.

H.M.Jr: Yes.

B: Didn't say anything about conferences this week.

H.M.Jr: No but - ah - I'll - we'll have to take our chances.

B: Well he'll have to.....

H.M.Jr: I guess I did - I said we wanted to see him a lot this week and he said all right.

B: Yes, he'll have to see us on this summation.

H.M.Jr: What's that?

B: He'll have to see us on this summation, if it's going out.

H.M.Jr: Yes I told him that.

B: Yes.

H.M.Jr: Yes.

B: All right, I'll get something up.

H.M.Jr: Goodbye.

B: Goodbye.

## PARAPHRASE OF TELEGRAM RECEIVED

No.: 1279  
From: American Embassy, Paris  
Date: September 13, noon.

On Saturday I had conversations at Rouen with a number of my friends who attended Quesnay's funeral. Among them were included Governor Franck, Niemeyer, Beyen, Marcel Van Zeeland, Jacobsson, Maurice Frere, and Charron of the League Financial Committee. Upon our return from Rouen, Beyen and Jacobsson visited in Paris with me.

I was informed by Frere that because of the crisis faced by the Prime Minister in the National Bank Affair, he had been unable to make any progress during the past five weeks with the Prime Minister in their study of a plan to improve world economics. The Prime Minister was now taking a week's rest, Frere said, and he hoped that it would then be possible for them to resume their work. Reference was made by Frere to a conversation he had with me in Paris approximately July 20 when he was here on plans looking toward meeting with Van Zeeland of a steering committee consisting of representatives of Great Britain, France and America. Practically no headway had been made since

-2-

since his visit, he said, since French officials had been occupied with their decree laws. Frere hoped that it might be possible for Mr. Welles to serve as American member to meet with the other representatives before the Under Secretary's return to America. If it were desirable, he said that Van Zeeland would come to Paris to see Mr. Welles. Frere has been sitting with the economic and raw materials committees at the League and want on to Geneva from Paris.

Intimation was given by Marcel van Zeeland that his brother might retire from the premiership shortly. It is thought by most of my friends that the recent disclosures had made impossible his continuance in politics. One exception was Niemeyer who felt that Van Zeeland had come ~~through~~ through rather well and that Van Zeeland should try to hold on to his post and continue with international affairs. Even considering recent developments, Jacobbson did not believe the door closed to Van Zeeland's return to the National Bank of Belgium after leaving the government. As was originally planned, Van Zeeland would return as Under Governor of the Bank of Belgium once he was finished with politics, and within a reasonable period of time thereafter succeed Franck as Governor. I spoke with Franck who made no mention of the press report that he is to retire at the end of 1937 on account of age. I was told by Beyen,

President

-3-

President of B.I.S. that the French were taking it for granted that Quesnay would be succeeded by a Frenchman as general manager. The most likely candidate seems to be the chief accountant of the Bank of France. It is said that Governor Fournier is opposed to sending anyone from the Ministry of Finance since he feels the B.I.S. should be kept as completely a central banking institution as possible. Beyen will readily agree to a French general manager rather than have difficulties of a political character arise, although he would prefer that the position be left vacant for some time. To promote Hechler, the German assistant manager, is not considered feasible. With Niemeyer acting as chairman of the board, the British are already well represented. At the B.I.S. meeting on October tenth the question of a successor will come up.

End of Sections 1, 2 and 3.

EA:DJW

PARAPHRASE OF TELEGRAM RECEIVED FROM PARIS, No. 1279.

Section 4.

As a result of this, Beyen may defer his trip to the United States as he had planned to depart the latter half of next month. Beyen told me he will surely make the trip in November, as he is still anxious to go.

Reuben Clark's visit to the League on the matter of the loan contracts committee pleased Charron who hoped that active cooperation of the American protective group might be enjoyed in future meetings of the League Committee. According to Charron they were now studying at Geneva the program of reconstructing the financial committee from which several of the best known members have now retired. Niemeyer told me positively that since he was definitely out, the apparently inspired recent editorial of the LONDON TIMES which suggested that the retiring members might reconsider, did not apply to him.

My friends consider the French situation as far from settled and unpredictable. The fact that capital has not come back into France and that monetary and treasury difficulties are inevitable this autumn, having commenced even earlier than was anticipated, is realized by my friends. It being felt that the economic and political problems of the world make it impossible for progress to be achieved through monetary action alone, no one had any suggestions to make for moves in the international monetary field. My

friends

-2-

## Section 5.

friends are more worried by the Far Eastern situation than by the Mediterranean question. They believe that Schacht and many Germans realize the opportunity for Germany now going forward in international business, with the United States having labor difficulties, with France undertaking a forty hour five-day week without possessing rationalized industry, and with England burdened with expensive rearmament. They think that Italy will hesitate entering into any more serious military enterprises as she is burdened with heavy expense from the Ethiopian Campaign, from continuing rearmament, and from volunteering in Spain. My friends have anticipated Schacht's retiring as acting head of the Ministry ever since he brought back <sup>into the Reichsbank</sup> Blessing and one of his other dependable men whom he had placed in the ministry of economics as his assistants. However, they do not expect Schacht to leave the Reichsbank.

My friends, while not worried about the long time outlook in the United States, are surprised to see that our market could sink so quickly and the country suffer such a nervous upset from war scare. One of them was bold enough to suggest that American industry needed a few words of encouragement from our President.

END MESSAGE

BULLITT

EA:DJW

Regraded Unclassified

September 13, 1937.  
2:56 p.m.

H.M.Jr: Hello.

O: Mr. Taylor. Go ahead.

Taylor: Hello

H.M.Jr: Wayne, I just want to tell you I don't want to get dragged in by the Federal Reserve on this question of marginal requirements for the New York Stock Exchange.

T: Oh no.

H.M.Jr: And, if you don't mind, I'd just as leave that you didn't lend yourself to it either.

T: Right.

H.M.Jr: I - I'm just fearful that the way they were talking at lunch they're going to try to drag us in. Now there's a distinct problem which is theirs and let them handle it.

T: Right.

H.M.Jr: Check with me?

T: I do.

H.M.Jr: O.K.

T: I was asked - ah - very informally.

H.M.Jr: Pardon me?

T: I was asked very informally.....

H.M.Jr: Yes.

T: .....as to - by the SEC people.....

H.M.Jr: Yes.

T: .....and I think I talked to - ah - ah - Marriner or Ronald about it also informally.

- 2 -

H.M.Jr: That's all right but I - I officially don't want to.....

T: Well I've absolutely kept away from that and said it wasn't our problem at all. I said in my opinion that the didn't have any effect at all on this situation.

H.M.Jr: Wayne, you might tell Kilby to be up here at five minutes to four with the bill rates.

T: All right, we got the - did you see the New York ones?

H.M.Jr: No.

T: They're very good .

H.M.Jr: Oh tell me.

T: Ah - 0585 as compared to 713 last week.

H.M.Jr: 713 last week.

T: Yes.

H.M.Jr: Atta boy.

T: Yes sir.

H.M.Jr: That's grand. Thank you.

VM

CODAT

Paris

Dated September 13, 1937.

Rec'd 5:40 p.m.

Secretary of State

Washington.

1281, September 13, 5 p.m.

FROM COCHRAN

With Paris closed Saturday intervention at London for the French control strengthened the franc. This morning the control entered the market here boldly to offset possible repercussions from Saturday night's Paris bombing. Rate improved with help from some profit taking by recent purchasers of foreign exchange. Franc movement has been irregular, however, throughout the day with the control both buying and selling and pressure against franc becoming heavier in the afternoon. Forward franc continues to be offered. Rentes lower. Today reflects uncertainty of outlook but general market sentiment is definitely pessimistic with feeling that capital will be more reluctant than ever to return to France after Saturday night's violence. On the other hand this sort of thing may react against Left elements in coming elections.

Press

VM 2-No. 1281, September 13, 5 p.m. from Paris.

Press continues to give much attention to American market situation and features announcement of new development involving sterilized gold and open market operations.

After commenting on French franc LONDON FINANCIAL TIMES today said under money market notes:

BULLITT

SMS:NPL

VM

CODAT

Paris

Dated September 13, 1937.

Rec'd 5:40 p.m.

Secretary of State  
Washington.

1281, September 13, 5 p.m. SECTION TWO

"The sharp break in the French franc has given rise once again to suggestions in various quarters that the Tripartite Agreement has ceased to function and that it now exists in name only. Rumor had it on Saturday morning that the French authorities were anxious to let the franc to the 145 to the pound level at least but that the other parties to the currency pact had objected.

In this connection it should be recalled that the Tripartite Agreement is something which is essentially elastic. As far as can be ascertained no definite figure has been fixed at any time as to the limit of fluctuations of either the American dollar or the French franc.

The parties to the Agreement undertook to refrain from depreciating their currencies with the object of gaining commercial advantages. There is not the slightest reason to suppose that the collapse of the franc has been engineered by the French authorities. As a matter of fact the French control has made considerable sacrifices in

its

VM 2-No. 1281, September 13, 5 p.m. from Paris.

its attempt to stem the tide.

French export figures prove that no trading advantage has been derived from the depreciation. On the other hand every fall in value of the currency has increased the cost of imported goods and made more and more acute the problems of prices and production. The French authorities indeed can hardly be blamed for beating the latest strategic retreat; it may not be the last either."

END OF MESSAGE.

BULLITT

SMS:NPL

September 13, 1937

At 12:10 Washington time, Mr. Morgenthau spoke to Mr. Matteson of the Federal Reserve Bank of New York. Mr. Matteson confirmed that he had orders on hand from the Treasury to purchase about \$5,000,000 of long term Treasury issues and the Secretary told Mr. Matteson that he thought long bonds were cheap and he would like Mr. Matteson to be aggressive in the execution of these orders today.



September 13, 1937.  
2:28 p.m.

H.M.Jr: Hello

Burgess: Hello sir.

H.M.Jr: Well how are you?

B: I'm fine.

H.M.Jr: Had a good week-end.

B: (Laughs) Well had a good time anyway.

H.M.Jr: Well I'm tickled to death the way it worked out.

B: I'm - I think it was just about as well as you could do it.

H.M.Jr: Yes.

B: I'm very much pleased; I think this - I think the effect is going to be good. Now the reception was a little bit mixed.....

H.M.Jr: Yes.

B: .....because there were some people who were apprehensive who felt that this meant that we were apprehensive too and they thought that Eccles rushing back by airplane and all that looked as though the situation were pretty bad.....

H.M.Jr: Yes.

B: .....so you got a little of that negative reaction.....

H.M.Jr: Yes.

B: .....but most of the reaction was good.

H.M.Jr: Yes.

B: They said, "Now we don't have to worry about the seasonal credit strain".

H.M.Jr: You know something very interesting.

B: Yes.

- 2 -

H.M.Jr: I had Bell figure out what will happen over the tax period in New York.....

B: Yes.

H.M.Jr: .....and the net loss of money by the New York Banks over the tax period is going to be exactly 310 million dollars.

B: The net gain.

H.M.Jr: The net loss - I mean exclusive of the gold. New York is going to pay out 310.....

B: Yes - yes - you mean your credit from your Treasury account.

H.M.Jr: Yes.

B: Yes.

H.M.Jr: 310 million more than they take in.

B: (Laughs)

H.M.Jr: And we're going to put all of that - those gold certificates right with the Federal Reserve in New York.

B: Well that's very nice.

H.M.Jr: And we had Marriner and Ransom for lunch and they agreed to that.

B: Well that's fine.

H.M.Jr: So there's 300 is all going to go right in New York and the difference - the net - you're going to pay out 310 more than you take in.

B: Oh that's fine.

H.M.Jr: Isn't that interesting?

B: Yep, and that will pile up money ahead that will take care of us for.....

H.M.Jr: Yes.

- 3 -

- B: ....oh at least six weeks, I think.
- H.M.Jr: Oh yes. Well in another day or two I'm going to talk to you about the kind of bills we sell but I'm a little - I'm not quite ready yet.
- B: That's fine. I've been chatting a little with Dan about it.
- H. M. Jr: Well - but one thing I want to draw to your attention is this - ah - I don't want to stop for 90 day bills until after the first week in October because that would be the first week in January.
- B: That's all right.
- H.M.Jr: In other words, if we start them now why they'd - just about Christmas time.
- B: I agree, yes (laughs) I think that's very wise.
- H.M.Jr: And I thought that out all by myself.
- B: (Laughs) Well you know your mind and mine paralleled on that because I thought the same thing by myself.
- H.M.Jr: Well you've got a good mind.
- B: (Laughs) Glad somebody has anyway.
- H.M.Jr: All right. And, incidentally, I'm glad that Ransom - not Ransom - what's - Madison bought some of that four million to-day.
- B: Well that worked all right.
- H.M.Jr: And - I'm kidding now - somebody came in and said do you call that an open market operation?
- B: (Laughs)
- H.M.Jr: A little weak on the laughter but it's all right.
- B: (Laughs)
- H. M. Jr: But anyway I'm - everything closed up strong.

B: Yes, well he did it carefully.

H.M.Jr: Well I'm enthusiastic over what the two organizations did. I - I couldn't see 200 though.

B: Well I - I think that was all right. Everybody was very agreeable about that.

H.M.Jr: Are you people having a Press Conference up there to-day?

B: Ah - yes.

H.M.Jr: Who sees them?

B: Ah - Dell usually goes in.

H.M.Jr: Well my God he doesn't know what's going on down here.

B: Oh yes he does. We keep him informed about it.

H.M.Jr: Well why doesn't somebody see them who's down here?

B: Well I saw them - I see them whenever there's Treasury financing on and so on.

H.M.Jr: I see - well.

B: I don't know - the Governor may be going in this morning; I just happened to talk to him about it.

H.M.Jr: All right, cheerio.

B: I may go in myself for a little while.

H.M.Jr: I wish you would.

B: All right, goodbye.

H.M.Jr: Goodbye.

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Tuesday, September 14, 1937.

Press Service  
 No. 11-18

Secretary of the Treasury Morgenthau today announced that reports from the Federal Reserve banks indicate that \$775,643,700 of Treasury Notes of Series A-1937, maturing September 15, 1937, have been exchanged, \$433,507,900 for 1-1/4 percent Notes of Series E-1938, and \$342,135,800 for 2 percent Notes of Series B-1942.

Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>For 1-1/4 percent Notes, Series E-1938</u>	<u>For 2 percent Notes, Series B-1942.</u>
Boston	\$ 19,751,700	\$ 15,699,900
New York	299,901,900	255,410,800
Philadelphia	11,369,900	5,931,100
Cleveland	11,382,200	15,035,900
Richmond	5,644,300	10,135,800
Atlanta	2,675,000	2,007,800
Chicago	48,763,100	13,002,300
St. Louis	8,701,600	4,251,100
Minneapolis	2,904,200	10,220,400
Kansas City	11,098,700	8,163,900
Dallas	2,180,100	959,700
San Francisco	8,158,700	613,200
Treasury	976,500	703,900
TOTAL	\$ 433,507,900	\$ 342,135,800

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## GROUP MEETING

September 14, 1937  
9:30 a.m.

Present: Mr. Taylor  
Mr. Magill  
Mr. Gaston  
Mr. Upham  
Miss Roche  
Dr. Viner  
Mr. Lochhead  
Mr. Haas  
Mr. Bell  
Mr. Oliphant  
Mr. McReynolds

H.M.Jr: Well, considering the press is what it is, Herbert,  
I think it's pretty good (Shafroth resignation story).

Where is everybody? Got anything, Archie?

Lochhead: Stocks seem to be opening up fairly well. Some of  
the railroads are up.

H.M.Jr: I never ask any more what the franc is.

Lochhead: They're still there.

H.M.Jr: You're coming in at 10:30, aren't you?

Lochhead: 10:30.

H.M.Jr: If this meeting won't take long, and by the looks of the  
crowd I don't think it will, you (Upham) can stay after-  
wards and I'll talk to you about your trip.

Upham: (Nods yes)

H.M.Jr: Dr. Viner?

Viner: (Nods nothing)

(Haas comes in)

H.M.Jr: Instead of having one of these "Don't Disturb" signs  
about Viner's neck, we ought to have "Don't Match Me."  
Did you hear about his conquest last night? Perfectly  
disgusting.

Gaston: I should think so.

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Viner: Still working.

Taylor: Did he perform again last night?

H.M.Jr: I stop by - after all, I'm living at the Carlton - before I go up; I hear loud raucous voices call me into the cocktail room; I go in, have a drink, and I say, "Who shall I thank?" Viner says, "Don't thank me, because I'm going to match; I know I won't pay for it." And I see him this morning and he says, "I didn't pay for it."

(Bell and Oliphant come in)

H.M.Jr: Good morning.

Miss Roche?

Roche: Nothing very special, but we are happy over our cancer program and our Institute is getting under way.

I sent the President two or three days ago a complete history of everything that's been done in all the departments on health, at his request. I'm sorry for anybody who digests it; it's about 400 pages. And everything goes - is going along very nicely. We're working out some cooperative programs with the other health people on amendments to the Social Security Act.

Bell: Say anything about economy in it?

Viner: Do you put economy before cancer?

Roche: I'm all for economy, but pick the places to economize.

H.M.Jr: Attaboy, Bell.

Bell: If you've got a chapter on economy I'll take a copy.

Roche: Fine; I'm right down your alley these days.

H.M.Jr: Doesn't take 400 pages, though, to talk about economy.

George, under the new Treasury policy I want to see how you feel about this. Professor Williams is

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coming in here at 10:15 to ask me whether I won't do the opening deed or break the bottle of champagne at his new school on October 10. And the argument he's using for me to come and do it - I can try out what I am going to say on November 10 in New York. But as you know by now, I don't like to do a half-baked job. Isn't it going to rush your crowd a little to have that ready - a finished job by October 10?

Haas: October?

H.M.Jr: Tenth.

Haas: Oh, if everything else is sort of status quo I can do it easily enough, it seems to me. We can do it if you - I mean leave us out; we'll do it.

H.M.Jr: Well, I wish you'd tell me you couldn't do it.

Roche: You didn't rise to that.

Haas: Trouble is with the job, you don't really know what it is until you get into it.

Roche: Now that's better.

Taylor: You can't say anything approximately on the Harvard thing that you can on November 10.

H.M.Jr: What?

Taylor: I don't think you can even say approximately the same thing at the two shows.

Viner: No, the Harvard one is not reported.

Taylor: Even so, I don't think you should.

Viner: Why?

Taylor: I don't think it's a good thing for you.

Viner: Why?

Taylor: Well, one of them has to do with the opening of a school.

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Viner: No, no, it's the first item in the program of the school.

H.M.Jr: No, they want a talk on fiscal policy.

Taylor: Oh.

H.M.Jr: But a lot of the same people, and I wouldn't - I think I better wait and do it a little bit later on. I don't want to be rushed. Bell will be away at that time and when he comes back I want him to go over the whole thing anyway. I'm going to talk on Federal spending.

Bell: <sup>a</sup>or the Academy of Political Science?

H.M.Jr: Yes. November 10. I guess I'd better wait.  
<sup>a</sup>hanks, George. You were a big help.

(McReynolds comes in)

H.M.Jr: Are you starting at the Treasury late or on your vacation late?

McR: No, I guess I'm late both places, the way the folks talk at home.

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

Now, you coming in at 10:30, George?

Haas: Yes, sir.

H.M.Jr: Harry White 10:30?

Haas: He tried to get a little more time on that. How did you work that out (Viner)?

Viner: Well, we.....

H.M.Jr: Let's see what he's got. Let's take a look at his teeth anyway.

Haas: He may not have his quite done. The bill stuff is all ready.

H.M.Jr: Bills? You all want to rush me so on these bills.

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- Haas: Oh, I don't want to rush you.
- H.M.Jr: I mean this bill business - I'll listen but I'm not in a hurry.
- Haas: O.K. I thought that's what you had reference to.
- H.M.Jr: No, I want to get ready for this Englishman next month. But I'll listen on the bill thing. I mean if it's.....
- Haas: It's all ready when you want it.
- H.M.Jr: Well, what I wanted to get - I want to get a little start on this English business.
- Herbert?
- Gaston: I was thinking that you could talk at this Harvard thing without using anything so specific as what you are planning to use at this Academy of Political Science - talk in general terms about management of government business.
- H.M.Jr: Oh, I don't - I've got to soak this thing up because this is all original work and I don't know how it's going to look when I get through.
- Gaston: I mean you wouldn't need to use that sort of material at all for a little talk at the opening of this Harvard school.
- Oliphant: What would you think of talking about problems of government administration? Now certainly the department you work in is known all over the country because of that aspect. It would be right down the alley there - how to run a government department.
- H.M.Jr: I've agreed to do that later. I've agreed to go up there a number of times. Now, whether I go there to make the opening address or go there a couple times later in the winter - what's the difference?
- Oliphant: Not if you cover the same ground.
- H.M.Jr: And I've got one hen on now, and that is this question of spending, and it will take me a couple months, with

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the other work that I've got, I think, to soak the thing through. I mean I've promised Williams to come, but whether I go to the opening.....

- Oliphant: Well, that takes care of it.
- H.M.Jr: Whether I go to the opening or two months later.....
- Gaston: There doesn't need to be a great amount of factual substance to your appearance at the opening.
- Viner: It's not to be a ceremonial. I mean the address is to be like the others, pretty substantial, supposed to be. But it's the....
- H.M.Jr: It's to the teachers.
- Viner: I think they want to start the opening with a sort of bang, but otherwise it will be like any other session. In other words, it won't simply be a few words of congratulation to the school, but it will be a presentation of some stuff.
- H.M.Jr: They want some facts.
- Viner: And ideas.
- H.M.Jr: I think we better wait.
- Oliphant: Well, if you're going to do the administration thing later.....
- H.M.Jr: What's the difference?
- Oliphant: If you're going to do it later....
- H.M.Jr: They haven't even got any students.
- Viner: He said there would be a few.
- H.M.Jr: That's too soon. What do you (Magill) think - a university man? I mean as long as I agreed to go some time during the year.....
- Magill: I think that's enough. I don't think from your point of view - I don't think there's any necessity for you to go.

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H.M.Jr: What?

Magill: I say from your point of view I don't think there's any necessity for your going. What they want is a headliner at the beginning.

Viner: That's right.

Magill: That's the thing.

H.M.Jr: I think I'll wait.

Gaston: Some of that speech up there - if you were thinking of using the same material I don't think it would be a good thing; I agree with Wayne - some of it would certainly leak out regardless of how off-the-record it is.

H.M.Jr: And they'd have a month's chance to work up an answer.

Gaston: Yes.

H.M.Jr: Wayne?

Taylor: This is this wire that I spoke to you about last night from Curtis - ammonium sulphate.

H.M.Jr: Well, what do you do with it?

Taylor: Well, he's made a request which is to the effect that "I now urgently request that in view of the importance and seriousness to our clients, the order be definitely suspended and not printed until their case is represented....."

H.M.Jr: Is he a lawyer?

Taylor: Yes.

H.M.Jr: Well then, turn it over to my lawyer.

Taylor: Their case was fully presented when the original order was put out by Secretary Mills, in fact so capably that Secretary Mills got the wrong answer out of them.

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H.M.Jr: Well, you turn it over to my lawyer. Will you take care of it?

Oliphant: Yes, indeed.

H.M.Jr: Just for the record, who is Curtis?

Taylor: He's the former Assistant Secretary of the Treasury under President Taft, I believe.

Bell: Can you describe him as a husband of Laurel Curtis?

H.M.Jr: Oh, that puts a different angle on it.

Taylor: He doesn't work at that all the time.

Oliphant: We'll get hold of Laurel.

H.M.Jr: Anyway, it's taken care of. Got any other good things?

Taylor: Did your General Counsel speak to you about silver last night?

H.M.Jr: No.

Viner: Tried to.

H.M.Jr: No, it will take time; but you can keep bringing it up.

Taylor: I do it on Mondays, Wednesdays, and Fridays.

H.M.Jr: I do things on Tuesdays, Thursdays, and Saturdays. Meantime I'm gathering strength.

Oliphant: And Bernie brings it up every day of the week.

H.M.Jr: Bernie who?

Oliphant: Bernie Bernstein.

Taylor: He keeps hounding me about it.

Gaston: I'll show you the way we're answering our correspondence on that so you can bring your policy into line.

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- Taylor: They're answering some too.
- Haas: That's a good one.
- (Hearty laughter)
- H.M.Jr: This is a good crowd. All right, what have you got besides rubber tires?
- Oliphant: I haven't rubber tires yet. What time are you....
- H.M.Jr: How many days - at two o'clock - how many days in time do you have to put out the bids - do you have to bid on them?
- Oliphant: Fourteen.
- H.M.Jr: I wish you'd bring Herbert Gaston up-to-date on this thing. Oliphant doesn't like tires. He thinks that the United States Post Office can run on flats just as well as on inflated tires. So we may not have any tires. And I think it's - I think what's running through my mind is I'd like Gaston and Oliphant to talk about it and the possibility of my inviting all of these bidders into this room, where I once took the glass bottle manufacturers, and just serving notice on them - no publicity, but just serving notice on them. Now, if it doesn't work then I'll talk. But I'll promise you no publicity. I did that with the glass bottle fellows; they all were good and came out friends.
- Oliphant: I thought we might do that before the opening of the bids.
- H.M.Jr: Before the opening of the bids. Just send for them all; send a wire asking for them all together.
- Oliphant: Would you like.....
- McR: Ought to be done before they make out their bids.
- H.M.Jr: Well, you've got 14 days; they don't send it in until the last day.
- Viner: Are they present when the bids are opened - representatives of the firms present?

McR: Yes, have a right to be. They usually have a representative here.

Oliphant: I'll give you that exact time.

H.M.Jr: Well, think it over. I can send for these boys and say, "If you fellows want to fight, all right, I'll fight, but if you know what's good for you I'd have a little competition." And then give them the law, read them a law. "Now, if you fellows want to fight a knock-down-and-drag-out fight, I'll fight it out. But it's simpler for everybody - just put in a couple honest bids."

Gaston: They'll say, "What price do you want? We'll get together and talk it over."

H.M.Jr: I don't think so. At least I'd feel that I'd put them on notice and that they know what I want. And there is no other way of their knowing what I want. Now, I'd like to hear what they've got to say.

Oliphant: In rejecting these bids, Peoples says to them that "they are rejected because of the indication of lack of competition" and that "other people are being advised to bid in hopes of getting a wider bidding and a lower price."

H.M.Jr: Well, think it over, will you? Does that clear you?

Oliphant: Yes. I have a report - there's some 60 or 80 of those Louisiana cases.

H.M.Jr: What are they, slot machines?

Oliphant: No, the civil cases remaining after the dismissal of the criminal cases.

H.M.Jr: Yes.

Oliphant: And a detailed report of how they stand. I assume you are not particularly interested in that report. Magill and I will go over it.

H.M.Jr: If that's suitable to you (Magill). Any other cases?

Oliphant: Well, you recall the policy we adopted at the time

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was that we weren't going - was that we were not going to settle the cases.

H.M.Jr: When was that policy adopted?

Oliphant: Right after the criminal cases were dismissed.

Taylor: At the time of the "Louisiana Purchase."

H.M.Jr: Well, is there any reason for me to be in on it?

Oliphant: No.

H.M.Jr: What?

Oliphant: None at all. Just wanted to verify that you didn't want to follow it.

H.M.Jr: Well, do we ever settle cases?

Oliphant: Yes.

H.M.Jr: What?

Oliphant: Yes.

H.M.Jr: We do?

Magill: (Nods yes)

H.M.Jr: Well, maybe you and Magill and I better have a look at it. What is it, a year and a half, two years? What?

Oliphant: About a year and a half.

H.M.Jr: Why don't you and Magill talk about it and - I mean when you fellows clear it, let me talk about it.

Oliphant: All right.

H.M.Jr: Huh?

Magill: Good. Have you seen it?

H.M.Jr: No, I don't know a thing about it, except what I read from Westbrook Pegler. He's a neighbor of yours, isn't he?

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Magill: Maybe.

Viner: Neighbor of mine.

H.M.Jr: Well, anyway, take a look at it. My mind isn't clear on it any more, except that I remember the last thing that happened on the criminal cases.

McR: I thought the Board of Tax Appeals was going to hear those cases down there in that district, Herman.

Oliphant: A number of them are ready for that.

McR: I understood Black was going down and hear them.

H.M.Jr: Which Black?

Magill: The Chairman of the Board.

McR: Not the Ku Klux Klanner.

H.M.Jr: All right. What else?

Magill: Do you want to make another date in place of that one this afternoon?

H.M.Jr: Tomorrow morning.

Magill: Tomorrow morning. Do you want me to speak to you tomorrow morning?

H.M.Jr: No, as far as - I have nothing on tomorrow morning. I'm saving the whole morning. I won't have any staff meeting. I may work in the hotel.

Magill: Well, then....

H.M.Jr: Or have you got a lot of material here?

Magill: No, I - that's easy enough.

H.M.Jr: Well, I'll tell you now - 9:30 tomorrow morning, either here or at the hotel.

Magill: There are two matters here, not particularly vital, but I think you'll be interested in them both. You recall that we have had some question with respect

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to - you raised some question as to the continuance of the exempting of corporations under the income tax law year after year, if it had once been ruled that they were exempt.

H.M.Jr: You mean charity?

Magill: Yes, or there are a long list of others. There are, what is it, 17 categories, or something of that kind - corporations of all sorts. The general practice seems to be, as far as I can find out, that once the company has been exempted, as, a building and loan association, why, it just stays exempt unless somebody informs on them or something of that description. So we have been trying to work out some ways and means of checking up on those people and seeing if their exempt status really has continued. The best present thought, which I don't think is very good, but perhaps probably is the best, is to send out a questionnaire to these various organizations asking them certain specific facts and getting the balance sheet and income statement from them, with a view to seeing whether they still are exempt.

Now, the one principal reason I'm bringing it up here is this; it's going to be difficult, I think, to obviate sending that questionnaire to some organizations which are unquestionably exempt. I might be able to prevent the Commissioner from sending a questionnaire to Harvard, but he probably will send one to the University of Chicago.

Viner: Why not?

Magill: Columbia, or the Rockefeller Foundation. Perhaps he should send it to everyone; perhaps you ought not to rely on these....

Viner: Why not send them the ordinary income tax things and each year they'll have to decide themselves whether they ought to report or not.

Magill: No, that wouldn't be so helpful. What we want is information; the income tax return isn't going to help us any.

H.M.Jr: Ros, if I may....

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- Magill: Yes.
- H.M.Jr: The suggestion that I make is I would start, say, beginning with January 1, 1937, and say nobody is exempt, we have withdrawn all exemptions, and they've got to prove they're exempt for this year. I'd just cancel all exemptions for everybody.
- Magill: Well, I was thinking of a variation of that in this letter which we were sending out to them.
- H.M.Jr: I mean put the burden of proof on them and make them prove it each year.
- McR: We had that in mind.
- Magill: Do you want to make it each year? I thought we'd put in this letter that we're making a periodic check of these organizations. Should we take the view that we want them to establish exemption each year?
- H.M.Jr: Why not further simplify it by saying that we notify them that we are withdrawing all exemptions and unless they can prove they are exempt they'll have to pay a tax for 1937. I'd just cancel all exemptions.
- Viner: You don't grant the exemptions; the law grants them, doesn't it?
- H.M.Jr: Well, it's interpretation.
- Magill: Well, you're - that's a jesuitical way of speaking of it. The law does grant the exemptions.
- Viner: It's the legal way.
- Magill: You economists are more hidebound lawyers than the lawyers themselves.
- Viner: Some of us still have a little bit of trust in the lawyers.
- Magill: The Commissioner is the boy that actually does.
- H.M.Jr: Then my statement is right; it's by ruling.

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- Magill: Of course it is.
- H.M.Jr: What?
- Magill: That's right.
- Gaston: I think there would be some value in the statistics that you'd gather by yearly examination. I think those statistics would be worth something.
- H.M.Jr: I still think I would cancel everybody's exemption and say, "Unless you can prove that you are entitled to exemption, we expect you to pay a tax for '37."
- Magill: That's about what we have in mind. I don't know whether we ought to lead off by saying we've cancelled all exemptions, because I don't think we'll really mean that. Suppose you put it this way: that unless they supply information that will satisfy us that they are exempt, that then they must file a return for 1937. In other words, you want to put yourself in a position to put them on notice that if they don't answer your questionnaire, their exemption is automatically cancelled. Otherwise we don't get the information.
- H.M.Jr: I still think that my - I still say a notice to these organizations: "We are very sorry, but for the year 1937 all exemptions are withdrawn, and if you feel that you are entitled to exemption we wish you'd fill out - you'd give us the following information." Now, if you can get me the same result as that the other way around, O.K.
- Magill: I'll show you later.
- Gaston: I think for tax policy purposes an annual statement from all these corporations would give you some information that would be extremely valuable.
- H.M.Jr: That takes care of Westbrook Pegler's criticism, too, that we haven't got the nerve to go after some organizations.
- Taylor: I check completely with what Herbert's talking about, that the statistics that you would get from making them file a return or a statement each year would

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be extremely valuable.

Magill: (Nods yes)

Taylor: That you can do that as a matter of routine.

Magill: Well, that's a - I think it's important that it should be stated in that way, because I think we're undoubtedly going to get a big holler from a number of these organization which doubtless are unquestionably exempt. That is, notably a lot of the educational institutions - "Why should we have to fill all this out?"

Haas: You make an individual do it each year to prove his exemption.

Taylor: There is no reason in the world why they shouldn't.

Magill: I think they should. I don't know whether it's worth while to make them do it every year.

H.M.Jr: Well, do it this year anyway.

Viner: I'd check up to see what the - what is it, the Bureau of Education? - you may be duplicating returns to them. You see, as far as the universities are concerned, there are annual statistics - combined statistics of these universities that are published here, and there may be lots of duplication.

Magill: Well, the universities, after all - I've mentioned them, but after all I think that's a relatively minor aspect.

H.M.Jr: We'll talk about it.

Magill: Yes.

The other thing is this. The League of Nations Fiscal Committee is meeting on October 11.

Viner: Financial Committee.

Magill: Pardon me?

Viner: Financial Committee.

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Magill: No, the Fiscal Committee of the League.

McR: Did you sign a letter from Helvering? There's one here.

H.M.Jr: Just one thing at a time.

(Secretary signs letter)

Viner: Is that a new Committee?

Magill: No, it's a committee always called by that name. I don't know what the Financial Committee does, but the Fiscal Committee deals with taxation, deals with treaties on double taxation, tax evasion.

H.M.Jr: What about it?

Magill: Our American representative is Mitchell B. Carroll, a New York lawyer, and it never is possible to tell whether Carroll is representing General Motors or whether he's representing the United States Treasury in his operations on the Fiscal Committee; prima facie, it's General Motors. Consequently, if we really want to exchange information with these people, we ought to send over somebody of our own. Now, we have said to the State Department, we have said to the public too, that we are interested in treaties to eliminate tax evasion by exchange of information with other governments, and France, Italy, and the Netherlands have indicated that they wish to proceed with treaties of that character - of course, Canada too.

H.M.Jr: I thought summer vacation was over.

Magill: (Laughs) I don't get that dirty crack.

H.M.Jr: (Laughs)

Magill: No, this is not my trip.

H.M.Jr: I know that. I know what's coming - King.

Magill: You're quite right. But now, you suggest a good

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alternative for King. I don't like him myself.

H.M.Jr: I wasn't being personal. I can think of more - I was - that was nothing personal.

McR: You weren't talking about King, you were talking about Mrs. King.

(Hearty laughter)

Magill: I don't know whether she's in on it.

H.M.Jr: This is a good crowd this morning.

McR: She's the one that's pressing him.

Magill: Well now - it's October 11 - well now, it is perfectly true; King's case....

H.M.Jr: May I interrupt a minute? Is that committee the one Riefler goes to?

Viner: No. I'd forgotten about this. This is a third one. There's the Financial, the Economic, and the Fiscal. This is double taxation.

H.M.Jr: Oh, I see.

Magill: I think on paper King's case is perfectly sound. That is, if we really intend to do a little fishing in this particular pond, the way to start out is to have someone over there to talk to these fellows in preliminary fashion and find out what they will agree to, and so forth.

H.M.Jr: Does Herman want to go? All I know is Herman is just going like this (demonstrating).

Oliphant: Is this Eldon King or Senator King?

Taylor: Eldon King.

Viner: How do you get Carroll off?

Magill: Huh?

Viner: How would you get Carroll off?

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Magill: You can't get Carroll off. I don't know - I'd like to get Carroll off, as far as that's concerned - but how to do it I don't know. I understand Carroll gets on there by designation of the other members of the Committee.

Gaston: How about Vincent? Wouldn't he be a good man?

Magill: No.

H.M.Jr: What do you want, Ros?

Magill: Well, I want....

H.M.Jr: What do you recommend?

Oliphant: Senator King.

Magill: I recommend King, although I do it with the same feelings that I dare say the rest of you have.

H.M.Jr: Do you want this? Huh? Do you want this?

Magill: Well, someone ought to go; I think that's true. I don't like this - I don't like to send King over there at all, but I don't know who else to send.

H.M.Jr: Well, if you want it, O.K.

Magill: Has anybody else got any other ideas?

Gaston: My idea would be a member of the Joint Committee on Internal Revenue Taxation.

Magill: Oh no, Herbert.

Gaston: No?

Magill: No, that wouldn't be any good at all.

Viner: Is he on the staff of the Internal Revenue Bureau?

Magill: No, but I don't want him on the staff of the Standard Oil Company.

Viner: How about Randolph Paul?

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Magill: Well, that might work.

Oliphant: (Nods yes)

H.M.Jr: I had another suggestion which I thought might -  
Beaman. Wasn't he very helpful?

Magill: Yes. I don't - this isn't down his alley; that's  
the only thing.

H.M.Jr: Well, Ros, you decide it and I'm satisfied. How's  
that? Just one second.

Mac, you taken care of?

McR: (Nods yes)

H.M.Jr: Stop around and I'll say good-bye.

Dan?

Bell: Everything's O.K.

H.M.Jr: Let's see a minute - I haven't got a very nice  
market today. Let's take a look at it.

You decide it and I'm satisfied.

Viner: You know where to come in the future when you want  
some good suggestions.

Present: Mr. Taylor  
Mr. Lochhead  
Mr. Haas  
Mr. White  
Mr. Riefler  
Dr. Viner  
Mr. Seltzer

H.M.Jr: What's this?

Seltzer: That's a bill program.

H.M.Jr: Well, what does it say, what do you recommend?

Seltzer: Why, I recommend continuing the 273s for two weeks, then going to 91-days and June concentrations; start the June - start the March concentrations on September 29 or next week, as you prefer - September 29 gives us time enough; and later on issue certificates.

H.M.Jr: Well, how you going to do both at the same time?

Seltzer: You mean certificates and bills?

H.M.Jr: No, let's say we stop the 90-days, let's say we continue to sell 9-months the balance of this month.

Seltzer: Answer one question: Do you want a December financing or not? If you wish to avoid a December financing, then you would keep on your 9-months bills for two weeks and then start 50 millions of 91-day bills and you'd start the March concentrations.

H.M.Jr: But I don't want to sell more; I just want to turn over. I don't want to sell more than 50 million a week. I don't want to raise any new money.

Seltzer: Well, if you're not going to raise any more money, you just want to turn over your bills. So then I would issue only the March concentrations. I wouldn't issue your 91-day bills; then, I wouldn't replace the 273s.

H.M.Jr: Stop the 9-months?

Seltzer: Yes.

H.M.Jr: And replace them with.....

Seltzer: March concentrations. That would save you a little interest. That is, if you issue both series of bills right away, it builds up a large cash balance which you don't need if you're going to have a December financing.

H.M.Jr: Well, if I start the first of October - October, November, December, three months - January, February, two and a half - that's five and a half months. I start - that's five and a half months' bills into the 15th of March.

Seltzer: They'd go very well.

H.M.Jr: Do you people think that that is more important than supplying the market with a 90-day piece of paper? I've got an alternate suggestion. As I say, I'm not going to spend a lot of time on it today. I'd split it; I'd sell 25 million of tax bills into the 15th of March and 25 million of 90-days. Let's get this 90-day thing going.

Taylor: That's an awful small issue.

Seltzer: 25 million of certificates a week.....

Viner: Too expensive to handle a 25 million issue.

Seltzer: You lose one of the main advantages of certificates if you do it that way.

H.M.Jr: Well....

Taylor: Not talking about certificates.

Seltzer: Oh, just bills?

Taylor: Talking about two kinds of bills.

Seltzer: Just calling them by different names - the regular and the tax anticipation.

Taylor: Yes.

Seltzer: What do you gain that way?

Taylor: Well, keeping only 50 million in the market. But to split between the two.....

Seltzer: Oh, I see, uh-huh. That's possible.

Taylor: I think that's pretty small.

H.M.Jr: Well, I tell you, gentlemen, I'm not ready. I want

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to wait till a week from next Monday, see about my 9-months. I've got two weeks. I think we'll just....

Seltzer: Except this: if you want 450 million of March concentrations and you will want to avoid issuing extra bills between Thanksgiving and Christmas, as you should, then you can't start your March concentrations later than September 29, unless you want to run into a larger volume of bills - say, 150 million a week.

H.M.Jr: When do I have to start that?

Seltzer: September 29, your March concentrations.

H.M.Jr: You mean offer them on the 27th?

Seltzer: That's right, and date them the 29th.

H.M.Jr: Well, I wouldn't have to make up my mind on that until the 23d.

Seltzer: That's right.

H.M.Jr: That's a lifetime. Let's put it off until next week. Let's put it off until next week. That's a lifetime.

Haas: In that memorandum, Mr. Secretary - there's some history in that too.

H.M.Jr: I'll read your memorandum. In the meantime, I'll let the bill business go until next week. And, barring something from the White House, we'll take up this foreign thing again tomorrow afternoon.

# TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE September 14, 1937

TO Secretary *M* *W* *H* *G* *e* *n* *t* *h* *a* *u*

FROM Mr. Haas *HA*

Subject: Short-Term Financing Program -- Bills and Certificates

## I. Conclusions and Recommendations

The basic program that would best meet the needs of both the Treasury and the market, as discussed subsequently in this memorandum, and as adjusted for the use of \$300 millions of gold, would appear to be the following:

1. Regular weekly bills: Continuation of the present series of \$50 millions weekly of 273-day bills for the issues of September 22 and September 29; and the substitution beginning with the issue of October 6, of \$50 millions weekly of 91-day bills in place of the present series of 273-day bills. At the end of 20 weeks, or earlier if gold imports or other reasons make it desirable, the volume of weekly issues of 91-day bills is to be raised to \$100 millions.

2. Bill concentrations: On each of the nine successive Wednesdays beginning September 29 (or September 22), \$50 millions of bills will be issued to mature in the amounts of \$150 millions on March 16, \$150 millions or \$200 millions on March 17, and \$150 millions or \$100 millions on March 18. The bill concentrations for the mid-June income-tax collection period will consist of seven issues of \$50 millions each, issued on the seven successive Wednesdays beginning with January 5. Similar concentrations will be made for the September and December income-tax payment periods of 1938, starting on March 23 and June 22, respectively. Unless partial redemptions are made of the note issues maturing in September and December 1938, it may possibly prove desirable to enlarge the bill concentrations for these income-tax periods.

3. Certificates of indebtedness: One-year certificates of indebtedness in the amount of \$300 millions, it is tentatively provided, will be offered on the 15th of March, June, September, and December of 1938.

This basic program is designed to permit a maximum of flexibility in application. The volume of outstanding bills and certificates can be readily increased or diminished by minor alterations. The program is designed to satisfy the Treasury's short-term cash needs, as at present estimated, without undesirable fluctuations in the volume and timing of issues; and it is also designed to meet various technical and other requirements which are discussed below.

The program provides for the retirement in cash, without a new financing operation, of the mid-December bill maturities of \$450 millions. No new money from bill issues is provided for between Thanksgiving and New Year's, this being the seasonal peak period of money market stringency. If, however, in view of the cash redemption of \$450 millions of bills in December, conditions favor the issue of additional bills in this period, it will be possible to redeem in cash the February note maturity of \$277 millions. If a new money financing in December is contemplated, or later appears desirable, relatively minor alterations in the basic program would be necessary. Such a financing, might take the form of one-year certificates of indebtedness and might make provision for the February note maturity.

The application of this program will permit a speedy outflow of the \$300 millions of funds derived from the use of gold into bank reserves. If further calls upon depositary banks are suspended until the new gold is used up, and the bill offerings during the next three weeks carry the privilege of payment by War Loan deposit credit, excess reserves will be increased by the amount of the cash redemptions of maturing 273-day bills (\$150 millions in three weeks), minus the cash received from dealers and others in payment of the new bill offerings. In addition, the ordinary excess of expenditures over receipts can be expected to put out more than \$50 millions, and, judging by recent experience, payment for gold inflows may easily run over \$100 millions during the next three weeks. It may be noted that the real seasonal stringency in the money market does not usually begin before Thanksgiving.

## II. Historical Background

1. Legal authorization for bills and certificates: Treasury bills were first authorized by an amendment to the Second Liberty Bond Act, approved by President Hoover on June 17, 1929. Prior to that date, the only instrument available to the Treasury for loans maturing in less than one year was the certificate of indebtedness. Such certificates had been used during the Civil War, were authorized anew in 1898 in connection with the Spanish-American War, and were used in 1907. The Liberty Bond Acts and amendments of the war and post-war period greatly expanded the authorization for their use. When authority for the issuance of Treasury bills was enacted in 1929, a combined limit of \$10 billions was placed upon the aggregate volume of certificates and bills to be outstanding at any one time; and in February 1935, a combined limit of \$20 billions was enacted for certificates, bills, and notes.

2. Nature of certificates of indebtedness: Treasury certificates of indebtedness are essentially identical with Treasury notes with these exceptions: (a) Their maturities are limited by law to periods of one year or less, whereas the maturities of Treasury notes must not be less than 1 year nor more than five years; and (b) the income therefrom is fully exempt from income taxes by statute, whereas the Secretary of the Treasury is authorized, at his discretion, to alter substantially the tax-exemption privileges of income derived from new issues of Treasury notes. Like Treasury notes, certificates of indebtedness are usually issued only in bearer form, with interest coupons attached.

3. Uses of certificates of indebtedness: Between 1917 and 1934, inclusive, there was no year in which the Treasury did not issue substantial amounts of certificates of indebtedness. The great bulk of the issues during these years was arranged to mature on the quarterly tax payment dates, and the certificates so issued were receivable in payment of income and profits taxes. During the war and early post-war years, however, and again in 1932, certificates were also used as short-term loan instruments, without reference to tax-payment dates, and when so used, they were not receivable for taxes.

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During the decade of the Twenties, new certificates were generally issued on the 15th of March, June, September, and December of each year to cover the needs of the Treasury for the ensuing quarter and sometimes to refund part of the maturing debt. Payment by bank subscribers was generally accepted in the form of deposit credit. In consequence, the Treasury, in effect, made a free loan to the money market for several days at tax payment periods because the maturing certificates were redeemed in cash, (when the new issues were not paid for by exchanges), whereas payment for the new certificates was not collected from the banks except as calls were made. This was of great assistance to the money market, though at times of considerable inconvenience to the Treasury.

4. Deficiencies of certificates of indebtedness:  
While certificates of indebtedness constituted an extremely useful instrument of short-term Treasury finance, they were not entirely satisfactory for all short-term purposes:

(a) When issued to mature at quarterly tax dates in amounts sufficient to provide for the entire excess of ordinary expenditures over receipts during the following quarter, the certificates naturally provided a larger volume of funds than could be used immediately. During periods of relatively high short-term interest rates, this resulted in substantial interest expense on idle funds. This expense was somewhat reduced by the fact that the Government usually received 2 percent interest on its deposits with the banks. Today the law forbids the payment of such interest on demand deposits.

(b) The fact that the certificates matured on the fifteenth of the month, whereas a large part of the checks representing tax collections was not finally cleared for several days thereafter, obliged the Treasury to borrow temporarily from the Federal Reserve banks on one-day certificates of indebtedness, which were renewed in part for several days, and to pay interest on this temporary borrowing in addition to the interest on the newly issued securities. To the extent that new issues of certificates were made for exchange subscription, there was no such additional temporary drain on the Treasury's cash resources.

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(c) It was sometimes difficult to fix a coupon rate accurately adjusted to market conditions.

(d) At times, many banks subscribed for the certificates mainly because of the deposit privilege; a privilege which was sufficiently valuable in periods of high money rates to encourage some banks to subscribe for the certificates even though they expected to sell them at a discount immediately. When, in consequence of bunched selling from this source, the market price of newly-issued certificates declined below par temporarily, this was interpreted in some quarters as a reflection upon the Government's credit.

5. Uses of Treasury bills: The employment of Treasury bills in partial substitution for certificates of indebtedness had a number of advantages.

(a) The sale of the bills through competitive bidding enabled the Treasury to enjoy the lowest interest rates consistent with market conditions, and eliminated the problem of determining the interest rate in advance. While certificates of indebtedness may also be sold on the competitive bid basis, the established practice of the market -- witness our competitive offerings of small amounts of Treasury bonds during 1935 -- is not favorable to such sales, at a premium, of fixed coupon Government obligations.

(b) Because of the ready market in New York for short-term discount obligations, the issuance of bills can be timed to coincide very accurately with the need for funds, thus avoiding the payment of interest on funds borrowed in advance.

(c) When used for income-tax payment periods, the maturities can be timed to correspond closely to the final collection of income taxes instead of being confined to the nominal date of tax payments.

(d) The suitability of Treasury bills for weekly offerings and maturities enables the Treasury to tap some funds that would not be invested in securities issued and maturing less frequently.

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(e) When short-term borrowing is confined to fixed quarterly dates, the Treasury sometimes is forced to borrow at high rates in periods of temporary market stringency. The availability of bills permits the Treasury to postpone large scale short-term borrowing during such periods and to obtain its funds through small weekly issues over a longer period, during which the market stringency may disappear.

6. Advantages of joint use of bills and certificates:  
The joint use of Treasury bills and certificates has certain advantages, under present money market conditions, not possessed by the use of either instrument alone.

The market for Treasury bills is largely confined to New York, whereas a broader market exists for fixed-interest obligations offered at par. Interior banks and non-banking institutions do not commonly participate in competitive bidding for Treasury bills; and they do not commonly purchase sizeable amounts of these bills on secondary distribution because they prefer securities bearing a fixed interest coupon to discount obligations.

The Treasury could afford to ignore these facts between 1934 and recent months because the volume of excess reserves was so great that the resources of the New York banks, swollen by abnormally large correspondent bank balances, were sufficient to meet without strain virtually all of the Treasury's demands for very short-term funds (one year or less). In recent months, however, by reason of the increases in reserve requirements and commercial loan expansion, the excess reserves of the New York banks have on several occasions declined to uncomfortably low levels, and this situation threatens to become far more acute this fall. Interior banks, on the other hand, still possess relatively large amounts of excess reserves; and, from a banking standpoint, it would be wholesome if such banks were encouraged to increase their holdings of short-term Government obligations. Certificates of indebtedness, for reasons previously advanced, are more attractive to these banks than Treasury bills.

The like is true, though in lesser degree, of non-banking corporations that desire short-term Government obligations in anticipation of tax payments and for other temporary purposes. The usefulness of certificates for

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the tax payment requirements of taxpayers is not inherently greater than that of Treasury bills, but, in practice, they have apparently proved more popular for this purpose. The physical certificates have not actually been tendered in direct payment of taxes in substantial quantities, but the deposit of these certificates with banks for collection on tax payment dates has enabled corporations to draw against the proceeds; and therefore the certificates accomplish this purpose even though few of them are physically tendered in payment of taxes.

The accompanying chart indicates the relatively greater attractiveness of Treasury certificates over Treasury bills for interior banks and non-banking purchasers during the years 1930-1934 inclusive, when both certificates and bills were outstanding in the hands of the public.

The joint use of certificates and bills adds to the flexibility of short-term Treasury financing. Although the bill as such is a more flexible instrument than the certificate, and can better be used to adjust the week-to-week needs of the Treasury, a broader market exists for certificates. Further, the market is not likely to be as receptive to a large single issue of bills, say \$500 millions, as to such an issue of certificates -- the market for bills being so largely restricted to short-term banking funds in New York. In periods of exceptional ease in the money market, therefore, certificates can be used to obtain a relatively large volume of funds at attractive rates. Likewise, the certificate is peculiarly well suited to raising a large amount of money in an emergency. Finally, since a significant part of the short-term debt is quasi-permanent in character, the broad market for certificates makes the use of the latter convenient for part of the short-term debt.

The joint use of certificates and bills also greatly diminishes the inconvenience attaching to the use of certificates alone for tax payment periods. If only half or less of the quarterly concentrations of maturities at tax payment periods consists of certificates maturing on the fifteenth of a tax-payment month, and all of the concentrated bill maturities are confined to the several following days, the temporary accommodation that might be required by the Treasury is greatly reduced or eliminated. Further, to the extent that new securities are accepted in exchange for maturing certificates, no drain on Treasury cash takes place.

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### III. Proposed Bill and Certificate Program

1. Regular weekly bills: Continuation of the present series of \$50 millions weekly of 273-day bills for the issues of September 22 and September 29; and the substitution beginning with the issue of October 6, of \$50 millions weekly of 91-day bills in place of the present series of 273-day bills. At the end of 20 weeks, or earlier if gold imports or other reasons make it desirable, the volume of weekly issues of 91-day bills is to be raised to \$100 millions.

To achieve the same volume of outstanding bills by means of 91-day maturities as is achieved by the present series of 273-day bills -- \$1,950 millions --, would require weekly issues of \$150 millions. If additional bill issues were offered for quarterly concentrations, the aggregate weekly issues during certain weeks would rise above \$150 millions by the amounts of such additional bills. The proposed program calls for maximum weekly issues of \$150 millions (this volume may not be reached until March 23), of which only \$100 millions would consist of 91-day bills. The proposed program, therefore, calls for the eventual substitution of an aggregate outstanding volume of \$1,300 millions of 91-day bills for the present outstanding volume of \$1,950 millions of 273-day bills.

If, however, 91-day bills were issued in the amount of \$100 millions weekly at the outset, the Treasury would be raising \$650 millions of new cash from this source during the next 13 weeks plus the amount of new cash (\$450 millions) to be provided by the mid-March bill concentrations, an aggregate amount of new money substantially greater than is now estimated to be required.

By inaugurating the 91-day series in the amount of \$50 millions weekly for the first twenty weeks, and offering the quarterly bill concentrations cited below, the Treasury will raise only the amount of new cash now estimated to be required. At the same time, the fact that the inauguration of the series of shorter bill maturities is not accompanied by an increase in the volume of regular weekly issues is likely to be favorably received by the market.

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2. Bill concentrations: On each of the nine successive Wednesdays beginning September 29 (or September 22), \$50 millions of bills will be issued to mature in the amounts of \$150 millions on March 16, \$150 millions or \$200 millions on March 17, and \$150 millions or \$100 millions on March 18. The bill concentrations for the mid-June income-tax collection period will consist of seven issues of \$50 millions each issued on the seven successive Wednesdays beginning with January 5. Similar concentrations will be made for the September and December income-tax payment periods of 1938, starting on March 23 and June 22, respectively. Unless partial redemptions are made of the note issues maturing in September and December 1938, it may possibly prove desirable to enlarge the bill concentrations for these income-tax periods.

It is proposed to inaugurate the additional series of \$50 millions weekly for the March 1938 income-tax concentrations at least as early as September 29 for two reasons: (a) A concentration as large as \$450 millions is desirable for money market purposes because of the large income-tax collections expected in March; and (b) it is desirable to avoid extra bill issues between Thanksgiving and Christmas, this being the season of maximum currency demand and greatest strain on the New York money market.

The quarterly bill concentrations for the remaining three income-tax periods in the calendar year 1938 are tentatively proposed in the amount of \$350 millions each and the dates are so arranged as to avoid such issues during the weeks immediately preceding the quarterly financing dates.

3. Certificates of indebtedness: One-year certificates of indebtedness in the amount of \$300 millions, it is tentatively provided, will be offered on the 15th of March, June, September, and December of 1938.

The proposed amount -- \$300 millions -- of the issues of certificates of indebtedness, as well as the use of certificates at all on quarterly financing dates, are tentative, though such a program would appear reasonable at the moment.

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Offerings of certificates of indebtedness more frequently than quarterly do not appear to be advisable under ordinary circumstances. It would hardly seem desirable to bring into play the whole machinery of a loan by popular subscription for amounts less than \$300 millions. If smaller offerings were made at par, the probability is that the allotments to subscribers would be exceedingly small. If smaller offerings were made on a competitive-bid basis, but at not less than par, the wider distribution, which is one of the principal advantages of certificates, would be sacrificed; and the inertia of established market practices would have to be overcome.

4. Aggregate volume of bills and certificates: The program as a whole provides for a maximum volume of outstanding bills during the next six months approximating the volume of bills now outstanding. Eventually, the aggregate bill volume will vary between \$1,650 millions and \$2,000 millions; and the certificate volume, if four issues of certificates of \$300 millions each are outstanding, will be \$1,200 millions.

As previously implied, the amounts cited in the foregoing paragraph are by no means rigid; for the program as a whole lends itself to great flexibility. If, for example, the cash demands arising out of the gold sterilization program rise above the \$75 millions a month tentatively provided for in Mr. Bell's cash position estimates, the additional demands could easily be met either by inaugurating earlier the rise from \$50 millions to \$100 millions in the weekly issues of 91-day bills, or by raising the amounts of quarterly bill concentrations, or by increasing the proposed certificate issues. Likewise, the aggregate volume of bills and certificates could be reduced, if desired, by such means as delaying the jump from \$50 millions to \$100 millions in the weekly issues of 91-day bills, eliminating one or more certificate issues, and reducing the maturity of the bills issued for quarterly maturity concentrations from 4½-6 months to 1½-3 months.

5. Money market vs. Treasury convenience at quarterly tax dates: The great concentration of Treasury tax collections in the middle of March, June, September, and December of each year would result in the temporary withdrawal of

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very large amounts of funds from the money market at these periods unless such withdrawals were offset by substantially equal Treasury disbursements. Likewise, the payment of interest and principal on public debt obligations would cause sudden and large temporary additions to money market funds unless these payments were largely concentrated at tax-collection periods.

The Treasury has usually recognized the desirability of avoiding these sources of disturbance to the money market by scheduling most of its interest and principal payments for the four peak income-tax collection periods. While Reserve bank operations could mitigate these fluctuations in the absence of appropriate timing by the Treasury, there appears to be no sufficient reason why the Treasury should not adjust its operations to minimize disturbance to the money market.

The bill and certificate program here proposed would ultimately provide regular quarterly maturities at tax-payment periods of \$650 millions, which would appear to be ample, particularly when account is taken of our quarterly interest disbursements. Until the certificate program is fully under way, however, it may prove desirable to increase the bill concentrations, or, if circumstances permit, to redeem portions of maturing note issues in cash.

As has been previously indicated, the chief inconvenience encountered by the Treasury in arranging its short-term maturities to coincide with tax-payment periods arises when the maturities are scheduled for the fifteenth of the month; for a large part of the tax collections do not become available for several days thereafter. The program here recommended meets this difficulty in part by scheduling the quarterly bill maturities for the 16th, 17th, and 18th of tax-payment months, leaving only the certificates to mature on the fifteenth.

Further, whenever the cash redemption of the entire volume of maturing certificates is not estimated to be required to meet money market withdrawals, exchange subscriptions to the new issue of certificates may be invited or allotted in stated amounts. Such exchange allotments will correspondingly reduce the Treasury's cash disbursements on the fifteenth.

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If, nevertheless, a few days' shortage of cash develops, resort could be had again to the practice often used in previous years: The sale of one-day certificates of indebtedness, renewed in diminishing amounts for several days. Although the law now forbids the direct purchase of Government securities from the Treasury by the Federal Reserve banks, it does not forbid the Reserve banks from acting as the Treasury's agent in the sale of obligations to other banks. A few New York banks could confidently be expected to take all such one-day certificates of indebtedness that might be offered. Indeed, the Federal Reserve Bank of New York formerly sold participations in the one-day certificates that it purchased from the Treasury.

Another method of meeting the lag between certificate maturities and final clearance of checks representing tax collections would be to deposit gold certificates issued against free gold in the General Fund and gold in the Inactive Account or Stabilization Fund with the Federal Reserve banks for a few days, reacquiring these certificates and replacing the gold in the various funds when the tax collections became available.

Finally, the certificates themselves could be issued to mature on the 17th or 18th of the tax-payment months. If such issues were not made fully receivable at par plus full interest in payment of taxes due on the 15th (this is in the discretion of the Secretary), the tax-payment use of certificates would be somewhat reduced. If they were made fully receivable, the Treasury would be paying a few days' extra interest on that portion of the certificates which is turned in for payment of taxes due on the 15th.

Attachment

*Bell*

D. W. BELL'S PROPOSED BILL AND CERTIFICATE PROGRAM

(In millions of dollars)

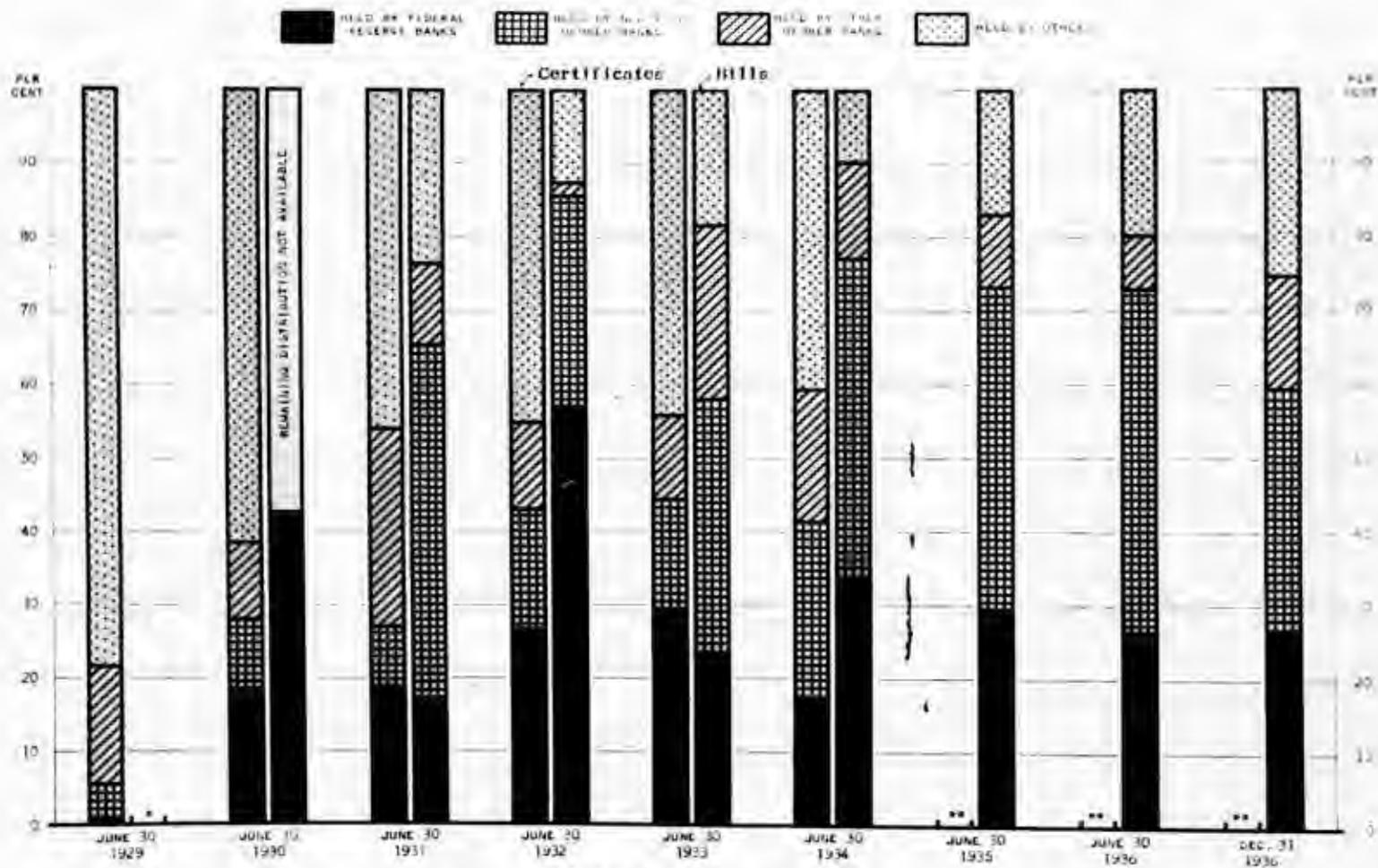
Date	Bill Issues			Bill Maturities			Total Bill Volume Outstanding	Certificate Issues	Total Bill and Certificate Volume Outstanding
	273 day	Tax Date	91 day	273 day	Tax Date	91 day			
<b>1937</b>									
September	21						2,400		
	22	50		50			2,400		
	29	50		50			2,400		
October	6	50 Mar.		50			2,400		
	13	50		50			2,400		
	20	50		50			2,400		
	27	50		50			2,400		
November	3	50		50			2,400		
	10	50		50			2,400		
	17	50		50			2,400		
	24	50		50			2,400		
December	1		50	50			2,400		
	8		50	50			2,400		
	15		50	50			2,400		
	16				100		2,300		
	17				100		2,200		
	18				100		2,100		
	20				100		2,000		
	21				50		1,950		
	22		50	50			1,950		
	29		50	50			1,950		
<b>1938</b>									
January	5	50 June	50	50			2,000		
	12	50	50	50			2,050		
	19	50	50	50			2,100		
	26	50	50	50			2,150		
February	2	50	50	50			2,200		
	9	50	50	50			2,250		
	16		50	50			2,250		
	23		50	50			2,250		
March	2		100	50		50	2,250		
	9		100	50		50	2,250		
	16		100	50	100	50	2,150		
	17				100		2,050		
	18				100		1,950		
	19				100		1,850		
	23		100	50		50	1,850		
	30		100	50		50	1,850		
April	6	50 Sept.	100	50		50	1,900		
	13	50	100	50		50	1,950		
	20	50	100	50		50	2,000		
	27	50	100	50		50	2,050		
May	4	50	100	50		50	2,100		
	11	50	100	50		50	2,150		
	18		100	50		50	2,150		
	25		100	50		50	2,150		
June	1		150	50		100	2,150		
	8		150	50		100	2,150		
	15		150	50		100	2,150		
	16				100		2,050		
	17				100		1,950		
	18				100		1,850		
	22		150	50		100	1,850		
	29		150	50		100	1,850		

**PROPOSED BILL AND CERTIFICATE PROGRAM  
ASSUMING DECEMBER FINANCING**

(In millions of dollars)

Date	Bill Issues			Bill Maturities			Total Bill Volume Outstanding	Certificate Issues	Total Bill and Certificate Volume Outstanding
	273 day	Tax Date	91 day	273 day	Tax Date	91 day			
<b>1937</b>									
September 21							2,400		2,400
22	50			50			2,400		2,400
29	50			50			2,400		2,400
October 6	50			50			2,400		2,400
13	50			50			2,400		2,400
20		50 Mar.		50			2,400		2,400
27		50		50			2,400		2,400
November 3		50		50			2,400		2,400
10		50		50			2,400		2,400
17		50		50			2,400		2,400
24		50		50			2,400		2,400
December 1		50		50			2,400		2,400
8		50		50			2,400	300	2,400
15		50		50			2,400		2,700
16					100		2,300		2,600
17					100		2,200		2,500
18					100		2,100		2,400
20					100		2,000		2,300
21					50		1,950		2,250
22			50	50			1,950		2,250
29			50	50			1,950		2,250
<b>1938</b>									
January 5		50 June	50	50			2,000		2,300
12		50	50	50			2,050		2,350
19		50	50	50			2,100		2,400
26		50	50	50			2,150		2,450
February 2		50	50	50			2,200		2,500
9		50	50	50			2,250		2,550
16		50	50	50			2,300		2,600
23			50	50			2,300		2,600
March 2			50	50			2,300		2,600
9			50	50			2,300	300	2,600
16			50	50	150		2,150		2,750
17					100		2,050		2,650
18					100		1,950		2,550
19					100		1,850		2,450
23		50 Sept.	50	50		50	1,850		2,450
30		50	50	50		50	1,850		2,450
April 6		50	50	50		50	1,850		2,450
13		50	50	50		50	1,850		2,450
20		50	50	50		50	1,850		2,450
27		50	50	50		50	1,850		2,450
May 4		50	50	50		50	1,850		2,450
11			100	50		50	1,850		2,450
18			100	50		50	1,850		2,450
25			100	50		50	1,850		2,450
June 1			100	50		50	1,850		2,450
8			100	50		50	1,850	300	2,450
15			100	50		50	1,850		2,750
16					100		1,750		2,650
17					100		1,650		2,550
18					100		1,550		2,450
20					50		1,500		2,400
22			100	50		50	1,500		2,400
29			100	50		50	1,500		2,400

PERCENTAGE DISTRIBUTION OF TREASURY CERTIFICATES OF INDEBTEDNESS AND BILLS  
OUTSTANDING ON VARIOUS DATES  
Classified by Type of Holder



\* NO BILLS OUTSTANDING  
\*\* NO CERTIFICATES OUTSTANDING

SURVEY OF THE BUREAU OF INTERNAL REVENUE.

The following plan is submitted for the survey of the Bureau of Internal Revenue to be conducted by Mr. Graves at the Secretary's direction:

1.--Purpose.

The purpose of the survey will be to develop, so far as possible, ways and means to improve the Bureau's organization and methods of administration, with a view to the following results:

- (a) The lowest practicable costs of administration;
- (b) The most expeditious and equitable possible determination of tax liability;
- (c) A reduction of litigation; and
- (d) A minimum of tax evasion and avoidance.

2.--Scope.

The study will extend to all the units and divisions of the Bureau in Washington and to Collector's offices, the offices of the Revenue Agents in Charge, and other field activities. It will contemplate an examination of the procedures followed in each unit and subdivision as an entity, and also its relationships to associated units. In a study of the procedures and mechanics of administration, a review of each type of tax should be undertaken, from the time of filing the return until the ultimate closing of the case, in order to detect any overlapping operations between different units, any unnecessary and repetitious steps, and any points of congestion which may exist. The principle of decentralization in the administration of the revenue laws as exemplified by the experiment now being conducted at Cleveland, Dallas, San Francisco, and New York will be fully explored. Particular attention will be paid to the assignment of the personnel to their respective duties, with a view to the reassignment or other proper disposition of any who may not be profitably employed.

### 3.--Mechanics.

The Commissioner will assign to Mr. Graves at his request experienced personnel selected from the several divisions and field agencies of the Bureau to assist him in making the survey. The initial phase will be to construct, by the employment of this personnel, an accurate picture of the operations carried on in the Bureau and its field offices in sufficient detail to facilitate a thorough understanding of the present organization and of the present procedures of all units, subdivisions, and field offices. The second phase will be, after conference with unit and division heads and with field officers in charge, to make a critical analysis of the organization and the methods of business employed in each unit, subdivision, and field office, looking to such changes in organization or procedures as may seem to be necessary to accomplish the objects above stated.

### 4.--Recommendations.

Mr. Graves will in no case undertake to exercise any administrative functions, except as may be requested by the Commissioner. From time to time he will submit directly to the Commissioner, for such action as the Commissioner may consider appropriate, recommendations relating to details of the Bureau's internal administration. Recommendations relating to matters of departmental policy will be submitted in writing to the Secretary, through the Under Secretary, but in any such case Mr. Graves will fully advise the Commissioner with respect thereto, and furnish him a copy of his written recommendation.



RE MATTERS TO BE DISCUSSED  
WITH SIR FREDERICK PHILLIPS

September 14, 1937  
10:35 a.m.

Present: Mr. Taylor  
Mr. Lochhead  
Mr. Haas  
Mr. White  
Mr. Riefler  
Dr. Viner

White: (Presenting attached memorandum) There is the third sheet coming; that will be preceded by an index which will tell you whatever there is in a complete folder. There will be a memorandum on each point and a pertinent paper, all arranged conveniently so you can put your finger on it.

H.M.Jr: Has anybody else seen it?

White: Well, they've seen the gist of it.

H.M.Jr: Well, I'll read it out loud.

"Suggested agenda for conversations between  
Secretary and Sir Frederick Phillips."

Has this fellow Butterworth showed up?

Lochhead: No, we haven't heard from him. I thought we'd hear from him today. Generally bounces directly over here from there.

Taylor: I called up yesterday and they don't know whether he's arriving today or tomorrow.

H.M.Jr: "(a) Does the British Treasury contemplate any program designed to increase the monetary use of gold?"

"(b) British Treasury opinion of the extent to which central banks should keep balances in other countries in excess of their commercial needs and the conditions under which central banks should invest in the securities of other governments.

"This was the subject matter of our letter to Switzerland. The British Treasury has indicated its general attitude, but it might be worth while to reopen the subject as a means of reopening the

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whole gold question.

"(c) Desirability of promoting the principle among 'club members' that a high gold reserve should be maintained against deposits of foreigners.

"(d) Promotion of the principle that banks in the 'club' countries should be required to keep larger cash reserves, thereby relieving the treasuries of some of the burden of sterilizing gold."

Don't some of these overlap?

White: No. There is a little difference between the third and the second. There is some overlapping, but they do raise certain questions.....

H.M.Jr: "(e) Exploring the possibility of making gold loans to countries in need of gold reserves - e.g., the recent Brazilian transaction with the United States."

Lochhead: I take exception to that. You're stepping out; that's their gold.

H.M.Jr: "(f) Trade agreement with United Kingdom and Dominions as a means toward aiding the redistribution of gold holdings.

"(g) What is the opinion of the British Treasury of the prospect of additional hoarding of gold by the people of British India?

"2. Attitude of the British Treasury toward the existing upward trend in world gold production.

"Does the British Treasury feel that world gold production should be curtailed? If so, by what means? Did the discussion of gold at the Imperial Conference go very deeply into this matter?

"3. Examination of the possible measures to reduce the supply of gold.

"(a) The advantages and disadvantages of a simultaneous reduction in the price of gold as a means of reducing the supply, compared with the advantages and disadvantages of restriction on the physical output through international agreement.

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"(b) British Treasury attitude toward sale of Russian gold on the London market. Does the British Treasury feel there should be any restrictions on the sale of such gold in either the English or the American market? What is the British Treasury's view with respect to gold production in Russia?"

White: There's a third page. (Leaves to get it)

H.M.Jr: "4. Prospects for continuation and expansion of the tripartite understanding.

"(a) Exchange of information.

"(1') Explore the possibilities of exchange of information with the British Treasury with respect to international capital movements.

"(2') Exchange, either on an informal and confidential basis or in some more formalized fashion, of tax information to prevent tax evasion and avoidance.

"(3') The possibilities of exchanging information with respect to the movement of Japan's sterling and dollar balances.

"(4') The British Treasury's estimates of the amount of hoarded gold remaining in England.

(White returns)

H.M.Jr: Now, you've got a lot of stuff here, but I think it's got to be kind of reshuffled.

White: Yes. Well, that.....

H.M.Jr: I mean I think you've got - your subjects aren't necessarily all falling in the same classification.

White: The order and shuffling they hadn't discussed, but.....

H.M.Jr: Well now, just to throw something in, I think the easiest thing to start on would be - I'd make it One - "Continuation and Expansion of Tripartite Understanding." I think that that would be the easiest thing to - I'm just offering that; what do you people think? I mean now I think I could start

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off by saying that I think the tripartite agreement has worked beautifully, etc., and can we add to its usefulness. I mean sort of ease into that thing first.

Now, what - I'm willing - I'll listen. Wouldn't that be the easiest thing as far as we're concerned? "It's gone fine" etc. - what we have done with Switzerland, so forth and so on. I mean just sort of ease into the thing with the tripartite agreement.

White: Do you want to glance at the remainder before you make that decision (presenting third and fourth pages)?

H.M.Jr: (Reads remainder silently)

I still say after reading that that I - I mean I bring it up that I think the tripartite agreement, the success of it, and then any possible discussion of what might affect it - that's the....

Haas: And many of these will fall into that pattern.

H.M.Jr: I mean what might affect it.

Taylor: That's your next one, isn't it?

H.M.Jr: World war, those different things that might affect it. What can we do to guard the tripartite agreement against possible attacks? So forth and so on. Then I can say, "How about France?" "Should we look for any additional members?" Or, possible extension of other members, or the exclusion of members. I mean I think that that would be certainly - take a full day; and it would be the easiest way, the least controversial. Say, how do they feel about France? I mean I'm thinking out loud at you gentlemen; I'm not coming to any conclusions.

Viner: I think that's a natural opening for discussion - that is, the arrangements we have with them now - something on which we have a legitimate reason to keep on talking with them. I think it's a good opening.

I get the idea here, looking over this, that we ought to send over whatever our final agenda is to the State Department for an O.K. Some of the things

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here are very definitely.....

H.M.Jr: Well, I told Mr. Hull last night that before I started I expect to sit down with him, and he's very anxious that I sit down with him. I expect to sit down with the President and go over this thing. So Mr. Hull is very anxious to personally go over this thing with me.

Viner: (Nods approval)

H.M.Jr: The President - I don't know whether he will or will not. But Mr. Hull is. I was just sort of chatting with him last night; and, as I say, you want to bear in mind that Mr. Hull asked me to help in our discussions at different times with the trade treaty.

But I think what you people ought to do is to take this thing and rearrange it on the tripartite agreement, past, present, and future; and the various things that Harry's got - let it fall into that.

Then I think - am I going too fast? I don't mean for him, I mean for you fellows, your brains.

White: You wouldn't build it all around that. You mean there would be a second....

H.M.Jr: When the second thing - then I think the second thing that would come up is, What is the future of gold?

Viner: That's a tripartite problem too. I'd make it just all lead out; it will be made to do so naturally.

H.M.Jr: But I think - if I may just finish - I think under gold, then just list the various things: Do you want to look at gold from the question of control of world production? Do you want to look at it from the question of purchase through central banks, considering gold as a monetary metal, and possibility of letting excess over and above monetary metal seek its own level - two prices of gold? Then under that would come - under that would fall Russia. But I think this whole question of gold... Then under that would come the various ways: our sterilization of gold and their sterilization; the reserves - hundred percent

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reserves against gold deposits - I mean against foreign deposits; making other countries carry gold as a monetary stock. That whole question, all of those things - I don't think that's so much tripartite as it would come under the heading of gold and various methods which have been suggested.

And the same thing would apply to silver. The London Silver Agreement expires. What about our Silver Purchase Act? When does that expire?

Lochhead: Has no expiration date. The present proclamation on the purchase of newly-mined expires the end of this year.

H.M.Jr: Does that mean the proclamation expires? Could he extend that?

White: Oh yes.

H.M.Jr: That isn't clear. I'd like that - I mean that isn't clear in my mind.

White: Well, there is a memorandum on it.

H.M.Jr: I know.

Viner: What about the Silver Agreement? That expires, doesn't it?

H.M.Jr: I think we ought to have that data - those data.

White: We have.

H.M.Jr: And how we feel about that. Then Japanese gold would come into it, and then the question of Chinese-Japanese War and Chinese silver in Hongkong. I mean I think that all would fall into place.

I think if he doesn't have much - I think it would be a courteous thing if we could give him a sort of memorandum, say this sort of thing, to discuss, so he'd be having a little chance to be thinking about it in advance. But I think that has got to be rescrambled, Harry.

White: Do you want to include discussion of gold with silver at the same time?

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H.M.Jr: Yes. After all, the whole question - the question of a world market in gold is London, Bombay, and Hongkong, isn't it?

White: Silver.

H.M.Jr: I mean silver. And the purchasing power is unimpeded - I mean they have saved the situation as far as world silver goes. And as we discuss this thing, Wayne - I don't know what you've got in mind, but that will sort of fall .....

Taylor: We've got one question on the silver thing that has to be answered right away.

H.M.Jr: What's that?

Taylor: It has to do with how long we will allow let's say what we will consider to be newly-mined, or newly-mined silver - if we decide that it is any silver which was mined up to midnight, December 31, 1937, then we do away with all the various questions which can come up before that. If we try to cut it off now and say it has to be delivered, why, then we're right in the middle of it.

H.M.Jr: I'll say "mined."

Taylor: O.K.

H.M.Jr: Because I can't handle it.

White: That's a question that could come up independently of this.

Taylor: This has nothing to do with it. This is what the silver boys.... We've got an opinion that's coming up to you which I'll clear some time today. But we ought to get that out of the way immediately. If we don't do it that way, why, God knows what will happen.

H.M.Jr: Well, I don't think there's any - I should think that would be the answer. I mean we can't handle it any other way.

Taylor: We can't do anything else about it.

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- H.M.Jr: Does the President's proclamation end the first of January?
- Taylor: Yes, and some time between now and the first of January, why, we've got to have an answer to that.
- Lochhead: If we don't answer it now, the President's going to have to answer it within a week, so I think.....
- H.M.Jr: Well, I would say offhand that that would be the way to handle it.
- Taylor: We've got a legal opinion to the effect that you can handle it that way.
- H.M.Jr: All right. Well, you wouldn't have that ready by Cabinet, would you?
- Taylor: Yes.
- H.M.Jr: What?
- Taylor: Yes.
- H.M.Jr: All right. Today's Cabinet.
- Taylor: Well, I'll get - it's on the way to my desk now and I'll shoot it in to you, because I think it is quite important that it should be handled.
- H.M.Jr: Now, I think this - this is the first draft, isn't it?
- White: Yes, that's just a tentative draft.
- H.M.Jr: What I would suggest on this thing - if you gentlemen could go into a room somewhere and rearrange this thing. Now, if you see this thing along the lines that I have suggested - now, are we all thinking the same?
- Viner: What we would like to know is, do you approve of the kind of range of topics for conversation?
- H.M.Jr: Yes.
- Viner: You are willing to talk about these things.
- H.M.Jr: Yes.

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Viner: We think you should, but we didn't know.

H.M.Jr: Yes.

Viner: Then we have made definite progress. We wanted to know that.

H.M.Jr: Absolutely. But I think that this thing - I'm not going to be rushed, and I think that fellow, Sir Frederick Phillips, when he sees what we want to talk about - I think he'll be anxious to stay and it's to his interests to stay. It's like K. P. Chen - when he came over he was in such a hurry and he came impressing me - "I'm in no hurry." You can't be rushed on this thing and do your regular day's work besides.

Viner: Has he landed yet?

Taylor: He's in Canada.

H.M.Jr: With his sister.

Viner: Was there any newspaper - I mean the newspaper reporters didn't catch him when he got into Quebec.

H.M.Jr: Nobody's printing the fact he's coming over.

Now, if we're together on this.....

When these two men came in, I asked them if they knew any bright young men that had some fiscal sense - I was asking Williams and Hanson - and they mentioned Ubgren - U-b-g-r-e-n, and they say that you (Taylor) know him.

Taylor: (nods yes)

Viner: I know him.

H.M.Jr: All right, what do you think?

Taylor: I think he's pretty good. I don't know about the fiscal end of it. The thing he worked on was that report on foreign trade policy. I've never talked to him about what you might consider this field.

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- H.M.Jr: Well, he had eight years.....
- Taylor: He's a good working fellow.
- H.M.Jr: ....with a private investment company in New York, do you know that?
- Taylor: No, I didn't.
- Viner: He's a great enthusiasm of Hanson's. Hanson thinks the world of him. I think he can't write and that he's only a second-rater. He writes very badly. I think he's only a second-rater. I checked up with Feis on him. I've had a number of contacts with him as editor and some other things, and I can't understand Hanson's enthusiasm. Oh, he's - he's not bad, but I....
- H.M.Jr: But he's not a first-rater?
- Viner: I don't think so. And he writes so badly. You have to rewrite everything he does. That's a personal opinion. I don't know that I've had anything of his that I haven't had to mark up just drastically.
- H.M.Jr: Well, you wouldn't say he has a first-class brain.
- Viner: No, I don't think so. But I'd check up. He worked at the State Department there for quite a while and I'm sure Feis would have an opinion. And I'd ask Feis to check up, because I know that Hanson's verdict has sort of spread around and people rate him at - the way Hanson rates him.
- Taylor: Well, Hanson took him around in his pocket wherever he went.
- Viner: He does still. I can tell you certain things. Hanson thinks the world of him. I think he's wooden and can't write.
- H.M.Jr: All right. Now, let's leave it this way: if anybody gets enthusiastic about him, let me know. While we're here we might as well - somebody want to make a report on this bill business?

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White: One question before you go on this. Did I understand that you would like this memorandum to be in the kind of form that you could give Sir Frederick a duplicate copy?

H.M.Jr: Well, I'd put it this way. No, I'd like to have it in such form that I can take it up with the President and Mr. Hull.

Viner: And also it should be in the order which we....

H.M.Jr: Yes.

White: With the intent that if it is O.K., why, give him a copy.

H.M.Jr: Yes, I'd like to have something. I'd like to hit this again tomorrow, tomorrow afternoon. I promised Magill tomorrow morning. Clear?

White: Quite.

H.M.Jr: Everybody else? All right. Now....

Haas: Seltzer's got a memorandum on that. Shall we ask him to come in?

H.M.Jr: Sure, might as well ask him to do it now.

White: Are you satisfied with the form which the supplementary material will take? Be a memorandum on each point.

H.M.Jr: Yes. You know how I like it.

White: Yes.

Viner: You know....

White: I kind of check with what you (Taylor) say.

Taylor: No, I wasn't - I mean particularly impressed.

Viner: Well, I don't want to do an injustice.

Taylor: He's a perfectly good workman who also is capable of turning out a load of work.

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Viner: He is a hard worker and turns it out fast, but it's imperfect work and it's rough and I don't think - but I may be wrong, and that's why I'd like to have you check. Don't want to do him any injustice. I think he's a nice person. Certainly don't have any prejudice against him.

White: Are you going to make a decision on this silver matter now that Wayne Taylor has raised? Have you made your decision?

H.M.Jr: Have I made the decision?

White: Yes.

H.M.Jr: Why?

White: "ell, there's just one other point. I don't know that it would alter your decision, but it's a point that should be considered: that if there is a change in the silver policy coming at the end of the year with respect to domestic silver, then there is a matter of a possible million or two millions of dollars which the Treasury could save.

Lochhead: I don't think you could, because I think the silver mine has a definite legal right to deliver silver at 77 cents, and as long as this controversy is on I think it's....

White: If you're not interested, it's all right. If you are, we can have a little memorandum on it.

H.M.Jr: Well, if it's a legal matter - I'm going to take it from Wayne, so will you work through him?

White: Yes.

(Seltzer comes in)

(Rest of meeting, re bill program, transcribed separately)

# TREASURY DEPARTMENT

121

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Suggested agenda for conversations between Secretary and Sir Frederick Philipps.

1. The possibilities of increasing the monetary use of gold.

(a) Does the British Treasury contemplate any program designed to increase the monetary use of gold?

(b) British Treasury opinion of the extent to which central banks should keep balances in other countries in excess of their commercial needs and the conditions under which central banks should invest in the securities of other governments.

This was the subject matter of our letter to Switzerland. The British Treasury has indicated its general attitude, but it might be worth while to reopen the subject as a means of reopening the whole gold question.

(c) Desirability of promoting the principle among "club members" that a high gold reserve should be maintained against deposits of foreigners.

(d) Promotion of the principle that banks in the "club" countries should be required to keep larger cash reserves, thereby relieving the treasuries of some of the burden of sterilizing gold.

(e) Exploring the possibility of making gold loans to countries in need of gold reserves - e.g., the recent Brazilian transaction with the United States.

(f) Trade agreement with United Kingdom and Dominions as a means toward aiding the redistribution of gold holdings.

(g) What is the opinion of the British Treasury of the prospect of additional hoarding of gold by the people of British India?

Secretary Morgenthau - 2 -

2. Attitude of the British Treasury toward the existing upward trend in world gold production.

Does the British Treasury feel that world gold production should be curtailed? If so, by what means? Did the discussion of gold at the Imperial Conference go very deeply into this matter?

3. Examination of the possible measures to reduce the supply of gold.

(a) The advantages and disadvantages of a simultaneous reduction in the price of gold as a means of reducing the supply, compared with the advantages and disadvantages of restriction on the physical output through international agreement.

(b) British Treasury attitude toward sale of Russian gold on the London market. Does the British Treasury feel there should be any restrictions on the sale of such gold in either the English or the American market? What is the British Treasury's view with respect to gold production in Russia?

4. Prospects for continuation and expansion of the tripartite understanding.

(a) Exchange of information.

(1') Explore the possibilities of exchange of information with the British Treasury with respect to international capital movements.

(2') Exchange, either on an informal and confidential basis or in some more formalized fashion, of tax information to prevent tax evasion and avoidance.

(3') The possibilities of exchanging information with respect to the movement of Japan's sterling and dollar balances.

(4') The British Treasury's estimates of the amount of hoarded gold remaining in England.

Secretary Morgenthau - 3 -

(b) Policy with respect to France.

(1') If the French should resort to measures involving a considerable degree of exchange control, would the British Treasury feel that such action was a violation of the spirit and letter of the tripartite understanding?

(2') The prospects that France may still further depreciate the franc raises the question as to the extent to which the franc could depreciate further, in the opinion of the British Treasury, without disrupting.

(3') It is rumored that the £40 million French railway loan expiring in December will not be renewed. Such action would have important effects on the stability of the franc. Are the rumors well founded? What action does the British Treasury think the French will take if they are unable to renew the loan?

5. Explain to Great Britain the details of U. S. Treasury transactions with China and with Brazil.

Does the British Treasury have any special monetary arrangements with members of the sterling bloc or any other country?

6. Prospects of continued success of the tripartite understanding is dependent in large part upon the prevention of spread of war.

(a) If in an effort to prevent war from spreading the United States should decide not to purchase Japanese gold, would the British Treasury consider adopting similar measures?

(b) If the United States were to take any steps restricting the importation of Japanese goods or exports of goods to Japan, what would be the British Treasury's opinion of the possibility of cooperative action on the part of Great Britain?

7. Attitude of British Treasury toward the development of measures in the leading countries designed to discourage the movement of speculative funds either into the banks or into the security markets of other countries.

Secretary Morgenthau - 4 -

8. Silver. What are the prospects of continued acquisitions of silver by the people of British India?

Would the British Treasury regard with favor a proposal designed to increase the monetary use of silver in India?

Suggested agenda for conversations between  
Secretary and Sir Frederick Phillips

THE TRIPARTITE UNDERSTANDING.

1. Is the British Treasury on the whole satisfied with the way in which the tripartite undertaking has operated in the past year?

- (a) With respect to the United States
- (b) " " " France
- (c) " " " other countries

2. Exploration of steps to be taken in the event that France should resort to measures involving a considerable degree of exchange control. Does the British Treasury feel that such action would constitute a violation of the spirit and letter of the tripartite undertaking?

3. The possibility that France may still further depreciate the franc raises the question in our mind as to the extent to which the franc could depreciate below its present level and still be regarded by us as abiding by the tripartite understanding. It might be worth while exploring this point with the British so as to be prepared for the eventuality should it arise.

4. It is rumored that the £40 million French railway loan expiring in December will not be renewed. Such action would have important effects on the stability of the franc. Are the rumors well founded? What action does the British Treasury think the French will take if they are unable to renew that loan?

5. The possibility and desirability of obtaining additional members to the "club", e.g., Argentina, Canada, Brazil.

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6. Prospects of continued success of the tripartite understanding in the event of spread of war.

WHAT IS TO BE THE FUTURE ROLE OF GOLD IN THE MONETARY SYSTEMS OF THE WORLD?

7. It is felt here that a more appropriate distribution of the expense of carrying gold reserves could be achieved through requiring institutions other than the Treasury to hold more cash reserves. What is the view of the British Treasury with respect to the appropriate location of the expense of carrying reserves within a country, as among treasury, central bank, and banks or holders of (a) domestic (b) foreign deposits?

In this last connection the United States is contemplating enactment of legislation designed to make possible the imposition of high cash reserve requirements against deposits of foreigners. What is the British Treasury reaction to this contemplated legislation? Do they feel the policy embodied in such legislation can be erected into a general principle applicable to other countries?

8. Our views with respect to the extent to which the central banks should keep balances in their countries in excess of their commercial needs and the conditions under which central banks should invest in the securities of other countries were expressed in our letter to Switzerland. We have received some further communications from other "club" countries and would like to discuss them with the British Treasury.

9. As evidenced by the recent increases of reserve requirements against deposits held by member banks, the United States subscribes to the principle that the requirement of large cash reserves against deposits at this time is desirable as a means of preventing undue expansion of deposits, as a measure of relief for the Treasury of some of the burden of sterilizing gold, and, if these legal reserves have to consist directly or indirectly partly in gold, as a possible aid in promoting redistribution of gold holdings. Does the British Treasury feel that the adoption of a similar policy in other countries would be a contribution toward stability?

10. What are the prospects of additional hoarding, or surrender of gold by the people of British India?

- 3 -

11. Has the British Treasury any authentic information as to Russian gold production? The United States has requested the Government of U.S.S.R. to notify us of their intentions to ship gold to New York. Does the British Government have any similar arrangements with respect to the sale of Russian gold on the London market? Does the British Treasury feel it would be advisable to impose restrictions on the sale of such gold in either the English or the American market?

12. Does the British Treasury feel that the upward trend in world gold production is creating a serious problem? Does it feel that world gold production should be curtailed? If so, by what means?

13. What are the advantages and disadvantages of a simultaneous reduction in the price of gold as a means of reducing the world gold supply compared with the advantages and disadvantages of restriction on the physical output through international agreement?

#### INTERNATIONAL CAPITAL MOVEMENTS

14. Does the British Treasury find it would be desirable to explore the possibilities of exchange of information with the British Treasury with respect to international capital movements.

15. The American Treasury is considering formulation of legislation designed to discourage the movement of speculative funds into our security markets. What would the British Treasury's reaction be to such legislation? Is there a possibility of developing similar policies in other countries?

16. What is the present policy of the British Treasury with respect to the restriction on capital exports? How has their policy worked out in the past? If Phillips is interested, American legislation and policy relating to foreign borrowing in United States markets could be outlined.

17. Desirability of expanding our trade agreement program (with particular reference to the United Kingdom and Dominions) as an aid to the redistribution of world gold holdings and the re-establishment of more nearly normal world economic conditions.

18. Possibilities of cooperation with other countries toward the objective of reconstructing their monetary systems on an improved basis. Explanation of the arrangements made with Brazil and with China and tentative plan with respect to Cuba. Does the British Treasury have any special monetary arrangements with members of the sterling bloc or any other country?

#### THE STATUS OF SILVER

19. What is the opinion of the British Treasury with respect to the role silver should play in the monetary systems of the world?

20. What does the British Treasury feel to be the prospects of increased monetary use of silver? The London Silver Agreement comes to an end on January 1, 1938, and the Presidential Proclamation with respect to the purchase of domestic silver likewise comes to an end on December 31st of this year. How is the London silver market going to be affected by these events?

21. Has the British Treasury any view with respect to what is going to happen to the silver which has been going to Hong Kong?

22. Would the British Treasury regard with favor proposals seeking to increase the monetary use of silver in India?

VM

CODAT

Paris

Dated September 14, 1937.

Rec'd 4:04 p.m.

Secretary of State

Washington.

1286, September 14, 6 p.m.

FROM COCHRAN

At Bank of France this forenoon I learned that Governor Fournier had yesterday gone over with his assistants the question of franc weakness and was conferring this morning with Bonnet on matters of policy.

Pressure became quite heavy on the franc around four o'clock yesterday and for the day French control lost about one and one half million pounds sterling. The figures of the preceding days losses of sterling by the control were approximately one half million for Saturday one point eight millions for Friday and three point six for Thursday. The Saturday total was especially significant considering that this sum was spent on a half holiday in London alone with Paris closed.

Today the franc opened well and strengthened for a while. Trend reversed after midday and control yielding much sterling at one hundred thirty eight point eighty.

One

VII 2-No. 1286, September 14, 6 p.m. from Paris.

One operator thinks control's losses for day will be over two million pounds. Forward franc discount widened to six for three months against sterling. Market has the gossip that Bank of France will shortly take steps to limit giving up foreign exchange to commercial transactions only. Much of today's selling of franc is attributed to this report. Interesting to note in this connection that Lazards who were used by the control today to buy francs for official account were at the same time offering presumably on their own account forward francs at whatever they might get for them on London market. (End section one).

BULLITT

CSB

VM

CODAT

Paris

Dated September 14, 1937.

Rec'd 4:45 p.m.

Secretary of State

Washington.

1286, September 14, 6 p.m. SECTION TWO.

FINANCIAL NEWS London continues to write <sup>that</sup> other two partners in Tripartite are restraining France from letting franc find its level. This article continues:

"This is the third or fourth time within twelve months that the British and American monetary authorities have been wrong in their valuation of the franc. Several times they have been opposed to a depreciation which in the light of subsequent developments proved to be inevitable. Whether the consistency of their errors is due to undue optimism or whether they are simply determined to force France to check the depreciation of the franc their attitude is equally open to criticism. It is high time that London and Washington realized the true position of the franc and allowed the French authorities to work out their salvation without interference. It is certainly against the interests of this country that France's gold resources should become depleted as a result of official support for the franc at the wrong level."

FINANCIAL

VM 2-No. 1286, September 14, 6 p.m. from Paris.

FINANCIAL NEWS considers American desterilization a full point for gold.

FINANCIAL TIMES London in editorial today on Wall Street trend concludes:

"The monetary action of the authorities of late in conjunction with other happenings seems to suggest that they are less hopeful than they were. The release of 60,000,000 pounds of sterilized gold will not bring about inflation in the most strict sense of the word but it indicates one more appeal to inflationary psychology. The earlier reduction of rediscount rates had a similar motive. If the vase spending programs

END SECTION TWO.

BULLITT

SMS:MPL

VM

CODAT

Paris

Dated September 14, 1937.

Rec'd 4:30 p.m.

Secretary of State

Washington.

1286, September 14, 6 p.m. SECTION THREE.

of the administration which have raised the gross public debt of the United States from \$35,400,000,000 to \$36,700,000,000 in the past year, were going to get the trade machinery working properly, they should surely have done so by this time. There should be no need of further artificial aids. Yet these are still being supplemented not only in the monetary sphere but by subsidies which, whatever else they do, create a demand for more subsidies. It is important to note too the contention that a substantial proportion of the borrowing the banks are called upon to provide at present is obtained to finance consumption, not production. If that is so, it means that the country is living upon borrowed money to an even greater extent than was previously realized. Adding to this the known upward trend of industrial costs, with the persistence natural in the circumstances, of an increasingly adverse trade balance broken in July for the first time this year-- every justification can be found for the adoption of a waiting attitude by American investors".

LONDON

VM 2-No. 1286, September 14, 6 p.m. from Paris

LONDON TIMES observes under City notes that "monetary policy is subject to rather rapid changes in the United States" and concludes: "of course the new policy is by its nature inflationary but cheap money is not a remedy for the attack of nervous apprehension which American business men appear to be suffering from at the moment; nor is it a certain preventive of the anticipated recession in trade. There has been a tendency in recent years to overrate the importance of cheap money"

END OF MESSAGE.

BULLITT

SMS:NPL

September 14, 1937.  
4:29 p.m.

Eccles: Hello

H.M.Jr: Hello Marriner.

E: Ah - I'm planning on getting out of here tonight unless you see some good reason for me staying longer.

H.M.Jr: No, I think that everything is going swell.

E: Well I thought maybe it would be better to get out now and get back here the first of October rather than wait around here now and try to get away then.

H.M.Jr: No this is a good time to go.

E: Well I made reservations on tonight's plane then.

H.M.Jr: Everything is, I think, working beautifully.

E: Well at least so far as the monetary picture is concerned - there are other factors that we can't do anything about.

H.M.Jr: That's right.

E: I wish we could but we can't so at least we put our house in order and it's up to the other fellow now.

H.M.Jr: That's right.

E: The - ah - ah - the Open Market Committee that you - I suppose next - early next week would suit you as well would it?

H.M.Jr: Yes. I wouldn't want to do it this week.

E: Ah - well some of them preferred - they - they - ah - Harrison and ~~Stu~~ Clare said that if it was just as convenient to you that they hoped that it would be put off until next week.

H.M.Jr: That's right - I don't - I'd much prefer not to have it.

E: All right, now we'll make it - I'll tell Ransom - .....

H.M.Jr: Yes.

E: - .... he'll be here - that it will be subject -  
you'll let him know.....

H.M.Jr: Yes.

E: .....just when you want it - a day or two in  
advance so that they can make preparation.

H.M.Jr: Well I think we'll be ready by next Wednesday.

E: Well - yes - in other words, you'll continue the  
nine months' bills anyway for some time. As I  
understood it.....

H.M.Jr: Yes.

E: .....and I agree with you.....

H.M.Jr: Yes.

E: .....they ought to run after the first<sup>of the</sup>/year and,  
as a matter of fact, I think I'd let it run a couple  
of weeks after the first of the year.

H.M.Jr: Well why don't you ask him to come down here 11 o'clock  
next Wednesday.

E: 11 o'clock next Wednesday?

H.M.Jr: Yes.

E: All right.

H.M.Jr: How's that?

E: That - that's - I'll tell him that - 11 o'clock next  
Wednesday.

H.M.Jr: Well have a good time and catch some fish.

E: Yes (laughs) all right then - well if there's anything  
special I'll always be glad to come back but, if not,  
I'll see you - ah - the first part of October.

H.M.Jr: Right.

EE And good luck to you.

H.M.Jr: Same to you.

E: Goodbye.

September 15, 1937.  
9:22 a.m.

H.M.Jr: Hello.  
O: Dr. Burgess won't be in at all to-day.  
H.M.Jr: Oh - ah - let it go.  
O: All right.

9:25 a.m.

H.M.Jr: Hello.  
O: Mr. Madison.  
H.M.Jr: Hello  
Madison: Good morning Mr. Secretary.  
H.M.Jr: Hello Madison.  
M: Yes sir.  
H.M.Jr: Good morning. I wish during the day you'd make inquiries and try to find out from some of the government bond dealers who are the buyers of the governments - the last day or so.  
M: Yes.  
H.M.Jr: Who's buying.  
M: Yes.  
H.M.Jr: And - ah.....  
- M: I find out already that there's very little insurance buying. Generally speaking, it is bank buying.....  
H.M.Jr: Yes.  
M: ....ah - ah - some in New York and some throughout the country.

- 2 -

H.M.Jr: Well could you make - ah.....

M: I'll make it more specific, if you'd like to have me.

H.M.Jr: Yes and call me back after market closes.

M: After the market closes this afternoon?

H.M.Jr: Please.

M: All right, sir.

H.M.Jr: Thank you.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: September 15, 10 a.m.

NO.: 1293

STRICTLY CONFIDENTIAL FROM COCHRAN

After losing a half billion francs of foreign exchange yesterday and feeling that the franc is attacked on all sides by international speculators, the French control this morning has decided to let the franc go unsupported. There has been no decision as to when or at what point control may again enter the market. My informant assured me, when I questioned him as to the correctness of yesterday's rumor about limiting foreign exchange, that Bonnet would not resort to exchange control. Much time would be required to put this into operation and it would never be effective.

BULLITT.

EA:DJW

OFFICE CORRESPONDENCE

DATE September 18, 1937.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnekeBANK OF ENGLAND.

I called Mr. Bolton at 11:40 today. The present situation in France was really largely what people had expected, he said. In his opinion the franc will not stop depreciating until it is down to 150 unless there be a change in the political and financial conditions in France, in which case a successful effort might be <sup>made</sup> to hold the rate at 150.

I mentioned that we had been carrying a small balance of about 2,000,000 francs in a kind of complimentary account but that, as things were now going with the French franc, I began to doubt whether I was really justified in keeping this balance. Bolton was very prompt to suggest that in my position he would sell, which caused me to inquire to what extent he was carrying balances in Paris. His answer was that the only operating account they had with the Bank of France was the one opened under the Tripartite Agreement, which they did their best to keep to a very small figure, cleaning it up from time to time by converting into gold or getting rid of it in some way or another. I asked what he meant by a small figure and got him to say that he would consider 2,000,000 moderate.

As to the general situation in Europe, he thought it had its ups and downs. At present the result of the Nyon Conference was a good one and some of the tension had disappeared. What was new in the picture, however, was a fair amount of chatter about the dollar. The total of dollars held abroad must be very substantial and people seemed to begin to wonder whether it was wise to hold as many as they

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE: September 15, 1957.

TO: CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

FROM: L. W. Knobe

- 2 -

had. The significant part of it all was that for the first time in three or four years people were actually again discussing the dollar. Personally, he had not heard any such discussion but he was aware of a sort of uneasiness. What was a rather disturbing influence in the London market was the fact that U. S. Treasury Bills were obtainable in such large amounts, which fact had enabled the interest arbitrageur to earn, in addition to the swap on dollars (that is about 1 per cent per annum) the yield on Treasury bills, which recently had been as high as 1/2 per cent per annum. A good deal of this interest arbitrage would have been impossible if the amount of U. S. Treasury bills available had been smaller. I replied that the yield of the Treasury bills in the last few days had gone back to 1/4 per cent, which Bolton thought should put an end to a good deal of the arbitrage business.

LWK:KNC

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rome  
NO.: 413  
DATE: September 15, 4 p.m.

Guarneri, who is Undersecretary for Foreign Trade and Exchange, made the categorical statement in a conversation today that even though there might be a sharp fall in the French franc, there would be no further devaluation of the Italian lira. He expressed his personal conviction that any stabilization of the franc would be prevented by the uncertainties of the French political situation, and he anticipates that a further monetary crisis will occur in France.

REED

EA:EB

RECEIVED  
1953 SEP 16  
INTERNATIONAL FINANCE  
SECTION  
U.S. DEPARTMENT OF THE TREASURY

September 15, 1937.  
3:06 p.m.

H.M.Jr: Hello

O: Operator.

H.M.Jr: Go ahead.

O: Go ahead.

H.M.Jr: Hello - hello.  
Hello Mr. Secretary.

H.M.Jr: Yes.  
This is Madison in New York.

H.M.Jr: Oh yes, Mr. Madison.

M: Ah - I talked to these people around and from what I gathered during the week I would - ah - sum up the buyers as something like this - the city banks have been large buyers up to the last two days; not much to-day but generally speaking during the week of notes - practically no bonds.

H.M.Jr: That's the New York City Banks.

M: That's New York City.

H.M.Jr: Yes.

M: Now the out of town banks have been substantial buyers all week of notes but up to to-day they didn't seem to be looking for any bonds but they were looking for bonds to-day in moderate amounts.

H.M.Jr: Ah-ha.

M: What accounts for the rise in price - that their selling dried up.

H.M.Jr: Ah-ha.

M: Now among the other classifications the savings banks bought some notes and - ah - and more of the short Treasury bills.

H.M.Jr: Ah-ha.

- 2 -

M: I don't know how large an amount but I should say a fair amount for the bills and some few notes.

H.M.Jr: Ah-ha.

M: Ah - two or three of the insurance companies have - ah - have bought some of the notes, their preference being for the longer one - 5 year.

H.M.Jr: Yes.

M: But that isn't general among the insurance companies and their buying hasn't been very heavy.

H.M.Jr: I see.

M: Travelers of Hartford are the ones that showed the most interest in the 5-year note.

H.M.Jr: Yes.

M: The Treasury bill market of course has been very much affected by the foreign buying of the bills - they had large maturities and that put the prices away up.

H.M.Jr: You mean the foreigners have been buying our bills?

M: Oh yes. - they start with them.

M: They had large maturities and they've been - they've been - I've bought for foreigners between twenty and twenty five million and they had others bought elsewhere.

H.M.Jr: I see.

M: They bought some notes too, I understand.

H.M.Jr: Uh-huh.

M: Now among the other classifications I can't find that the corporations to any extent or the individuals to any extent have been in this market.

H.M.Jr: It's a long time since the banks bought anything now.

M: Yes.

- 3 -

H.M.Jr: Well - would you say that's pretty healthy.

M: I should say it's a fairly healthy situation - what I - what I think is the healthiest feature of the whole thing is that there isn't a great desire to sell.

H.M.Jr: Uh-huh.

M: You've got to have the selling stock before the buying begins.

H.M.Jr: Uh-huh.

M: And - and the offerings today were very light and while these orders weren't large that came in from out of town they tell me they had some trouble in filling them.

H.M.Jr: Good.

M: And those few orders put up the market.

H.M.Jr: All right. Thank you very much.

M: Not at all, sir.

September 15, 1937.  
3:38 p.m.

H.M.Jr: Hello.  
Admiral  
Peoples: Yes, Mr. Secretary.

H.M.Jr: Admiral, please make a note I want to see you the next day or two. The President doesn't want us to start any of these twenty three million dollars worth of Post Office this fiscal year. I want to talk to you about it. You might be thinking about it

P: Not to start any.

H.M.Jr: announced last week.

P: Yes, sir.

H.M.Jr: He doesn't want any contracts - he doesn't want any money to go out of the Treasury until after the first of July '38.

P: Well that would be - I think we could do that.

H.M.Jr: Well, think about it. When you're ready, let me know, will you.

P: Yes, Mr. Secretary.

H.M.Jr: Thank you.

P: Yes, indeed.

H.M.Jr: He wants to save some money this year.

P: Yes, sir.

H.M.Jr: I want to help him.

P: Yes, indeed. I understand.

H.M.Jr: Thank you.

P: The only one - well I'll see you - one little point about it - and that is the purchase of the site, that's all.

H.M.Jr: Well

P: Which is a very - comparatively small part.

- 2 -

H.M.Jr:       When you are ready, let me know.

P:             I will, Mr. Secretary. Thank you sir.

September 15, 1937

3:40 pm

Present:

Secretary Morgenthau  
Mr. Taylor  
Dr. Riefler  
Dr. Viner  
Dr. Haas  
Mr. Lochhead  
Dr. White  
Mr. Butterworth

HM, Jr: Where are we?

Dr. White: We have agreed on an agenda and it is typed in the form that you can take it up if you want, and then following the agenda is a series of papers relating to each point on the agenda. Those are not all ready.

HM, Jr: I would like to meet again tonight on this thing. Who cannot meet at 8:30 tonight? I think all I will do now is just take a look at it and see how it strikes me and give you people a chance to improve your dispositions. The President has given me a tentative appointment at 9:15 tomorrow and I would like to take this thing with me.

Archie, what happened when the French took off all control today?

Mr. Lochhead: They said they took off all control, but they did not actually. They intervened several times and the franc did not recover at all. I think they probably lost 10,000,000 again today.

HM, Jr: I could not hand Sir Frederick this.

Dr. Viner: No. (General chorus of "No's".)

HM, Jr: It's all right for me. Very roughly and very hastily, it looks good to me. I think you should

-2-

talk with Feis and Butterworth whether they think some of these things are too pointed; whether it would be embarrassing to put up some of these things to him.

Mr. Butterworth: I don't think the substance is wrong. I think it is just a question of the manner in which we put up these things to him.

HM, Jr: Would he rather have it verbally or do you suppose he would rather have it written? How do they work?

Mr. Butterworth: You mean hand him the agenda beforehand?

HM, Jr: Yes.

Mr. Butterworth: I don't think they have pressed very hard for the agenda.

Mr. Taylor: There has been curiosity expressed both by Trentham and by Mallet as to the range of the discussions and I said, in general, we had not gotten down to any specific points. I felt our attitude was we would be willing to discuss anything under the sun. Trentham rather indicated it would be helpful to have some indications of what the discussion would be about and I stalled him.

HM, Jr: (To Mr. Taylor) Make a note. I have a press conference tomorrow. I will be asked (because it is on the ticker) how he is coming and how they would like me to handle it.

Dr. Viner: Just before he sailed there was a cable giving a general idea on publicity.

Mr. Taylor: I think that cable covers it.

HM, Jr: I have not seen it. What did it say?

Mr. Lochhead: Simply that they suggested if there were any inquiries, you say it was the natural desire to have contact with people on the other side.

-3-

HM, Jr: The normal thing would be to say we will refer them to the British Embassy, but that might seem discourteous and might look as though I did not expect him.

Mr. Butterworth: I asked Phillips (I sent that cable) what about it if there was any premature publicity and he said he hoped he would not be questioned, but if he was he would make answer along the lines of one of your telegrams to him, that it was a good idea that there should be contact between the two Treasuries by people having no specific mission because of the amount of work that we had in common.

HM, Jr: I think we want to be pretty careful on what I say tomorrow, and I will be asked.

Mr. Taylor: I think that cable does cover exactly what .....

HM, Jr: You (Taylor) had better be in here tomorrow morning at -- be available from 9:30 on, and then we will get hold of Gaston. I don't want to leave it until the last moment.

Mr. Butterworth: Do you think it is necessary to hand the British Embassy a written communication before Phillips gets here?

HM, Jr: No.

Mr. Butterworth: Could not you speak to Mallet?

HM, Jr: Oh, that it would not do!

Mr. Butterworth: ... and Trentham and say if they want information about the course of the conversations that we will attempt to talk about silver and gold, etc.

HM, Jr: Does anybody know where Sir Frederick will be Saturday and Sunday?

Mr. Taylor: I think he is going to be in Chicago on Saturday and get here Sunday.

Dr. Viner: Some of the old dispatches said that he was

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going to spend 1½ days in Chicago and that he was leaving Lake Louise on Thursday and that would get him to Chicago late Friday night (36 hours from Lake Louise) and if he spends a day and a half there, he would get here Sunday. But we can refer to the cables and get that straight, although he may have changed his plans. And Butterworth says he was to meet his sister at Lake Louise and that the ship his sister was to come on has been taken off by the British for refugees.

Mr. Taylor: He definitely expected to be here Sunday.

Mr. Butterworth: Yes.

HM, Jr: You (Taylor) know Mallet does not come to work very early and I think if we are going to clear up what I am to say at the press conference, you had better reach him tonight. Trying to find him early in the morning isn't the easiest thing in the world.

Mr. Taylor: I will get him tonight.

HM, Jr: I want to be very careful to start this thing off right. The normal thing would be to tell the press to see the State Department or the British Embassy, but on the other hand I don't want to give the impression that I am not expecting him and he is not welcome. You see what I mean? It would be just as though I went to London and the British Treasury said, Well, see the American Embassy; we don't know anything about this.

Mr. Butterworth: I think you are quite right.

HM, Jr: I would feel, Golly! that's a funny one! It would just put me in a bad frame right at the beginning.

Dr. Viner: Use his words in the cable as closely as possible.

Mr. Taylor: Use his words and you think it is a good thing too.

HM, Jr: I am right, am I not, that the <sup>final</sup> suggestion of his coming came from them, didn't it?

Mr. Butterworth: The origin of that did not start with me; it started here, so I am not in position to pass on that.

-5-

Dr. Viner: Suppose they say, Did you invite him? and it may be that you did.

HM, Jr: That's just exactly what I want to know. I want to go as far as I can to make the fellow feel welcome and if I invited him I want to say, Yes and I think this is the sort of thing that should be done occasionally; possibly we will have somebody go over there. This tripartite agreement is based on exchange of information.

Dr. Viner: One thing I would do. I would have an extract from Who's Who about him.

HM, Jr: I have a better one. I have Mr. Butterworth's!

Dr. Viner: They may ask you just who is this Sir Frederick Phillips and you could have a regular slip of paper.

Mr. Taylor: He's already got that.

Dr. White: There was a telephone conversation.

HM, Jr: Miss Chauncey knows about it. It was that and my talk with Mallet.

If I invited him I want to say so and they are sticklers for that sort of thing.

I think that is about all.

Suggested agenda for conversations between  
Secretary and Sir Frederick Phillips

THE TRIPARTITE UNDERSTANDING.

1. Is the British Treasury on the whole satisfied with the way in which the tripartite undertaking has operated in the past year?

- (a) With respect to the United States
- (b) " " " France
- (c) " " " other countries

2. Exploration of steps to be taken in the event that France should resort to measures involving a considerable degree of exchange control. Does the British Treasury feel that such action would constitute a violation of the spirit and letter of the tripartite undertaking?

3. The possibility that France may still further depreciate the franc raises the question in our mind as to the extent to which the franc could depreciate below its present level and still be regarded by us as abiding by the tripartite understanding. It might be worth while exploring this point with the British so as to be prepared for the eventuality should it arise.

4. It is rumored that the \$40 million French railway loan expiring in December will not be renewed. Such action would have important effects on the stability of the franc. Are the rumors well founded? What action does the British Treasury think the French will take if they are unable to renew that loan?

5. The possibility and desirability of obtaining additional members to the "club", e.g., Argentina, Canada, Brazil.

- 2 -

6. Prospects of continued success of the tripartite understanding in the event of spread of war.

WHAT IS TO BE THE FUTURE ROLE OF GOLD IN THE MONETARY SYSTEMS OF THE WORLD?

7. It is felt here that a more appropriate distribution of the expense of carrying gold reserves could be achieved through requiring institutions other than the Treasury to hold more cash reserves. What is the view of the British Treasury with respect to the appropriate location of the expense of carrying reserves within a country, as among treasury, central bank, and banks or holders of (a) domestic (b) foreign deposits?

In this last connection the United States is contemplating enactment of legislation designed to make possible the imposition of high cash reserve requirements against deposits of foreigners. What is the British Treasury reaction to this contemplated legislation? Do they feel the policy embodied in such legislation can be erected into a general principle applicable to other countries?

8. Our views with respect to the extent to which the central banks should keep balances in their countries in excess of their commercial needs and the conditions under which central banks should invest in the securities of other countries were expressed in our letter to Switzerland. We have received some further communications from other "club" countries and would like to discuss them with the British Treasury.

9. As evidenced by the recent increases of reserve requirements against deposits held by member banks, the United States subscribes to the principle that the requirement of large cash reserves against deposits at this time is desirable as a means of preventing undue expansion of deposits, as a measure of relief for the Treasury of some of the burden of sterilizing gold, and, if these legal reserves have to consist directly or indirectly partly in gold, as a possible aid in promoting redistribution of gold holdings. Does the British Treasury feel that the adoption of a similar policy in other countries would be a contribution toward stability?

10. What are the prospects of additional hoarding, or surrender of gold by the people of British India?

- 3 -

11. Has the British Treasury any authentic information as to Russian gold production? The United States has requested the Government of U.S.S.R. to notify us of their intentions to ship gold to New York. Does the British Government have any similar arrangements with respect to the sale of Russian gold on the London market? Does the British Treasury feel it would be advisable to impose restrictions on the sale of such gold in either the English or the American market?

12. Does the British Treasury feel that the upward trend in world gold production is creating a serious problem? Does it feel that world gold production should be curtailed? If so, by what means?

13. What are the advantages and disadvantages of a simultaneous reduction in the price of gold as a means of reducing the world gold supply compared with the advantages and disadvantages of restriction on the physical output through international agreement?

#### INTERNATIONAL CAPITAL MOVEMENTS

14. Does the British Treasury find it would be desirable to explore the possibilities of exchange of information with the British Treasury with respect to international capital movements.

15. The American Treasury is considering formulation of legislation designed to discourage the movement of speculative funds into our security markets. What would the British Treasury's reaction be to such legislation? Is there a possibility of developing similar policies in other countries?

16. What is the present policy of the British Treasury with respect to the restriction on capital exports? How has their policy worked out in the past? If Phillips is interested, American legislation and policy relating to foreign borrowing in United States markets could be outlined.

17. Desirability of expanding our trade agreement program (with particular reference to the United Kingdom and Dominions) as an aid to the redistribution of world gold holdings and the re-establishment of more nearly normal world economic conditions.



- 4 -

18. Possibilities of cooperation with other countries toward the objective of reconstructing their monetary systems on an improved basis. Explanation of the arrangements made with Brazil and with China and tentative plan with respect to Cuba. Does the British Treasury have any special monetary arrangements with members of the sterling bloc or any other country?

THE STATUS OF SILVER

19. What is the opinion of the British Treasury with respect to the role silver should play in the monetary systems of the world?

20. What does the British Treasury feel to be the prospects of increased monetary use of silver? The London Silver Agreement comes to an end on January 1, 1938, and the Presidential Proclamation with respect to the purchase of domestic silver likewise comes to an end on December 31st of this year. How is the London silver market going to be affected by these events?

21. Has the British Treasury any view with respect to what is going to happen to the silver which has been going to Hong Kong?

22. Would the British Treasury regard with favor proposals seeking to increase the monetary use of silver in India?

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: September 15, 5 p.m.

NO.: 1295

FROM COCHRAN

The friend who <sup>had</sup> given me the information contained in my telegram 1293 of September 15, 10 a.m., telephoned at eleven o'clock to say that he had found it necessary to yield enough sterling to let the franc descend a little more gradually than it would if intervention were completely cut off. However, this letting-down process proved quite expensive. In just a few minutes before telephoning me it was necessary for him to yield 700,000 pounds.

I spoke with several market traders at four o'clock who told me that after the official market opened, the control had not intervened. The French franc had dropped as low as 146.25 to the pound and the (\*) had tended to recover a little on short covering and on buying of francs by some large French banks. It was agreed by my informants, however, that the control had lost tremendous quantities of exchange in endeavoring to keep the decline orderly before the official market opened. 800,000 pounds had been taken by one trader alone. Nervousness is evidenced by Paris-American banks since one of them has been called upon officially to explain certain transactions which had apparently been observed through censorship of their

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telephones.

I had lunch this noon with officers of Credit Lyonnais, Comptoir, Guaranty Trust, Societe Generale, Morgans, and National City. The present franc upset has caused serious concern to all of these officers. There is heavy drainage upon their franc deposits for purchase of foreign exchange and foreign bank notes and they are discounting paper importantly at the Bank of France. Since there has been no genuine repatriation of capital to France, franc deposits of at least the Paris American banks were already low.

As far as I can see, we can do nothing for the French, considering the nature of the factors responsible for the weakness of the franc. I have been convinced for months that capital would not return to this country under the Popular Front Government, with Labor and Communists threats in back of it. This situation has been aggravated by labor troubles and bombings, recent foreign trade returns, and borrowing by the State from the Bank of France. Funds are not available for local investment despite lowering of bank rate. The new funds that are made available to the market by expenditure of the Government and by borrowing abroad, as was done last spring in London, simply become available as flight capital. On the other hand, there is little chance of French economy recovering if capital is not made easier.

BULLITT

RE VISIT OF SIR FREDERICK PHILLIPS

September 15, 1937  
8:30 p.m.

Present: Mr. Lochhead  
Mr. Haas  
Mr. White  
Mr. Riefler  
Dr. Viner  
Dr. Feis  
Mr. Butterworth

Lochhead: This really started on April 16.

H.M.Jr: I won't bother to read it here. Just let me have that one (cable) of September 2 (#571, from London). I want to read that to Herbert Feis.

Herbert, I was trying to think - I'll read it to you - about tomorrow, 10:30, when I see the press, and they'll ask me. They see on the ticker today that Sir Frederick Phillips will be here over the weeke-end, so they'll ask me why.

"Phillips hopes successfully to avoid any publicity but should he be called upon to make some explanatory statement to the press prior to his arrival in Washington he intends to say something to the effect it is considered by both treasuries desirable that there should be direct contacts from time to time between officials having no specific mission in order to facilitate the work which we have in common."

Feis: Excellent.

H.M.Jr: Now, the only thing I think I could add, in order to be courteous and at the same time truthful - to say I invited him to come.

Feis: I don't think it is essential, but I think it will please him.

H.M.Jr: Well, they will unquestioningly ask me, "Did you invite him to come?"

Feis: Well, I certainly wouldn't deny it.

H.M.Jr: They always do. Every other time I've always either referred them to the State Department or the respective embassy, but I don't want to do that now, having invited this man to come here.

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Feis: I have no objections to saying you invited him, none in the least.

H.M.Jr: Normally you would say - if it's Souza Costa, see the Brazilian Embassy or the State Department; but this man reads in the paper something like that and he's going to put his back up. Huh? Can you see any harm.....

Feis: None in the least.

H.M.Jr: That makes that easy.

Butterworth: May I say one thing?

H.M.Jr: Please.

B'worth: I think there should be a good deal of emphasis on the "no specific mission."

H.M.Jr: Suits me.

B'worth: Otherwise, by taking the initiative that you have invited him, it will raise visions of war debts and all sorts of things.

H.M.Jr: Well, we can cover that.

Now, Herbert, what you haven't seen is - and I'll read it out loud - I've prepared for myself an agenda that I had agreed upon so I could show it to the President and Mr. Hull, who is very much interested in this thing. And I'm seeing the President tomorrow morning and I'm - I've asked Mr. Hull for an appointment some time tomorrow. That's why I thought we'd try to have a meeting of minds tonight. Now if you could give me a copy, Harry, and Dr. Feis a copy.

(Group read agenda)

Incidentally, Harry, have you got any recent figures about the movement of foreign balances in the short-term U. S. Governments?

White: Have it all ready.

H.M.Jr: Federal Reserve totals - for one account they took 25 million dollars.

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White: Today?

H.M.Jr: Today.

Lochhead: We didn't hear about it.

H.M.Jr: Matteson today - one order alone.

Lochhead: Who was that, Swiss?

H.M.Jr: I didn't ask him.

Lochhead: We get the weekly figures showing the dollar balances of the central banks on the Federal's books - the amount of earmarked gold, and the amount of short-term securities. You (White) are keeping that also. I mean I have....

H.M.Jr: How about private?

White: We only get those when we ask for them - the balances which are kept with private banks. We got them today.

H.M.Jr: No, no, let's say for instance that Shell Oil has an account and they put their bank balances into short-term Governments.

White: We have the total for the week.

H.M.Jr: Conversion from short-term.

White: Yes, we have those totals for the week. The individual transactions are sometimes reported, but the totals for the week are reported and we have them right up-to-date.

H.M.Jr: In the Governments?

Lochhead: They don't separate Governments from others.

Viner: You don't get them by transactions; you get the aggregate holdings by the foreign accounts.

White: But if it is a shift.....

H.M.Jr: I asked them who was dealing in the Governments, and one of the biggest buyers of Government bills right now are foreign account.

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Viner: Was it a foreign account?

H.M.Jr: I understood him to say a foreign account.

Lochhead: Had two or three of them investing right now. You'll notice that one of them asked for a rate on 90-day bills. Quoted them a rate of .0043; they came back and said, "Buy," and the rate was .0033 - one-day change in rates.

H.M.Jr: Just while we're waiting, Herbert, before we get into this as to whether you think it is a good memorandum or whether you disagree - ah - in talking this thing over with Butterworth I think the thing to do is for me to see this man at first once or twice maybe alone. And I first thought of giving him something, and I don't think I'll give him anything. Check?

Feis: Check.

H.M.Jr: And try to get each other's confidence, huh?

Feis: Check completely.

H.M.Jr: As we go along there is no reason why I shouldn't have something on the top of my desk to look at for myself, huh?

Feis: (Nods approval)

H.M.Jr: But - and also that goes for Mallet and the rest of them. And this idea of giving them a formal memorandum....

Feis: I wouldn't.

H.M.Jr: What?

Feis: I wouldn't.

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

That, I think, is - I mean now, as to....

Feis: Oh, on this, if you want - it's better than good, it's admirable.

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- H.M.Jr: My God! Just a minute - do you mind? Just a second. (Feels Feis's forehead) Little feverish.
- Feis: No, no. In fact, after it's all over, I'll tell you one use to which I'd like to put it. We've got Foreign Service examinations coming along and I can't imagine - we've got the whole monetary situation here in hand. I'm going to take this back to use on the Foreign Service examination.
- H.M.Jr: Please be careful with any copies.
- Feis: And I've got - two specific suggestions come to mind. I should think one field on which perhaps the Treasury has all the information it wanted - perhaps not; at least I raise it - the extent of the reserve holdings - gold holdings and policies of the other members of the sterling bloc, especially the Dominions, and the attitude of the British Treasury towards that question.
- Viner: We have.....
- Hass: "e have that in there.
- Riefler: It is implicit in one of the things there.
- Viner: We're getting together what we have on it. Anyway, it's a point in our minds very much. Oh, I tell you where it is;.....
- Riefler: It puts it in Five.
- Viner: No, Eight and in Seven too, the last paragraph of Seven. But as far as actual data and carrying it right down to the sterling bloc... .
- Feis: Second - I mean before I lose these things as I hurry along with them - a discussion of the position of the yen, any information they may have about Japanese balances in London, prospects of the yen, and, related question: the attitude of the British Government towards Japanese borrowing in London.
- H.M.Jr: Well, I can answer that. I mean there isn't any more borrowing; it's stopped. They won't lend them at any price.
- White: They won't lend them on Japanese at any price.
- H.M.Jr: As I understood.....

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- Lochhead: You got that from our Bank of England connection there. The market is not taking Japanese paper over there just now, and a large amount of gold has been sent over to this country that's been converted into sterling and used to pay off these issues as they come through; and the Bank of England was asked by the Federal if Japan would be able to borrow in that market and they said even the first-class paper wouldn't go at 2½. Now of course that sounds low, but to Bolton, speaking there, that just showed that it would be out of line altogether if they tried to borrow.
- White: I don't feel that quite answers the question, because....
- Lochhead: That is not the British Government; the market itself is refusing to take it.
- White: Out the British Government....
- Viner: We had it. We thought it was for you to suggest it, so we struck it out, waiting for your request.
- Feis: I'd even say this: even if you knew, I think you'd want Sir Frederick Phillips to go back and report to his government that this government had shown a distinct interest in this question - even if you had all the information.
- H.M.Jr: That goes in. That's all right.
- White: We had it in this morning; we ruled it out.
- Feis: Then the only other suggestion, which is probably needless because Mr. Hull tomorrow will bring it forward: the whole relationship....
- H.M.Jr: The what, Herbert?
- Feis: The whole relationship between - extending trade relations through the trade agreement.
- Haas: Isn't that in?
- Feis: It's in 17, but I think he will - Mr. Hull will suggest giving it a forefront position and yet avoiding giving any sense that we think that it is of too vital importance to us.

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H.M.Jr: You say tomorrow; you mean when I see him?

Feis: Yes, when you talk to him.

White: Don't you think the tone there hits about what you think.....

Feis: Well, it certainly can be used to cover it.

Lochhead: There's a question in 17 of how far the Treasury would go in that particular field.

H.M.Jr: Herbert, Butterworth has one and you have one; I don't want these for general circulation, if you don't mind.

Feis: I'll keep this entirely.....

H.M.Jr: Would you mind? Until after he leaves.

Feis: Oh, quite. I wouldn't do it anyway. Except I - in a way I was quite serious about using it in the preparation of the papers for the next Foreign Service examination.

H.M.Jr: That's all right. But I mean until after he leaves.

Feis: Oh yes.

White: Comment in order about the Japanese loans in London?

H.M.Jr: Just hold that a minute. What I want to talk with Dr. Feis is this. I don't know whether you have discussed in the Department this man's coming or not.

Feis: We have been distinctly conscious of it, but haven't discussed his role in any detail.

H.M.Jr: Well, I don't know whether you agree with this or not, but I sort of feel - I mean that while he's here certainly we have nothing that we want, as far as the Treasury goes; we have nothing to sell him, so to speak. I mean there's nothing that we particularly want. And the way I'd like to have it, I mean, is this. I'd like to have him go home, even

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though we don't accomplish anything, happy so that they'd feel, "Well, Sir Frederick Phillips came once, he can come again, and somebody else can come, without having any crises arise as between the two Treasuries," see? I mean we'd like to feel that we could send somebody over and that they come and go without feeling that each time they come they have to accomplish something, or that we use this thing to jam something down their throat. I don't know whether you agree with that or not. But this is really something quite new, having someone come over just to sit - sort of sit down and chat, with nothing particular that we want as far as the Treasury goes.

Feis: I think it is to a slight extent incompatible with what you will find Mr. Hull has in mind.

H.M.Jr: I know that.

Feis: But I think that even that will turn out to be a matter of tone and handling. It won't create a crisis, but I think Mr. Hull is going to suggest that the occasion is a useful one, indicating to the British authorities that there will be inevitable limits to which our policy could be considered with theirs unless in all the matters that will determine whether there can be such things as successful international monetary relationships they show more responsiveness and farsightedness than they have shown, particularly in the field of trade.

H.M.Jr: Well, we always talk - we always talk frankly here. I feel that they did some months ago send an extremely frank note and certainly we didn't make any use of that opportunity to return that frankness.

Feis: This was a note about....

H.M.Jr: Oh, their general policy. The one that took about a month to answer, you know.

Feis: That just indicates the difficulties.

H.M.Jr: I mean I'm just citing that.

Feis: They are looking to us for indications of our disposition to cooperate in the political field, and we are very watchful - I don't know ever more so than in the

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past week; but I don't think Sir Frederick Phillips will know that. We look to them for a disposition to build primarily in the economic field. Now, I think the only thing that can be fairly said is that it is easier for them, and the advantages there are more evident, and the disadvantages less serious for them to shape their policy in the economic field in the way we are suggesting than it would be for us to do in the way they are suggesting in the political field. But their attempt is to tie the two things together. But I don't - I wouldn't anticipate that Sir Frederick Phillips would be either fully informed or greatly swayed by the political aspects. If they - what is your (Butterworth) idea?

B'worth: I think he'd be fairly well informed. How much he will admit to being informed on is another matter. But he is in a sufficiently key position so that there goes over his desk the key material.

H.M.Jr: Well now, for instance, just as a matter - do you suppose he'll stay at the Embassy?

B'worth: Well, Lindsay's away, isn't he?

Feis: Yes.

H.M.Jr: Is Mallet there? Who's at the Embassy?

Feis: Living there?

H.M.Jr: Yes. Mallet is Charge, but I don't know...

Feis: Probably just live with Mallet. I think Mallet's alone. Mrs. Mallet's not here. Is Mrs. Phillips with him?

B'worth: No.

Feis: Well, I shouldn't be surprised if he'd just live with Mallet.

B'worth: I don't think there is any Mrs. Phillips. Not sure, but I don't think so.

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- H.M.Jr: Well, you see, Mr. Hull has spoken to me already about all this, using this thing, and I'm a little bit worried about it, because I don't know how much I can do and still I want to cooperate, you know. And I just wonder - I'm just thinking very much out loud; you can be equally frank - whether it might not be better, while he's here, if Mr. Hull saw him, and let Mr. Hull tell him just what he has in mind and let me confine myself to strictly Treasury matters.
- Feis: I think maybe it will be.
- H.M.Jr: What?
- Feis: I think maybe it will be.
- H.M.Jr: I'm thinking very much out loud. I haven't read the documents that have gone out since last - the last one I saw that Mr. Hull showed me was that thing he wrote last January, you remember, that long thing explaining his policy and philosophy and everything. And if Sir Frederick Phillips started to cross-examine me as to just what our objectives were, all I could say is, "We hope to get together on a trade treaty," which wouldn't sound terribly intelligent. I just wonder if Mr. Hull mightn't want to have a couple hours with him and expound his theories direct and then let me confine myself to mutual Treasury problems. What do you think?
- Feis: I'm inclined to think that would be the best way of managing it.
- H.M.Jr: What do you think, Jake?
- Viner: Why, I would think that's the right way. In fact, I'd sort of make an offer to the Secretary, say that you wish that you can further as much of his program as possible through Sir Frederick Phillips' visit, and I'd just suggest to the Secretary of State that he should suggest a procedure; let him ask you; suggest that you'd be perfectly glad and let him suggest to you how he'd like to go about it. I think he'd rather be his own spokesman.
- H.M.Jr: That's just it. He's already said that he wanted me

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to do this.

Viner: He did already say that?

H.M.Jr: Yes. I mean that's why.....

Viner: Why, he probably would want you to say that you think it is important - as Secretary of the Treasury, that you think it is important, in order to get a proper world setting for the monetary phases, that there be a proper trade setting. I think that is quite appropriate, I think it is true - and that you wish therefore, in light of that, that he would speak to Secretary Hull.

H.M.Jr: Well, I can only do that if Mr. Hull - if he and I have an understanding that he will see him, wants to see him.

Viner: Oh yes.

H.M.Jr: What? Got any ideas, Riefler?

Riefler: No, I agree.

H.M.Jr: What? Anybody disagree? I mean no one can sell Mr. Hull's ideas as well as Mr. Hull; that's the thing.

Viner: I think it is rather important that there be - that Phillips get the impression that that is a policy of the entire American Government and it's not a hobby, say, of the Secretary of State, so that you must make some general statement.

Fels: Yes, yes.

H.M.Jr: Oh, I'm more than pleased to do that.

Riefler: The question, it seems to me, I would ask is, how important Mr. Hull was in the Administration, and his ideas - I mean I got that constantly over there - and I think you could very well show that, as Jake says, it isn't a hobby, that he does speak for the Administration.

Viner: American Administration; that it is Administration policy.

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- B'worth: You see, none of these lists which we have exchanged, and the notes that we have exchanged on exploring the possibility of an Anglo-American trade agreement - every one of those has gone across the Treasury's desk through their inter-departmental organization. I mean Waley in particular, I know, is quite acquainted with the particular items. Now, how general Phillips' knowledge and how specific it is, I really don't know.
- White: I think there is an advantage in pursuing the course of action that you suggest which occurs to me that is important: that if you give as much time as at first you thought you might on trade agreements, it might appear in his mind and in others that the rest has just been padded for that; whereas if Hull handles that himself, in the first place it will receive adequate attention, and in the second place it won't dwarf these monetary matters, and they will assume the prime importance for his visit. The other will be co-equal rather than dominating. Because otherwise, coming as it does at this particular time, they might suspect that possibly the rest has been merely a build-up for a trade agreement.
- H.M.Jr: Herbert, take a couple minutes and bring me up-to-date, will you? I mean what is our - where do we stand with England today?
- Fols: It is not easy to say with certainty. The question of trade agreement with Great Britain, when it first arose, resolved itself - presented itself in two alternative ways. Either we might set about to attempt to get an agreement of very limited significance, by which there would be a few minor duty changes over there and a few minor duty changes over here - relatively simple task; or it would be one that would require a rather extensive revision of tariff schedules on the part of both countries on the products which - of which they customarily were very important suppliers to each other, or had been, including some products on which Great Britain, under her tariff arrangements with the Dominions, had established fixed and substantial margins of preference.

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It was decided that there was very little point in going forward in making - in fighting the battle for the small agreement. The larger one would not only have a substantial trade significance, but could be the basis of these things:

Firstly, since the most important things we'd seek would be in the field of agriculture, it would reassure the agricultural interests of this country that the trade agreement program was showing full recognition to their place. It would make their support sure and with that would form the basis upon which we could then negotiate with a group of other countries in which our chief concessions would be in the industrial field.

Secondly and even more important was the thought that if these two countries took this tariff action, and pursuing their general policy of extending the same treatment to other countries with which they dealt - at any rate, with which they had agreements - it would dramatically and enormously increase the advantage of having trade agreements with both countries, and would be a terrific magnet for every other country in the world, including the countries that have been shaping their policy along lines of self-sufficiency.

H.M.Jr: What are...

Feis: Pardon?

H.M.Jr: What countries: Such as, for instance?

Feis: Well, many smaller ones in Europe, some in South America, and among the larger ones, Germany, Italy.

H.M.Jr: Russia.

Feis: Well, I think everyone feels she's quite incalculable. You can't....

Viner: Poland?

Feis: Yes, Poland. I was thinking of those among the smaller countries, including some of the smaller South American countries.

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So that there would be some hope that this would really mean a world - a change in the world's commercial relationships, a decisive change, and that furthermore a change of that extent was almost bound to involve some adjustment of political relationships; it would call upon countries to again contemplate their relationship of dependence on each other instead of further accentuation of the idea of independence for war purposes.

At any rate, that decision was taken. Then the usual interchange began on an informal basis, without public announcement, and according to the standing method, as a guide to mapping the field, we informed the British of those commodities on which we felt some modification of duty treatment was essential, and in turn provided them with a list of commodities on which we might consider duty treatment in this country, provided there was adequate quid pro quo; and the discussion subsequently has concerned primarily the list that we gave them of the commodities on which we felt concession essential.

Now, those involved quite a number - figuring in the other agreements, other arrangements that Great Britain has with the Dominions - we have had successive series of discussions, in each of which the British Government has gone somewhat further, but in none of which have they gone even within firing range of what has appeared to us essential. Those discussions are still in active course.

The British Government keeps transmitting assurances of its sincere endeavor. Their actions, discussions with the Dominions, seem to us only to bear out the sincerity of that endeavor in part. The Dominions called upon to give up certain advantages in the British market, although only of a distinctly limited character compared - I mean weighed in the perspective of their total trade, and also knowing that an agreement of this sort would mean an enlarged general market in both countries - the Dominions have on the whole behaved badly, outside of South Africa. In the general and world aspects of it they have shown almost no interest. Australia and New Zealand - well,

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you've seen the people they had over here and you've had a chance to measure their mentality, which is just about on a par with that of Senator Smoot, almost, Senator Smoot living in a country which, however, is dependent on foreign markets a little bit more markedly. In Canada, Mackenzie King is a little harder to diagnose, but feels himself pressed by intense political difficulties in various of his provinces.

So the Dominions, up to the present, haven't helped the thing along very much. The British Government has not appeared to us to have pressed the Dominions as much as they might, although quite possibly there we don't appreciate the extent to which they must hesitate to do that for fear of affecting Dominion opinion at a rather critical period. I also don't know the extent to which they are sure that, no matter what they do, we could go through with the program of duty revision over here that we have discussed. I don't know the extent to which that idea occurs to them. Unless some new impetus is given to the matter, it looks as if it might drift along at a very slow pace for an indefinite time.

I perhaps ought to mention one other aspect of the thing. We don't know the extent to which their attitude toward the matter is complicated by an attempt to understand our neutrality policy. All the other part of the discussions coincided at the time with the debate on neutrality legislation down in Congress, when it looked for a time as if we might have mandatory legislation.

B'worth: I don't think that plays much of a part now.

Feis: Now, Mr. Hull's idea is that those wider aspects of the picture that I have presented to you, which they don't properly appreciate,.....

Viner: Tell me this, Herbert, if you can. Have these conversations been held with the top man over there?

Feis: As far as I know, there has never been any conversation with the present Prime Minister personally. But - has Norman Davis - I guess Norman Davis talked to him.

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- B'worth: (Nods yes)
- H.M.Jr: Let me ask you this. ...
- Feis: The most extended conversation was with Runciman and he was wholly unsatisfactory.
- Viner: Well, he's out now, so it's rather past history.
- B'worth: Changed picture. Neville Chamberlain is very anxious to go along.
- Viner: I was wondering whether, in reaching Sir Frederick Phillips, you are really reaching a figure who ranks in importance with those whom you have been in touch with.
- Feis: Well, I suppose Simon would play a part. I don't know with whom else Phillips is in touch.
- H.M.Jr: May I ask this, because this is most helpful; I'd like to have you just expound a little bit - what influence does the Sino-Japanese thing have, and the Mediterranean - if those two shows - do they have any influence one way or the other in our relations with Great Britain, either as to trade treaty or as to any other matter?
- Feis: The Spanish you can rule out; on the Spanish, no.
- H.M.Jr: Does that include the Mediterranean?
- Feis: Yes, Spanish and Mediterranean.
- H.M.Jr: Yes.
- Feis: I don't think they ever thought we were going to fish in that pond, and the situation hasn't framed itself up, and their own policy has been too much undecided and too much on the fence.
- H.M.Jr: What about the Far East?
- Feis: I should think - this is pure speculation - upon the one hand, I should think it would increase their sense of the possible future importance of having extensive binding trade interests between the two

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countries; and on the other hand, that it would gradually tend to lessen the illusion, which they maintain in extraordinary fashion, that, despite everything they have read, we are easily going to put ourselves in positions of political consequence - I mean in disputes between others.

H.M.Jr: Well now, Herbert, here's the thing....

Feis: Do you agree with that, Walton?

B'worth: Well, we haven't invoked the Neutrality Act.

Feis: I believe that only puzzles them as it puzzles everybody else, Walton. They don't know any more what to make out of that than anybody else does.

B'worth: I mean our consideration of China has been unexpected, in a sense.

Feis: Yes, I suppose that probably is read as indicating that. The fact that the President has been able to delay.....

B'worth: Wouldn't you say in both cases, the Mediterranean and the Far East situation, that inasmuch as they are difficult, sore points, they bore home to the British the idea that trouble in the world means it's a good idea to have friends in America?

Viner: That's important, if so, but have they really?

B'worth: I think so.

Feis: If those friends....

B'worth: Our stock has been going up in England ever since the day that Hitler declared the Versailles Treaty void. That was the day - if one wanted to set an arbitrary day, that was the day on which we turned the corner in British eyes and took on a new complexion.

H.M.Jr: When?

B'worth: The day that Hitler tore up the Treaty of Versailles and decided he was going to have an army larger than the 100,000 stipulated therein, and compulsory military service.

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Feis: '35, was that?

B'worth: March two years ago.

H.M.Jr: Herbert, let me get this thing - I mean, as I say, I want to soak this up. After all, I've been out of this for a couple months. Take the French situation. How low did the franc get, how many francs to the pound today?

Lochhead: 146½.

H.M.Jr: Now, that situation, of course, as far as the tripartite agreement goes, is as important as anything, isn't it?

Feis: Yes.

H.M.Jr: How long are Great Britain and ourselves going to sit by and see these fellows depreciate? I mean you talk about invoking the Neutrality Act; I think we should have invoked whatever the paragraph is that these fellows have broken their agreement by now.

Feis: Well, I suppose that's open to argument.

H.M.Jr: Sure.

Feis: I haven't looked at it.

H.M.Jr: My impression is that costs in France are still running ahead of the depreciation index, aren't they?

White: They're rising, but they're not - there's a depreciation of 46 percent from - it's almost half, you see.

Feis: Of course, there the base period that you take would be altogether decisive, wouldn't it?

H.M.Jr: Let me put it this way. Do you feel that, for instance, Belgium and Switzerland and Holland will feel this competition from France?

White: No. From France alone, no. Belgium and Switzerland would. I thought you said....

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- H.M.Jr: I said Belgium, Switzerland, and Holland. Will they feel it?
- White: Yes, yes, but not very substantially, because of the rise in prices; not as substantially...
- Viner: ...as it seems on the surface.
- White: ...as it seems on the surface. But they'll feel it.
- Feis: And France is still running its undiminished unfavorable balance of commerce.
- H.M.Jr: What I am getting at - if those three smaller countries don't feel it, don't squawk...
- White: Quite so.
- H.M.Jr: ...we're not going to feel it from our people.
- White: It's relatively insignificant to us, more important to England.
- Viner: In any case, England attaches a great deal of importance to it. I suppose that England attaches importance to it as a source of further difficulties elsewhere in the Continent, so that the thing spreads; because I can't see that - why, otherwise, England should attach as much importance to it as she does. But they take the French franc as setting the tone of a number of other countries.
- B'worth: There's another point. France absorbs coal and that's a very important item in England.
- H.M.Jr: Coal?
- B'worth: Yes.
- Feis: There is nothing more that this Administration can do about this problem at this minute, I don't believe, unless it wants to stop the free movement of capital.
- H.M.Jr: Is Bullitt on the water?
- Feis: The 22d he's sailing. That's my memory.

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- B'worth: Herbert, what has happened in the quotas on tariffs? Haven't they put on a lot of new quotas in tariffs?
- Feis: No, they've put on a very few, and in the specific questions that have arisen under the agreement they have acted comparatively well. And our sales to France have been holding up very well.
- B'worth: I didn't mean just those quotas on tariffs which affected us, but I was getting at the idea that the tripartite agreement is an agreement that is based on the fundamental concept that tariff barriers are going to be lowered and quotas going to be eliminated.
- Feis: Well, whatever tariff adjustments they have made have not been sufficient to impede import trade. Their great fall in the French import trade came before serious depreciation in the franc. The thing that is difficult to see is how they can ever continue along....
- H.M.Jr: This is the French.
- Feis: France. ...without doing one of two things: either finding some effective way, really effective, to get back the capital that's gone abroad, or at least preventing the further loss of gold. I mean their national safety is now so directly involved with what gold they have left. And to have that continue - the play of politics just produces from day to day a bad compromise, which means the continuous loss of gold but never the decisive loss. It's a terrible policy.
- White: It's more than a play of politics; it's a conflict of fundamental forces. That's what makes the problem. That's why they will unquestionably put on exchange control before they... Get away from it a little and you see that the movement there is in a very definite way following fundamental lines.
- Feis: Well, if you believe that class consciousness is a fundamental line of capitalistic society, yes.
- White: I mean it's becoming accentuated.
- Feis: It seems to be, yes.

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White: It won't disappear and it won't....

Feis: I don't know, the reports from France were continuously to the effect that progress was being made toward some more satisfactory adjustment between the trade unions and the working elements. I had that no later than yesterday from this Belgian that is over here now - I don't know whether you've seen him or not.

H.M.Jr: Belgian?

Feis: Max Horn, the fellow that runs that big international holding company, who isn't exactly a radical.

H.M.Jr: I haven't seen him. Have you seen him, Riefler?

Riefler: No, I haven't.

Feis: I'm sure he'd be delighted at the chance, but I wouldn't particularly advise you to talk to him. You can't tell where his interests run. I mean one of these international holding companies....

H.M.Jr: I mean I have nothing to gain.

Feis: I don't think I'd put him in a position to go back to Europe and possibly quote you. No, I don't think I'd do it.

H.M.Jr: Suits me.

Well, Herbert, I'm pretty well - I mean I - I think really that one of the important things is that we do get an understanding with these people how we will act with them on the French situation.

Feis: That in itself would more than justify the whole mission.

B'worth: It's the most immediate and pressing of the problems.

H.M.Jr: Butterworth, just how influential is this fellow in the Treasury and in the other departments?

B'worth: He is essentially a Treasury man as such, and in the Treasury he is very strong.

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Viner: He is permanent Civil Service.

B'worth: Yes, permanent Civil Service, and he is the permanent Under Secretary of the Treasury. Warren Fisher is likewise head of the whole Civil Service and has a lot of other extraneous duties. There is no one in the Treasury that has more responsibility and greater power than Phillips.

H.M.Jr: What's his title?

B'worth: Under Secretary.

H.M.Jr: He is permanent Under Secretary?

B'worth: Yes.

H.M.Jr: Is he next to the Chancellor of the Exchequer?

B'worth: No, he's not permanent Under Secretary. That's Sir Warren Fisher.

H.M.Jr: Oh, Sir Warren Fisher.

B'worth: But as Fisher spends about three-fourths of his time doing things that are not Treasury in our sense....

Viner: They are administrative.

B'worth: Yes, they are administrative things.

H.M.Jr: Which fellow has the Civil Service employees?

B'worth: Fisher. And this man is concerned with what we consider Treasury work.

H.M.Jr: I see, and in that, I take it, he spends a lot of time on the Stabilization Fund policy.

B'worth: That's - he's the man par excellence who concerns himself with the stabilization, and he is responsible.

H.M.Jr: Loans and that sort of stuff - flotation of loans.

Viner: The Treasury attitude toward the London money market,

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I suppose. Issues.

- B'worth: Yes. And Phillips is very strong with his fellow permanent officials in other government departments - the Board of Trade and the Foreign Office and so on - and he sits as the Treasury representative on innumerable interdepartmental committees that have to do with imperial defense, and so on and so forth - all the allied problems. No, you're dealing in Sir Frederick Phillips with a very responsible official who has the ear of both the Chancellor of the Exchequer and the Prime Minister, so that there is no question about wasting your time with someone who doesn't count.
- H.M.Jr: All right, I appreciate that.
- Now, you (White) have the book, haven't you, supporting.....
- White: I have the book; it isn't complete, but....
- H.M.Jr: When's it going to be?
- White: When do you want it complete?
- H.M.Jr: I might want it beginning Friday night.
- White: It will be complete.
- H.M.Jr: Now, Riefler, in discussing this thing, for instance - he said that he wanted to get his fingers on the question of gold supply and gold production and gold distribution. Has he had a chance to see that?
- White: He's seen some and he can see more each day, as much as he can probably examine, from now on.
- Riefler: Starting to come through.
- Viner: Yes, starting to come through.
- H.M.Jr: Is that going to be in that book?
- White: Yes, but a good deal is bulky, so it will be preceded by brief summaries.

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H.M.Jr: I thought I might take you up to the farm with me and then if I get a couple hours' time work at the thing. Last time you stayed at the Nelson House, didn't you?

White: I think so.

Feis: When does he arrive here?

B'worth: Sunday, as far as we know. By the way, the press will probably ask you where he is, and my suggestion would be to say that you don't know but that you are expecting him on Monday, and until then any information about him will probably be obtained at the British Embassy, so that he wouldn't necessarily be tagged and bothered at Chicago or wherever he may be.

H.M.Jr: It's interesting that a man of that importance would land in Canada and nothing be mentioned until today.

Viner: Well, was the source not given? They got his name wrong at first.

Lochhead: Yes. I was wondering where Duffield picked up anything at all about him today, because it seems strange - he had his name wrong and it was vague, but even at that I can't see where he could have picked up anything about it.

Haas: First he saw Butterworth.

Viner: And identified him.

H.M.Jr: Well, he's seen Butterworth before.

B'worth: I don't know him but he's probably seen me.

Lochhead: Duffield, if he saw him - a stranger in the hall - he'll identify him; you'll have to give Duffield credit.

H.M.Jr: If he saw a strange face come out of Lochhead's room, he'd find out.

White: Then he knows by who comes in and who goes out; he can narrow down the problem.

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Lochhead: I still don't see how he got any connection with the Under Secretary.

Viner: I met him in the hall this morning and asked him, "Well, have you solved the problem yet?" He said, "No, but I've got a clue."

H.M.Jr: What problem was it?

Viner: I didn't say, but - just like that - and he was right. He had a clue; he'd seen Butterworth.

Suggested agenda for conversations between  
Secretary and Sir Frederick Phillips

THE TRIPARTITE UNDERSTANDING.

1. Is the British Treasury on the whole satisfied with the way in which the tripartite undertaking has operated in the past year?

- (a) With respect to the United States
- (b) " " " France
- (c) " " " other countries

2. Exploration of steps to be taken in the event that France should resort to measures involving a considerable degree of exchange control. Does the British Treasury feel that such action would constitute a violation of the spirit and letter of the tripartite undertaking?

3. The possibility that France may still further depreciate the franc raises the question in our mind as to the extent to which the franc could depreciate below its present level and still be regarded by us as abiding by the tripartite understanding. It might be worth while exploring this point with the British so as to be prepared for the eventuality should it arise.

4. It is rumored that the \$40 million French railway loan expiring in December will not be renewed. Such action would have important effects on the stability of the franc. Are the rumors well founded? What action does the British Treasury think the French will take if they are unable to renew that loan?

5. The possibility and desirability of obtaining additional members to the "club", e.g., Argentina, Canada, Brazil.

6. Prospects of continued success of the tripartite understanding in the event of spread of war.

WHAT IS TO BE THE FUTURE ROLE OF GOLD IN THE MONETARY SYSTEMS OF THE WORLD?

7. It is felt here that a more appropriate distribution of the expense of carrying gold reserves could be achieved through requiring institutions other than the Treasury to hold more cash reserves. What is the view of the British Treasury with respect to the appropriate location of the expense of carrying reserves within a country, as among treasury, central bank, and banks or holders of (a) domestic (b) foreign deposits?

In this last connection the United States is contemplating enactment of legislation designed to make possible the imposition of high cash reserve requirements against deposits of foreigners. What is the British Treasury reaction to this contemplated legislation? Do they feel the policy embodied in such legislation can be erected into a general principle applicable to other countries?

8. Our views with respect to the extent to which the central banks should keep balances in their countries in excess of their commercial needs and the conditions under which central banks should invest in the securities of other countries were expressed in our letter to Switzerland. We have received some further communications from other "club" countries and would like to discuss them with the British Treasury.

9. As evidenced by the recent increases of reserve requirements against deposits held by member banks, the United States subscribes to the principle that the requirement of large cash reserves against deposits at this time is desirable as a means of preventing undue expansion of deposits, as a measure of relief for the Treasury of some of the burden of sterilizing gold, and, if these legal reserves have to consist directly or indirectly partly in gold, as a possible aid in promoting redistribution of gold holdings. Does the British Treasury feel that the adoption of a similar policy in other countries would be a contribution toward stability?

10. What are the prospects of additional hoarding, or surrender of gold by the people of British India?

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11. Has the British Treasury any authentic information as to Russian gold production? The United States has requested the Government of U.S.S.R. to notify us of their intentions to ship gold to New York. Does the British Government have any similar arrangements with respect to the sale of Russian gold on the London market? Does the British Treasury feel it would be advisable to impose restrictions on the sale of such gold in either the English or the American market?

12. Does the British Treasury feel that the upward trend in world gold production is creating a serious problem? Does it feel that world gold production should be curtailed? If so, by what means?

13. What are the advantages and disadvantages of a simultaneous reduction in the price of gold as a means of reducing the world gold supply compared with the advantages and disadvantages of restriction on the physical output through international agreement?

#### INTERNATIONAL CAPITAL MOVEMENTS

14. Does the British Treasury find it would be desirable to explore the possibilities of exchange of information with the British Treasury with respect to international capital movements.

15. The American Treasury is considering formulation of legislation designed to discourage the movement of speculative funds into our security markets. What would the British Treasury's reaction be to such legislation? Is there a possibility of developing similar policies in other countries?

16. What is the present policy of the British Treasury with respect to the restriction on capital exports? How has their policy worked out in the past? If Phillips is interested, American legislation and policy relating to foreign borrowing in United States markets could be outlined.

17. Desirability of expanding our trade agreement program (with particular reference to the United Kingdom and Dominions) as an aid to the redistribution of world gold holdings and the re-establishment of more nearly normal world economic conditions.

18. Possibilities of cooperation with other countries toward the objective of reconstructing their monetary systems on an improved basis. Explanation of the arrangements made with Brazil and with China and tentative plan with respect to Cuba. Does the British Treasury have any special monetary arrangements with members of the sterling bloc or any other country?

THE STATUS OF SILVER

19. What is the opinion of the British Treasury with respect to the role silver should play in the monetary systems of the world?

20. What does the British Treasury feel to be the prospects of increased monetary use of silver? The London Silver Agreement comes to an end on January 1, 1938, and the Presidential Proclamation with respect to the purchase of domestic silver likewise comes to an end on December 31st of this year. How is the London silver market going to be affected by these events?

21. Has the British Treasury any view with respect to what is going to happen to the silver which has been going to Hong Kong?

22. Would the British Treasury regard with favor proposals seeking to increase the monetary use of silver in India?

September 15, 1937

Mr. Bell and I saw the President at 2 o'clock today. Mr. Bell presented the general budget summary to the President, also a draft of statement of summation of the 1938 budget. The President spent most of the time urging us to try and have an actual cash balance this fiscal year. He said, "For example, any reason why the \$23,000,000 of Treasury-Post office public buildings should be started before July 1?" He thought that some of the road work could be pushed over. He said he still wants to make a real effort to get a real balancing of the budget in this year without debt retirement.

Bell and I pointed out that about the only money we could really save would be if Mr. Jones stopped spending and we impressed upon the President that those instructions would have to come from him, and he authorized us to write what he called one of his "typical memorandum" instructing Mr. Jones not to make any more new commitments without first consulting with the President and that he wanted a memorandum from us showing just what the status of the RFC and related agencies was. He said, "Give me something that I can have inside my pocket in case Jones argues with me."

I really think he wants to do everything possible to balance the budget this year, but when we put up to him the question of cutting C.C.C. down by paying them \$21.00 a month and reducing the enrollment to 200,000, he didn't respond to that suggestion, although he said he would be perfectly willing to have the number of camps reduced.

As to next year, he said he not only wants a layman's budget, but an actual balancing of the budget including debt retirement of \$600,000,000. Mr. Bell showed him some figures for 1939 (see attached):

Receipts	\$7,205 M
Debt Retirement	586
Available	<u>6,620 M</u>

Increases necessary to be provided for in the '39	
Budget over '38:	Old Age 100.
	Cotton 165.
	Misc 100.
	Regular <u>5,400.</u>
	<u>5,765</u>
Bal	<u>855</u>
	<u>6,620</u>

This would leave a balance available for relief of \$855,000,000.

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When the President was shown this statement he indicated thereon that he would cut the regular Departments back to \$5,000,000,000 and provide \$1,000,000,000 for relief.

The President decided that he would postpone getting out any summation of the 1938 budget until after Congress met, at which time he would send a budget summation to the Chairman of the two appropriation committees in the House and Senate.

In the meantime he would tell the press that he had not been ready to go over the figures and that he had sent Mr. Bell away on a vacation.

1939

Receipts \$ 7,205 ~~AA~~

Debt Retirement 585

Available \$ 6,620 ~~AA~~

Old Age 100. ✓

Retiree 165. ✓

Misc 100 ✓

Regular 5400 5000

5,765

Bul

855

6620

1939

Receipts \$ 7,205 ~~AA~~

Self Retirement 585

Available \$ 6,620 ~~AA~~

Old Age 100. ✓

Batton 165. ✓

Misc 100 ✓

Regular 5400 5000

5,765

Bal 855

6620

DRAFT NO. 4

**STATEMENT BY THE PRESIDENT ON THE SUBMISSION  
OF THE 1938 BUDGET**

The attached summation presents revised estimates of receipts and expenditures for the fiscal year 1938, reflecting the changes which have occurred in the Budget since its transmission to Congress in January 1937 and the subsequent revision of estimates contained in my message of April 20, 1937. In the latter message, I pointed out that the decline in tax receipts was almost entirely responsible for the then estimated deficit of \$418,000,000 for the fiscal year 1938. It was indicated that this estimate would necessarily be subject to change dependent on any action taken by Congress which might increase expenditures.

In the April 20 message I stated:

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

In carrying out the first proposal a letter was addressed, on June 23, 1937, to the heads of all departments and establishments, requesting

them to set up a reserve not less than 10 percent of the total amount of all funds that are properly susceptible to the establishment of reserves. It was estimated that not more than \$3,000,000,000 in appropriations made to the regular departments and establishments could be subjected to the reserve requirements. Pursuant to this request reserves were established against these appropriations by the heads of the various departments and agencies amounting to \$409,000,000/. While a certain percentage of this amount will necessarily have to be released for expenditure, substantial savings will be effected.

Changes have occurred which were unforeseen at the time the estimates for 1938 were revised in April, and but for these, the deficit would have been practically eliminated.

The principal changes affecting receipts and expenditures which have caused the present estimated net deficit of \$471,245,000 are:

1. The enactment of the new Railroad Retirement Act which increased the number of annuitants by adding certain groups of employees, retired under railroad pension systems, who were not included under the provisions

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of the former retirement act, and which added a reserve feature necessitating the annual investment of funds to establish a reserve against future payments. These two provisions, which were not contemplated at the time the April 20 estimates were formulated, increased the estimate of expenditures by ..... \$ 113,000,000

2. The continuation by Congress of reduced interest rates on Federal Land Bank loans and the reduction, for the first time, in the interest rates on Land Bank Commissioner's loans necessitating an additional expenditure to reimburse the Land Banks and the Federal Farm Mortgage Corporation for the loss suffered through these reductions..... 40,000,000
  
3. The enactment of legislation authorizing refund of the taxes collected under Title 9 of the Social Security Act to those States enacting subsequent to the collection of such taxes, unemployment compensation programs resulting in an additional expenditure of ..... 36,000,000

4. The enactment of Farm Tenancy legislation authorizing an appropriation in the fiscal year 1938 of..... \$ 20,000,000
  
  5. The extension of the Public Works Administration for two years and the increase of funds available for grants and administrative expenses resulting in an additional expenditure in 1938 of ..... 25,000,000
  
  6. Due to the anticipated surplus cotton crop, the Commodity Credit Corporation probably will be unable to secure repayments of cotton loans or to dispose of cotton now held by that Corporation and the expected revenue from this source will not be received in 1938 ..... 30,000,000
  
  7. The enactment of the Law providing for Federal aid to the States in wildlife restoration projects earmarks the taxes received from firearms, shells, and cartridges for this purpose, thereby increasing the expenditure by 3,000,000
- 
- \$ 267,000,000

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The effect of these changes has been to increase the deficit in the amount of \$267,000,000. While the loss in revenue is apparently \$131,000,000 there is included in the estimated receipts for 1938 the amount of \$46,000,000 to be collected from taxes levied under the Sugar Act. This will be offset by the payments required under that act which are included in the supplemental item in the estimates of expenditures. Thus the loss on a comparable basis over the April 20 estimates of revenue is \$177,000,000. This loss is due in large part to a reduction in the estimate of Social Security taxes and is offset by a reduction of \$115,000,000 in the amount required for investment in the Old Age Reserve Account, leaving a net loss in the revenue of \$62,000,000.

The increased expenditures listed above, amounting to \$267,000,000, together with the net revenue loss of \$62,000,000, have added \$329,000,000 to the deficit, and had that not occurred the present estimate would show a net deficit of only \$142,000,000 instead of \$471,000,000. The revised net deficit for the fiscal year is \$2,236,000,000 less than the net deficit for the fiscal year 1937.

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Review of the Fiscal Year 1937

The total receipts amounted to \$5,293,640,237 against the estimate in the 1936 Budget of \$5,828,150,719 and the estimate in the April 20th revision of \$5,224,000,000. Part of this loss in the estimated revenue is due to the legislation relative to retirement of Railroad employees. Last January it was estimated that \$134,552,000 would be received from taxes on carriers and their employees during 1937. Litigation involving these taxes and the subsequent reenactment of the legislation deferred practically all collections under this heading to the fiscal year 1938.

Income taxes produced \$2,157,526,961 against the January estimate of \$2,372,900,000, a loss of \$215,000,000. Miscellaneous Internal Revenue taxes were about \$94,000,000 less than was estimated last January, while Social Security taxes were \$99,000,000 less. The tax on unjust enrichment produced only \$6,073,351, whereas it had been estimated that \$82,000,000 would be received from this source in 1937. Customs receipts increased about \$40,000,000, while miscellaneous

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receipts produced \$18,000,000 more than had been anticipated.

The total expenditures in the past fiscal year amounted to \$8,105,158,547, including \$103,971,200 for debt retirement. The estimates of expenditures in the 1938 Budget for the fiscal year 1937 were \$8,480,804,493, including \$404,525,000 for debt retirement. Thus, eliminating the amount spent for retirement of the public debt, the actual expenditures were \$75,000,000 less than the January estimate. They were, however, \$220,000,000 greater than the revised estimate of expenditures made on April 20 due principally to an increased expenditure for interest of \$26,000,000, the investment of \$40,000,000 more than was anticipated in the Old Age Reserve Account because of the question as to the availability of the appropriation for expenditures in 1938, and the failure of certain Government corporations to liquidate their assets as rapidly as had been anticipated resulting in an increase in the expenditure figure of \$107,000,000.

Forecast for the Fiscal Year 1938

The total receipts for the fiscal year 1938 are now estimated at \$6,774,410,000, a decrease of \$519,000,000 under the estimates contained

In the 1938 Budget and a decrease of \$21,000,000 below the revised estimates of April 20. This decrease is more than accounted for by the reduction in the estimate of income and Social Security taxes. When the estimates were prepared, a new revenue measure had just been enacted, and there was no experience to serve as a guide as to probable receipts. As I stated on April 20 the analysis of the March returns indicated that certain loopholes existed in the revenue laws and during the past session information was presented to the Congress resulting in enactment of legislation closing those loopholes. The suggestion I then made as to the need of a careful survey of the present tax structures has received the favorable consideration of Congress and a study will soon be commenced under the direction of the Ways and Means Committee to prepare for presentation to the next Congress the legislation necessary to remedy the deficiencies in the revenue producing power of the present tax law. It is somewhat doubtful whether such legislation could be enacted in time to affect the outlook for the fiscal year 1938.

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The expenditure requirements for the fiscal year 1938 are now estimated at \$7,445,655,000, including \$200,000,000 for debt retirement. Excluding debt retirement this figure is about \$11,000,000 less than was anticipated last January for all expenditures, including \$1,500,000,000 for work relief, and \$75,000,000 less than the revised estimates of April 20.

The estimated expenditures for the civil departments and agencies are about \$99,000,000 greater than the actual expenditures for 1937, due principally to increased expenditures of \$63,000,000 for highways and \$40,000,000 for the Maritime Commission. The expenditures for national defense will be approximately \$69,000,000 greater than in 1937. The Agricultural Adjustment program will require \$58,000,000 less than in 1937, and the Civilian Conservation Corps, \$76,000,000 less. Expenses under the Social Security Act will increase about \$67,000,000 largely due to increased participation by States in the program, and interest on the public debt will increase \$59,000,000.

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Under the recovery and relief program the estimated expenditures for public works, including work relief are \$994,000,000 less than in 1937, \$621,000,000 of which represents a reduction in the work relief program of the Works Progress Administration. Expenditures of the Resettlement Administration will be \$85,000,000 less than in 1937.

Due to the condition of the cotton market the operations of the Commodity Credit Corporation will not result in the anticipated excess of credits of \$30,000,000 which it was expected the Corporation would receive from the sale of cotton and repayment of loans, and the earnings of the Corporation for this year will only be sufficient to offset expenses. Last year the receipts of the Corporation exceeded expenditures by about \$112,000,000 thus offsetting the total expenditures of the Government by that amount, but this year there will be no corresponding offset. Likewise the excess receipts of the Reconstruction Finance Corporation will be about \$184,000,000 less than last year, thus increasing total expenditures by that amount.

Investments in the Old Age Reserve Account for the fiscal year 1938 will be \$160,000,000 greater than in 1937. They will, however, be

\$115,000,000 less than the previous estimates for the fiscal year 1938. The former estimate of expenditures under the Old Age Reserve Account was \$940,000,000, of which \$40,000,000 was a carry-over from the 1937 appropriation. Due, however, to the question as to the availability of the 1937 appropriation for expenditure in 1938 this amount was invested during the latter part of June, thus becoming a 1937 expenditure. On a reexamination of the status of the fund it has been found that the total amount of investments in the account on June 30, 1938 should be \$690,000,000. Inasmuch as \$265,000,000 was invested prior to this fiscal year the remaining amount necessary to place the fund in proper status at the end of this fiscal year is \$425,000,000, a reduction of \$115,000,000 in the amount carried in the 1938 Budget.

The annuity payments and investments under the Railroad Retirement Act will be \$134,000,000 greater than the expenditures for 1937. In that year under the provisions of the Retirement Act there in force the expenditures consisted of annuity payments only, also that Act did not provide for the establishment of a reserve. The contribution by

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the United States to Government Employees Retirement funds will be \$27,000,000 greater than in 1937. The expenditure last year of \$556,000,000 from the Adjusted Service Certificate Fund for adjusted compensation payments exhausted the appropriation made for that purpose. There is included in the 1938 estimate, an additional amount of \$180,000,000 for supplemental items which will be needed to meet appropriations authorized during the past session, or deficiencies in existing appropriations. \$200,000,000 is included in the 1938 estimate for debt retirement which is \$96,000,000 greater than the amount spent for this purpose in the past year.

The estimated net deficit (excluding debt retirement) for the fiscal year 1938 will be \$471,245,000. This amount is only \$53,000,000 in excess of the estimate of April 20, despite the further net loss of revenue of \$62,000,000 and the addition of expenditures for new activities amounting to \$267,000,000. The further addition of \$200,000,000 for debt retirement would make the gross deficit approximately \$671,000,000.

While the net deficit in the general and special accounts is not the only item affecting the size of the public debt, it does mean that the total debt will be increased in 1938 by \$471,000,000 provided that the balance in the general fund remains at the same figure until June 30, 1938 as it was on June 30, 1937. It must be understood that in making this statement no consideration is given to the effect of the gold sterilization policy. Any increase during the fiscal year in the amount of gold held as inactive will increase the public debt in the like amount. Because of the impossibility of accurately forecasting gold acquisitions and because of the further fact that the debt increase from this cause is offset by a corresponding increase in cash, it is not practical to consider the effect of the gold policy in arriving at an estimate of the public debt at the close of this fiscal year.

Therefore, aside from changes due to gold acquisitions, the gross public debt will increase because of the contemplated deficit approximately \$471,000,000 during the year 1938. The point of major signifi-

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change in connection with the debt, however, will be the change in the character of the debt which will occur during the year. There are included in the expenditures for 1935, which resulted in the above deficit, investments in Government obligations in the amount of \$575,000,000 which require no cash to finance them and in addition contributions to be made by the States to the unemployment trust fund in the amount of about \$587,000,000 will likewise be invested in special Government obligations. Thus from these two sources \$1,162,000,000 will be available to reduce debt outstanding in the hands of the public and replace it by special issues held by the Government in trust for unemployment compensation and Old Age benefits, and for annuities to Government and Railroad employees. It can thus be seen that, except for gold acquisition, the debt in the hands of the public will decrease about \$691,000,000 during the year, while the debt represented by special investment accounts will increase \$1,162,000,000, a net increase in the total debt of \$471,000,000.

## GENERAL BUDGET SUMMARY

	Actual Fiscal Year 1937	Estimate Fiscal Year 1938
<b>I. Receipts:</b>		
Internal revenue .....	\$4,597,140,102.49	\$6,065,510,000
Customs .....	486,356,598.90	498,988,000
Miscellaneous .....	210,343,535.48	210,000,000
<b>Total receipts .....</b>	<b>5,293,840,236.87</b>	<b>6,774,500,000</b>
<b>II. Expenditures:</b>		
1. Legislative, civil departments and agencies and the judiciary <sup>1/</sup> .....	903,507,636.88	1,002,400,000
2. National defense .....	856,111,693.49	925,000,000
3. Veterans' Administration <sup>1/</sup> .....	580,234,708.98	580,000,000
4. Agricultural Adjustment Program .....	533,577,043.77	475,000,000
5. Civilian Conservation Corps .....	385,807,729.81	310,000,000
6. Social Security .....	182,759,138.73	250,000,000
7. Interest on the public debt .....	866,384,330.90	925,000,000
8. Refunds .....	49,398,268.68	46,000,000
9. Recovery and relief .....	3,014,589,912.78	1,876,000,000
10. Revolving funds (net) .....	<sup>a</sup> 243,569,164.51	40,000,000
11. Transfers to trust accounts, etc. ....	872,385,047.96	636,255,000
12. Supplemental items .....	-	180,000,000
<b>Total expenditures (exclusive of debt retirement) .....</b>	<b>8,001,187,347.47</b>	<b>7,245,655,000</b>
<b>III. Net deficit .....</b>	<b>2,707,347,110.60</b>	<b>471,245,000</b>
<b>IV. Debt retirement .....</b>	<b>103,971,200.00</b>	<b>200,000,000</b>
<b>V. Gross deficit .....</b>	<b>2,811,318,310.60</b>	<b>671,245,000</b>

<sup>a</sup> Excess of credits, deduct.

<sup>1/</sup> Includes General Public Works Program items.

RECEIPTS

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	Actual fiscal year 1937	Estimate fiscal year 1938
<b>1. Internal Revenue:</b>		
(1) Income tax.....	\$2,157,526,981.33	\$2,865,500,000.00
(2) Miscellaneous internal-revenue taxes:		
Estate tax.....	281,635,983.21	391,800,000.00
Gift tax.....	23,911,783.26	25,200,000.00
Capital stock.....	137,499,245.53	142,000,000.00
Alcoholic beverage taxes.....	593,831,352.97	656,570,000.00
Tobacco taxes.....	551,922,580.32	548,105,000.00
Stamp taxes.....	69,919,336.11	73,810,000.00
Manufacturers' excise taxes.....	450,581,984.74	463,520,000.00
Sugar Act of 1937.....	-	46,200,000.00
Sundry taxes.....	79,432,798.77	84,070,000.00
Total (unadjusted).....	2,188,735,064.91	2,431,275,000.00
Adjustment to daily Treasury statement.....	-7,517,208.87	-
Total, miscellaneous internal-revenue taxes.....	2,181,217,856.04	2,431,275,000.00
(3) Processing and related taxes.....	2,501.14	-
(4) Other internal-revenue taxes:		
Taxes on carriers and their employees.....	286,903.55	158,200,000.00
Social-security taxes.....	265,458,404.29	605,535,000.00
Tax on unjust enrichment.....	6,073,351.02	5,000,000.00
Total, other internal-revenue taxes.....	271,818,658.86	768,735,000.00
Adjustment to daily Treasury statement basis (unrevised)..	-13,425,894.88	-
Total, other internal-revenue taxes (daily Treasury statement basis).....	258,392,763.98	768,735,000.00
Total, internal-revenue.....	4,597,140,102.49	6,065,510,000.00
2. Customs.....	486,356,598.90	498,900,000.00
3. Miscellaneous receipts.....	210,343,535.48	210,000,000.00
Total, receipts, general and special accounts.....	5,293,840,236.87	6,774,410,000.00

## EXPENDITURES

	Actual fiscal year 1937	Estimate fiscal year 1938
<b>I. Legislative, Civil Departments and Agencies and the Judiciary:</b>		
1. Legislative establishments.....	23,077,257.35	23,500,000.00
2. Department of Agriculture.....	101,265,690.36	115,000,000.00
Public highways.....	89,703,051.32	153,000,000.00
3. Department of Commerce.....	35,171,021.98	39,000,000.00
4. Department of the Interior.....	92,114,756.03	115,000,000.00
5. Department of Justice (including the Judiciary).....	38,696,358.83	38,000,000.00
6. Department of Labor.....	15,836,005.39	16,500,000.00
7. Department of State.....	17,698,828.67	19,500,000.00
8. Treasury Department (except debt retirement and interest, old-age reserve account, and refunds).....	147,439,619.30	144,000,000.00
Public buildings.....	33,990,145.78	45,000,000.00
9. War Department (nonmilitary).....	143,693,214.99	145,000,000.00
Panama Canal.....	11,917,182.08	10,400,000.00
10. Rural Electrification Administration.....	939,581.29	8,000,000.00
11. Tennessee Valley Authority.....	41,995,141.08	43,000,000.00
12. United States Maritime Commission.....	5,080,523.51	38,000,000.00
13. Other independent offices and commissions.....	72,701,352.11	44,500,000.00
14. Post Office Department, deficiency.....	39,274,617.47	-
15. District of Columbia, contribution.....	5,000,000.00	5,000,000.00
Unclassified items.....	1,182,841.22	-
Adjustment disbursing officers' checks outstanding.....	-732,802.42	-
<b>Total, Legislative, civil departments and agencies and the Judiciary</b>	<b>903,507,636.88</b>	<b>1,082,400,000.00</b>
<b>II. National Defense:</b>		
1. Navy Department.....	467,083,719.01	540,000,000.00
2. War Department.....	399,027,974.48	385,000,000.00
<b>Total, national defense.....</b>	<b>866,111,693.49</b>	<b>925,000,000.00</b>
<b>III. Veterans' Administration.....</b>	<b>580,234,708.98</b>	<b>580,000,000.00</b>
<b>IV. Agricultural Adjustment Program.....</b>	<b>533,577,043.77</b>	<b>475,000,000.00</b>
<b>V. Civilian Conservation Corps.....</b>	<b>385,807,729.81</b>	<b>310,000,000.00</b>
<b>VI. Social Security:</b>		
1. Administrative expenses.....	15,830,999.77	20,000,000.00
2. Grants.....	166,928,178.96	230,000,000.00
<b>Total, Social Security.....</b>	<b>182,759,178.73</b>	<b>250,000,000.00</b>
<b>VII. Interest on the public debt.....</b>	<b>866,384,330.90</b>	<b>925,000,000.00</b>
<b>VIII. Refunds:</b>		
1. Customs.....	16,549,408.30	16,000,000.00
2. Internal Revenue.....	32,848,860.38	30,000,000.00
<b>Total, refunds.....</b>	<b>49,398,268.68</b>	<b>46,000,000.00</b>
<b>IX. Recovery and Relief:</b>		
1. Agricultural Aid:		
(1) Federal land banks.....	64,181,013.57	55,000,000.00
2. Relief.....	13,174,286.66	2,000,000.00

	Actual fiscal year 1937	Estimate fiscal year 1938
<b>IX. Recovery and Relief - continued:</b>		
3. Public works:		
(1) Administrative expenses, Public Works Administration.....	27,431,347.70	15,000,000.00
(2) Public highways.....	260,908,921.92	100,000,000.00
(3) River and harbor work and flood control.....	94,483,515.42	30,000,000.00
(4) Rural Electrification Administration.....	10,254,231.59	25,000,000.00
(5) Works Progress Administration.....	1,896,446,658.29	1,275,000,000.00
(6) Other public works (national defense, public buildings, etc.)...	349,848,713.72	200,000,000.00
Total, public works.....	2,639,373,388.64	1,645,000,000.00
4. Aid to home-owners:		
(1) Home-loan system.....	20,686,283.66	4,000,000.00
(2) Emergency housing.....	50,734,419.78	35,000,000.00
(3) Federal Housing Administration.....	16,740,080.13	10,000,000.00
(4) Resettlement Administration.....	209,695,567.17	125,000,000.00
Total, Aid to home-owners.....	297,856,350.74	174,000,000.00
5. Miscellaneous:		
(1) Administration for Industrial Recovery.....	4,873.17	-
Total, recovery and relief.....	3,014,589,912.78	1,876,000,000.00
<b>I. Revolving funds (net):</b>		
1. Agricultural aid:		
(1) Commodity Credit Corporation.....	\$ 111,787,757.34	
(2) Farm Credit Administration.....	\$ 17,826,050.18	\$ 10,000,000.00
Total, agricultural aid.....	\$ 129,613,807.52	\$ 10,000,000.00
2. Public works:		
(1) Loans and grants to States, municipalities, etc.....	224,480,428.44	200,000,000.00
(2) Loans to railroads.....	\$ 3,118,619.22	-
Total, public works.....	221,361,809.22	200,000,000.00
3. Miscellaneous:		
(1) Export-Import Bank of Washington.....	\$ 1,452,710.96	-
(2) Reconstruction Finance Corporation (direct loans and expenditures).....	\$ 333,864,455.25	\$ 150,000,000.00
Total, miscellaneous.....	\$ 335,317,166.21	\$ 150,000,000.00
Total, revolving funds.....	\$ 243,569,164.51	40,000,000.00
<b>XI. Transfers to trust accounts, etc.:</b>		
1. Old-age reserve account.....	265,000,000.00	425,000,000.00
2. Railroad retirement account.....	3,985,323.28	138,000,000.00
3. Adjusted service certificate fund.....	556,665,424.68	-
4. Government employees' retirement funds (United States share).....	46,735,300.00	73,255,000.00
Total, transfers to trust accounts, etc.....	872,386,047.96	636,255,000.00
<b>XII. Supplemental items.....</b>		
Total expenditures (excluding debt retirement).....	8,008,187,347.47	7,245,655,000.00
<b>XIII. Debt retirement.....</b>		
Total expenditures.....	103,971,200.00	200,000,000.00
Total expenditures.....	8,105,158,547.47	7,445,655,000.00

\$ Excess of Credits, deduct.

September 16, 1937.

Mr. Morgenthau sent for Oliphant and Magill and told them that the President telephoned him last night and told him that Senator Wheeler is on a fishing expedition and what he is trying to do is to dig into some Railroad Equipment Company for whom Jimmy Roosevelt wrote some insurance. Senator Wheeler is also trying to get something on Joe Guffey.

The President asked H.M.Jr., to "pick and choose" the information that he sends up to Senator Wheeler when he asks for it. He also said that H. M. Jr. should pick somebody with political sense to weed out the information that will be sent up to Senator Wheeler.

H. M. Jr. was terribly shocked and told the men that he had never done anything like this and certainly would not make an exception at this time. When Senator Wheeler asked for information on Railroad Equipment Companies he would get just what he asked for. He made it very clear to both Oliphant and Magill that he would not do what the President asked him to do and that he would tell the President so.

September 16, 1937

9 am

Before the Secretary went over to keep his 9:15 appointment with the President, he called in Mr. Bell and told him he was going to suggest to the President the abolishment of the National Emergency Council. He asked Mr. Bell how much they were spending.

Mr. Bell said they were spending at the rate of about \$70,000 a month now although they had been spending as much as \$100,000 or \$120,000 a month. He said he had been after them and that Gene Leggett had cut it down to \$70,000. That figure, he said, includes about \$12,000 a month for the newspaper clipping bureau run by Miss Blackburn and that he had had her transferred to Leggett and had also had her go to the various Departments who get the service and she had been able to have them detail 10 or 12 clerks for the work, which will further cut the expenses of NEG.

Bell said he had tried for the last year and a half to get the President to abolish the service, but he wouldn't do it until he found a job for Leggett. Bell said he spoke to the President about a month ago. The Budget Bureau has to have more people in the field because the present force cannot go out in the field and make investigations.

Bell said he would like to take over, in some way, the whole NEG and make it part of the Bureau of the Budget. He said the President's response was, "Fine! See what you can do." Bell said he would like FDR's permission to talk to Woodrum and Cannon. Bell added, "Which I did and they thought it sounded very sensible; to go ahead and work out something."

The Secretary interrupted to say, "Each State has a \$10,000 administrator." Bell answered, "I think more like \$6,000. They were cutting down."

HM, Jr then said, "You were so hot for this, Dan." Bell answered, "Yes, I was. If they have 48 administrators, of course the Budget Bureau would not want

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all of them. All I would want would be 9 or 10 people in the field -- key people. I have just had four detailed to me for budget hearings and they are going to start next week to sit in on the hearings."

The Secretary then put the direct question, "You don't want me to have it abolished?" Bell answered, "Of course, I should like to see it abolished, but I don't think he will and I am going to try to make use of it in the Budget. I think they are rendering good service."

HM, Jr: "Dan, you are as bad as the rest of them. Well, it is not important enough for you and I to go against each other." Bell said, "We wouldn't. If you want to say to the President, 'This ought to be abolished', I would go along with you, because I could get other people."

HM, Jr: "I am not convinced and nobody else is. If he would simply give them 60 days and say this is abolished, it would be one less agency and I thought it would have a good effect." Bell agreed, saying, "It would." Continuing, the Secretary said, "But you and I have always worked 1,000% together. Supposing I get it, would you feel badly?" Bell answered, "No." HM, Jr then asked, "Do you mind if I try it?". Bell's answer was, "No, sir, because I would take some of the money and use it in the Bureau."

September 16, 1937

Saw the President at 9:15 a.m. I said, "Do you really want to save some money?" He says, "Yes." He says, "You and I seem to want to save money more than Dan Bell does." So I said, "Well, I had a very interesting conference with Bell just before I came over to see you. I told him that I was going to recommend that you abolish Emergency Council in from 60 to 90 days and Dan said, 'Oh, no. I want to take that over into the Budget Bureau and use those people.' I said, Dan, you are just as bad as the rest of them." So I said, "How about it, Mr. President. It's \$800,000 or \$1,000,000. Why not abolish it? It has served its useful purpose." He said, "All right. Go ahead and do it."

I then talked to the President on a strictly personal basis and suggested to him that he take his battleship and go around to the Coast and get a real rest and come back overland. He said he doubted whether he would have the time, but he would make up his mind the next couple of days. He said, "You know, I still have that hunch on in the international situation," which is to the effect that he is thinking of addressing 55 nations and offering himself as a clearing house for peace.

I told him that I was more than willing to set the example for economy and that yesterday I spoke to Peoples and told him that the \$23,000,000 worth of buildings just announced, the money must not go out of the Treasury until after the first of July, 1938. Peoples said that he could comply with that request, but he would like to buy the sites. The President said, "Why not buy the site, but not take title for at least twelve months so that the occupant has a chance to look around and find a new location and if he has a long time to vacate you ought to be able to buy the sites cheaper."

I said, "If you really want me to save money, just give me enough rope and I will do it. I will set an example for all the Departments in Washington."

The President said, "Instead of designing these post offices in three months, take a year." I said,

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"Don't worry. I can delay spending money just as long as you let me."

He said he would make up his mind tonight when he is going to Hyde Park and if he goes Friday night I am going with him; if he goes Saturday, I will leave Friday afternoon by aeroplane.

GROUP MEETING

September 16, 1937  
11:00 a.m.

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Present: Mr. Taylor  
Mr. Magill  
Mr. Oliphant  
Miss Roche  
Mr. Riefler  
Mr. Haas  
Mr. Gibbons  
Mr. Gaston  
Mr. Thompson  
Dr. Viner  
Mr. Upham  
Mr. Lochhead

H.M.Jr: Magill?

Magill: I've got two or three things here that I would like to speak to you about after this meeting that you sent in to me. One of them, you remember, is this letter you asked to see with respect to exempt corporations - going to send out and get further information from them. As to that Geneva matter I spoke of the other day, I have checked around a number of places and I believe that King is the man to send.

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

Magill: I think that's the solution.

H.M.Jr: O.K.

Magill: That's all I've got.

H.M.Jr: Herman?

Oliphant: I'm ready to discuss with you and Magill that personnel matter.

H.M.Jr: Both want to stay behind?

Oliphant: Yes. And also the Tie Bid case.

H.M.Jr: Pardon me?

Oliphant: The Tie Bid case is in shape now.

H.M.Jr: Well, I don't want to do that this morning. How about this afternoon? Some time this afternoon.

Oliphant: Otherwise, nothing.

H.M.Jr: You stay behind a minute, Miss Roche. I'll give you precedence over these gentlemen.

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The President looked over this agenda very rapidly and seemed perfectly happy about it. I'd hate to give him an examination in it. So I don't know but what we are set.

So I think - Wayne, I don't think I want an Open Market Committee next Wednesday. I think I'd like to keep next week as free as possible. Do you want to make a note to tell them to postpone it from the coming Wednesday to Wednesday a week?

(Gaston comes in)

Taylor: All right.

H.M.Jr: Then do you mind sending me in a memo for my calendar. I don't see what we want to - I think we ought to keep next week as free as possible. Will you let me know, Wayne?

Taylor: I will.

H.M.Jr: So I don't think, Riefler, that there will be anything from now till Monday.

Riefler: I'll go back this afternoon; be here Monday morning.

H.M.Jr: Now, don't fall over backwards, but as soon as this is over I'd like you two gentlemen to begin thinking a little bit about silver. After this is over.

Viner: Did I hear you say you wouldn't need us until Monday?

H.M.Jr: What?

Viner: Did I hear you say you wouldn't need us until Monday?

H.M.Jr: That's right. That doesn't say I'm sending you home.

Viner: Yes it does.

H.M.Jr: Well, I don't - I'll go a step further - are you people invited to that dinner Monday night?

Viner: No.

H.M.Jr: I say then if you get back here Tuesday morning - that makes it worth while to go home.

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Viner: If I can't get to the packing, I can get to the unpacking stage.

H.M.Jr: Well, Friday, Saturday, Monday - you can do a lot of unpacking. How's that?

Taylor: Don't act so disappointed.

H.M.Jr: And on this bill thing, I'm going to watch the rates for a couple Mondays. I think it's just as good, don't you (Riefler) think so?

Riefler: (Nods yes)

Lochhead: Mr. Morgenthau, that purchase they mentioned yesterday - Matteson - of 17 million for a foreign account - I checked up on that. It was a roll-over, except for five hundred thousand. In other words, there were maturities of 16 million, five hundred thousand replaced.

H.M.Jr: What country?

Lochhead: Netherlands had about 10 or 11 million, Canada five million, B.I.S. a million.

H.M.Jr: George?

Haas: I have nothing this morning.

H.M.Jr: How old is Commissioner Woyle?

Gibbons: How is he?

H.M.Jr: How old is he? I didn't say.....

Gibbons: 74 or 76.

H.M.Jr: I think he's 79.

Gibbons: 79?

H.M.Jr: Yes. I wonder when his 80th birthday is.

(To Kieley) Do you want to see in Who's Who Commissioner Woyle - the date of his birth.

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Gibbons: Celebrated his 50th wedding anniversary.

H.M.Jr: Well, I'm afraid he's going to celebrate his 75th wedding anniversary right in the Treasury. It's a bad situation over there.

Gibbons: Oh yes, it is.

H.M.Jr: Wayne, you going to leave about noon?

Taylor: About right after lunch, I think.

H.M.Jr: Have a good time. Got anything on your mind?

Taylor: Just one thing, in connection with this Sir Frederick Phillips; have you made any plans about doing anything for him?

H.M.Jr: No, I wanted to talk to Mallet and find out whether he wants something done. I mean I'm more than pleased to do it if that sort of thing means anything to him. I mean I expect to have him a number of times here for lunch.

Taylor: Well, that was - my suggestion would be that you start off with having him here for lunch, let's say, Wednesday.

H.M.Jr: Any time. I've kept all the week open. Now, if he wants one of these dumb, stiff, formal dinners, he can have one. I mean if that's the kind of thing they like.

Taylor: I think they would check on that fairly....

H.M.Jr: Will you ask Mallet?

Taylor: Yes.

H.M.Jr: Whether he likes that. If he likes that thing, I'd be more than delighted, but if he'd rather go and see Shirley Temple, why,.....

Magill: You'd admire his judgment.

H.M.Jr: Would you find out?

Taylor: (Nods yes)

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Gibbons: I had one thing more. That Collector of Internal Revenue in St. Paul absolutely refuses to resign.

H.M.Jr: I know. Guy Helvering is writing me a letter recommending that we fire him.

Gibbons: Was in to see me yesterday.

H.M.Jr: We're all a fine bunch of tough guys here. Leave it all to papa.

Gibbons: Absolutely refuses. Did you see the letter he wrote you?

H.M.Jr: But you had two months to do it in. Bunch of tough babies.

Gibbons: Yes, but you got my recommendation on him.

H.M.Jr: Yes, but I've got to do it.

Gibbons: You told me that we were through with it and you passed it along.

H.M.Jr: Tough babies.

Kieley: September 17, 1858.

Magill: Next year.

H.M.Jr: That's what I thought - 79. Well, I'm very much worried that if he stays here after 80 it will be a reflection on the President's court policy. What was the date of his birth?

Gibbons: Tomorrow's his birthday.

Lochhead: Tomorrow be his 79th birthday.

H.M.Jr: Get a little publicity in the paper that he's 80 years old and that he started with Woodrow Wilson.

Oliphant: That he's in his 80th year tomorrow.

H.M.Jr: They announce every morning the birthdays.

Roche: They have little columns.

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Gaston: I'll have the boys go around and congratulate him - is he in town?

Gibbons: Oh yes.

Gaston: - on his birthday tomorrow.

H.M.Jr: Nice old boy, but he doesn't deliver.  
Are you (Taylor) all fixed up?

Taylor: (Nods yes)

H.M.Jr: What have ~~you~~ got there?

Taylor: Those are the two duties that I have.

H.M.Jr: What's that?

Taylor: Ransom and Mallet.

H.M.Jr: Oh. I think we can wait until next week on Ransom. There's nothing to talk about.

Taylor: Well, I wanted to call off that meeting for Wednesday.

H.M.Jr: Oh yes. Oh yes. And then tell Ransom what we're doing and as soon as anything happens, why, we'll let him know; and that if and when there is something I'd like to discuss it with him individually at the beginning and then - and certain members of his staff, Goldenweiser and Gardner - those two; limit it to those two.

Riefler: I think we ought to have them available.

H.M.Jr: Will you clear that?

Taylor: (Nods yes)

H.M.Jr: Thompson?

Thompson: Nothing important, sir.

H.M.Jr: You showed that letter to our friend Forster. Does he take a photostat copy?

Thompson: I have photostat copies made and give him one.

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H.M.Jr: Everything else all right?

Thompson: Plenty of routine, but nothing important, sir.

H.M.Jr: Jake?

Viner: (Nods nothing)

H.M.Jr: How's the housing situation?

Viner: Why, it's getting worse.

H.M.Jr: Didn't match after you left me, did you?

Viner: No.

H.M.Jr: Huh?

Viner: No.

H.M.Jr: I'm going to take you on with my Hawaiian coin.

Will you (Upham) have a talk with Taylor before you leave, get any ideas?

Upham: Be glad to, yes.

H.M.Jr: He's going to take a - start at the mouth of the Mississippi and swim up. Might talk to Taylor before he leaves.

Lochhead: Exchange is holding a little quieter than yesterday. I have those figures on the securities purchases you asked for.

H.M.Jr: Yes. This constant reference to the franc slipping I don't think is nice.

Let's see, Herbert, if what I said - how it sounds. let's just see.

(Mrs. Betts comes in with  
ticker clippings)

"Morgenthau announces resignation of Internal Revenue General Counsel and Assistant Counsel as result of policy differences.

"British official invited to Washington by

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Morgenthau. Morgenthau refuses to discuss franc decline and gold price.

"Washington. Secretary of Treasury Morgenthau announced that General Counsel for Bureau of Internal Revenue Morrison Shafroth and Counsel Russell Ryan have resigned effective Saturday as a result of differences over administrative policies. The Secretary declined to comment on just what policies were involved."

Well, here's the English thing: "Secretary Morgenthau announced that he had invited Sir Frederick Phillips, British Under Secretary of Treasury, to Washington to discuss working of the tripartite agreement. Mr. Phillips had no specific objective in coming to Washington, the Secretary said, adding that there will be visits from time to time simply to establish policy. Officials of the Treasuries of members of the tripartite agreement will visit with the Secretary, he said, to exchange views as to the working of the agreements. Undoubtedly officials of the United States Treasury will make similar visits abroad, Mr. Morgenthau stated."

Gaston: Just doesn't name the official that's going.

H.W. Jr: "Asked whether silver policy will be discussed, the Secretary stated that the Treasury has three and a half months to study the silver program, since the limit agreement does not expire until December 31, and that the Treasury intends to study it.

"Discussing the visit of William W. Butterworth, Treasury Attaché at the United States Embassy in London, the Secretary stated that he was appointed to look after interests of the United States in England, as was Merle Cochran assigned to Paris, and both will come to Washington once or twice a year to report and to take up latest Treasury policies.

"Asked about reports that there may be a change in price of gold, Secretary Morgenthau said today that it was too nice a day to discuss this subject.

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A similar reply was made to inquiries as to whether Treasury contemplated any move under the tripartite agreement as a result of the decline in the French franc. Mr. Morgenthau stated that the agreement was in continuous operation and was working from day to day."

So far so good? I'm sorry I didn't put in that Mr. Viner and Mr. Riefler would study the silver policy. Remind me, Herbert, to add that Monday.

This is United Press: "Secretary Morgenthau announced today that Morrison Shafroth, Chief Counsel of the Internal Revenue Bureau, has resigned because of differences over departmental policy. Shafroth's chief assistant, Russell Ryan, also resigned, Morgenthau said. Morgenthau would not disclose the nature of the differences, but denied that he had had any personal disputes with Shafroth. It was understood that Shafroth would resume his law practice in Denver and that Ryan would go back to his law practice in Indianapolis."

Well, I certainly think the boys played square with me.

Oliphant: You didn't call Shafroth?

Gaston: I've talked to Shafroth.

Oliphant: What did he say?

Gaston: He said, "That's fine."

H.M.Jr: "Secretary Morgenthau announced today that he has invited Sir Frederick Phillips, British Under Secretary of the Treasury, to come to Washington for discussions. Morgenthau will meet with Sir Frederick on Monday, he said, adding that the British official's mission has no specific objective." And so forth and so on. That's that.

"London on Phillips visit. London. Enquiries in London led to belief that the visit of Sir Frederick Phillips to the United States Treasury has as its object the establishment of a personal contact, taking advantage of a holiday trip to America. Sir Frederick,

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who is an Under Secretary of the British Treasury, had a long standing arrangement to spend his holiday in Canada for family reasons. It had also been arranged that he should take the opportunity to visit the United States Treasury to have talks with Secretary Morgenthau. It is felt here that there is no question of any negotiations, and no particular subjects for discussion have been defined." So that's that. I'm satisfied.

Everybody happy? All right.

## GROUP MEETING

September 17, 1937  
10:00 a.m.

Present: Mr. Magill  
Mr. Oliphant  
Mr. Gaston  
Mr. Bell  
Mr. Lochhead  
Mr. Upham  
Mr. Thompson  
Mr. Haas

H.M.Jr: You're (Magill) down for 11:30.

Magill: 11:30, yes.

H.M.Jr: You know that Executive Order I gave you. I had a call last night on it. It's all right to go ahead on it.

Magill: It is?

H.M.Jr: Yes.

Magill: I think the Order's all right as an Order.

H.M.Jr: Well, 11:30.

Magill: I've got one or two other little things that I might speak to you about at the same time. I had - you might be interested in this; I had a long talk with L. H. Parker yesterday noon about the tax revision. It looks good.

H.M.Jr: Now, Herman, it's - are you through?

Magill: Yes.

H.M.Jr: I've got to get a lot done. If you (Oliphant) will give me and have ready this morning your recommendations in the order that you want them, I'll take them with me to Hyde Park.

Oliphant: I'll give them to you.

H.M.Jr: What?

Oliphant: Yes, sir.

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- H.M.Jr: And if - I'll say li; well, you're coming in at 11 o'clock with Peoples. If you could stay after that a couple minutes. What? Give them to me in the order of your preference - if you have a chance, before that.
- Oliphant: Yes, we'll visit.
- H.M.Jr: If you (Oliphant and Magill) could visit together. And it's - well, after you give it to me - it's clear in my mind, but I want to play with you. It's clear in my mind, but I'll get yours first. You (Magill) can't read my mind either.
- Magill: Well, I'm going to try.
- H.M.Jr: All right. I'll put mine down and I'll have it on a piece of paper when you come in, with the paper turned upside down.
- Now, what about silver?
- Oliphant: Well, Senator King just called me up and said he had had lots of telegrams.....
- H.M.Jr: Little louder.
- Oliphant: He had lots of telegrams from the West and there was lots of discussions about what was going to happen to silver after the first of the year. And I said, "Well, I'm not handling that; Mr. Taylor's handling that, and I'll tell Mr. Taylor you called." He said, "You might also tell Mr. Taylor that I have told him that when that proclamation expires, London Silver Agreement expires, the President has no more right to buy silver except under Silver Purchase Act than he has to buy apples." Senator Key Pittman made a speech about it.
- H.M.Jr: Well, what does he say?
- Oliphant: He says - Key straddled on it a little bit, but Key says he's inclined to agree that after the first of the year you can't buy any more 77-cent silver, and that you're.....

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Bell: Read him your little "Stein." I think it is very apropos here.

H.M.Jr: You like that, don't you?

Bell: Well, I like it in a situation of this kind.

Oliphant: Well, I call this good news.

H.M.Jr: This is Henry Morgenthau, Junior; it's not Gertrude Stein, but it's in the manner: "Why should the taxpayer tax himself in order to pay farmer to grow less with the result that the taxpayer pays more for his food and clothing?" Want me to do it again, Herbert?

Gaston: No, I think I get the general drift.

H.M.Jr: Huh? Bell likes that.

Bell: I think it fits silver as well as the farmers.

Gaston: How about gold? Does it fit gold?

Bell: Well, it might apply there too.

H.M.Jr: Dan, you want to tell them about what's going to appear Monday about that independent agency?

Bell: Oh, the President signed an Executive Order yesterday abolishing the National Emergency Council, effective December 31.

Gaston: Great loud cheers.

Bell: It will be in the next Federal Register - Monday or Tuesday.

H.M.Jr: It's one of those things to which I point with pride, but afterwards. What? Herbert?

Gaston: No, I haven't anything more.

H.M.Jr: I mean do you click on this?

Gaston: Oh, absolutely. I thought it.....

-4-

H.M.Jr: I don't just know who "Red" Leggett's friends were, but I didn't think he was worth a million dollars a year.

Gaston: They can put him somewhere else.

Bell: He has some friends, apparently, because they want him taken care of. Wouldn't be surprised to have him land some place in the Housing Authority.

H.M.Jr: It means nothing pro or con to me. I mean I'm not a friend, I'm nothing; I'm thinking of the whole picture. If you can get him a job, swell.

Oliphant: Is there one good lawyer in the organization?

Bell: I don't know.

Gaston: I think it's almost wholly a publicity organization.

Bell: Yes. I think Alverson was a good lawyer. He's gone.

H.M.Jr: He was. O.K.?

Gaston: O.K.

H.M.Jr: And I want to say, in this room, as far as I'm concerned this Shafroth thing is a closed book.

Gaston: Yes.

H.M.Jr: And I read last night's New York Telegram, and the rest of them, and all that. I think if we all sit tight, just keep our mouths shut, there will be a few editorials, a few things, and in another day or two it will be forgotten. I think my curbstome opinion not to try to answer is O.K.

Gaston: Yes, I think so. I couldn't think of any answer that would be any good.

H.M.Jr: You (Magill) satisfied?

Magill: Oh, absolutely.

H.M.Jr: You (Gaston and Oliphant) satisfied?

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Gaston: (Nods yes)

Oliphant: (Nods yes)

H.M.Jr: George?

Haas: I have nothing this morning.

H.M.Jr: I sent for Harry White. I want to make arrangements to have him available at Poughkeepsie so I can do a little home work.

Haas: I didn't hear.

H.M.Jr: I'm going to have Harry White come up Saturday, be available at Poughkeepsie, so he can come down for a couple hours at a time. I don't feel yet - I mean if you asked me how much gold South Africa produces, I couldn't say, and I want.....

Haas: I think that's a very good idea. I talked to him this morning. He'll be ready for you.

H.M.Jr: I mean I haven't got that stuff. I'm rusty on it.

Magill: How long is Sir Frederick going to be here?

H.M.Jr: A week. You want to talk to him on tax business?

Magill: I'd like to.

H.M.Jr: Well, we've got a tremendous program, but I'll see to that. But I don't want the man to feel that we're - that everything has to be settled in a week or that anything has to be settled. And after my talk with Mr. Hull this morning - he called on me in my apartment - I've decided that I'm going to take him over there to Mr. Hull Wednesday at 11 o'clock, and that will be notice to the world that the State Department and the Treasury are one. And Mr. Hull can do a better job than anybody else can on this trade treaty. Mr. Hull wanted to come here and do it quietly. I said, "No." I think it's a very good effect to go over there and let the newspapermen go over.

Gaston: I think it's right, yes.

- H.M.Jr: If done secretly it would have a bad effect. Let Mr. Hull do it.
- Gaston: Be all right if it was here, but it should be done with the Secretary of State.
- H.M.Jr: He's one member of the Cabinet who is over-generous about coming; and therefore, I am over-generous about being courteous.
- Gaston: That's right; it's according to form.
- H.M.Jr: Mr. Cummings will never come here.
- Gaston: Uh-huh.
- H.M.Jr: Incidentally, I haven't got the invitation, but I wish you'd follow this up, Herbert; I have an invitation, according to the newspaper, for this housing thing, I think, on Monday morning, and I may not be here, and somebody ought to go. George, who's your man that you....
- Haas: Lindau. Wesley Lindau.
- H.M.Jr: Yes.
- Haas: He's been working with Mac on that.
- H.M.Jr: Why don't you go over there with him?
- Haas: O.K.
- H.M.Jr: Huh?
- Haas: All right.
- Lochhead: When Viner saw the notice that there was going to be a meeting on housing, he seemed to be very much interested, said he might want to get in touch with you before you went over. Talked to Riefler. I just mention that to George in case you want....
- H.M.Jr: This is a publicity thing. Why don't you and Lindau go? I don't know anybody else to send. Doesn't sound very complimentary, but I mean.....

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Haas: It's all right.

H.M.Jr: What?

Haas: I'm glad to fit in where I can be useful.

(White comes in)

H.M.Jr: Harry, I will want you at the Nelson House, Poughkeepsie, available from Sunday noon on.

White: (Nods yes)

H.M.Jr: So you can arrange how you want to go up to suit yourself. But from - I mean I'll put it - I mean the earliest that I'd want to see you would be Sunday at four. That would be the earliest.

White: All right.

H.M.Jr: I mean the earliest I'd want to see you, and I - what I want to see you about is in connection with Sir Frederick Phillips' visit. So will you be available at the Nelson House from Sunday at three on?

White: At three. O.K.

H.M.Jr: And I'll leave it to you how to get there, but - I mean I can send for you and get you back.

White: All right.

H.M.Jr: O.K.?

White: Yes, fine.

(White leaves)

H.M.Jr: Thompson?

Thompson: I have nothing.

H.M.Jr: Nothing to sign?

Thompson: No, sir.

H.M.Jr: Dan?

Bell: I haven't anything now. I'd like to clean up some odds and ends before I go this afternoon.

H.M.Jr: With me?

Bell: Yes

H.M.Jr: Boy! I put you down for half an hour at 10:30.

Bell: Well, that's Fechner.

H.M.Jr: Well, any time left over there.

Bell: Well, there's some things that I haven't gotten together.

H.M.Jr: Well, all right. Will you remind me again?

Bell: I'd rather have this afternoon if you could.

H.M.Jr: Well, I hope - depending on the weather and everything, I hope to leave at two. Depending on the weather.

Bell: Well, I think I'd like to have a little time after this to get together some stuff on the budget maybe that I want to talk to you about.

H.M.Jr: When would you be ready?

Bell: Probably 12:30.

H.M.Jr: What?

Bell: 12:30. Only take a few minutes.

H.M.Jr: 12:30. Sold! What?

Bell: Fine.

H.M.Jr: Cy?

Upham: (Nods nothing)

H.M.Jr: Are you ready?

Upham: Yes, sir.

Lochhead: You asked last evening about the holdings of Government obligations, short-term Governments, by foreigners in this market.

H.M.Jr: Yes.

Lochhead: There are 245 million dollars worth of short-term Governments held by foreigners.

H.M.Jr: How much?

Lochhead: 245 million, of which about 150 million is held by central banks with the Federal Reserve. They....

H.M.Jr: Better give it to me Monday. I'm not absorbing it.

Lochhead: O.K.

H.M.Jr: Why do you (Haas) send these things (charts) in?

Haas: I thought it was a good picture.

H.M.Jr: I just wondered why. I mean I'm no longer interested about market.

Haas: I thought that would make you feel good, to look at those curves.

H.M.Jr: Herbert, isn't there a single newspaper in the whole United States which will admit that the Federal Reserve and the Treasury did a good job?

Gaston: I think that they rather did admit it - the story in the Herald-Tribune yesterday morning.

H.M.Jr: All right.

## MEMORANDUM OF THE DAY'S ACTIVITIES

September 16, 1937

To: The Secretary  
From: Mr. Magill

1. Tax revision, 1938

I spent nearly two hours discussing the major questions of tax revision with Mr. L. H. Parker. His thinking is along lines similar to my own except in the case of capital gains where he desires to make the rates lower than seemed to me desirable. He said, among other things, that he thought the tax bill would be very popular in Congress if \$50,000,000 of excises could be eliminated. He thinks it would be justifiable to lower the married person's exemption from \$2500 to \$2000. Finally, he is much interested in plans for inducing the states to repeal their present income and estate taxes, receiving instead a portion of the Federal revenue obtained from such sources.

I have asked Mr. Kent to work upon a plan whereby the states would give us authority to tax the interest on state and municipal bonds and the salaries of state and local officers in exchange for distribution to them of part of the proceeds of the income tax.

2. Fiscal Committee, League of Nations

Commissioner Helvering informed me that he thought Mr. King was the best man to send to the meeting at Geneva; and that it would be well to send a man if we really planned to attempt the negotiation of treaties with foreign countries for the exchange of tax information. Following our conference this morning I asked Mr. King to prepare a memorandum of items to be undertaken at Geneva and to arrange his affairs so that he could go to the meeting.

*RM*

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: September 16, 1 p.m.

NO.: 1298

FROM COCHRAN - RUSH

My informant said that at ten fifteen the demand for sterling was strong when bank opened and he began providing it at 147. My informant also said that control yielded approximately one million pounds yesterday merely graduating the franc's decline.

I was informed by market contacts at twelve o'clock that although control managed for a while to push rate down to 145 1/2 it had again returned to 147 where control was still providing pounds.

This morning AGENCE ECONOMIQUE carries a long story on conferences among experts at United States Treasury with visits of Cochran and Butterworth. The presentation of a British scheme for renewing war debt payments on a modified scale is attributed to Butterworth. There is also reported the possible early visit of Undersecretary Phillips of British Treasury for Anglo-American monetary conversations.

BULLITT

EA:DJW

FILE COPY,  
A. LOCHHEAD

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris  
NO.: 1301  
DATE: September 18, 1937, 6 p.m.

STRICTLY CONFIDENTIAL

Today I had a brief talk with Bonnet with reference to the financial situation. He told me that it was his belief and always had been his belief that approximately 145 to the pound was the true value of the franc. The present fall of the franc was not, therefore, disturbing to him and it was his belief that it would indefinitely fluctuate in the neighborhood of 145.

Bonnet said, with reference to the reasons for the fall of the franc, that it was his belief that because of the international situation large capitalists, speculators and banks had sold large quantities of francs recently. He said that a similar effect had been produced on small capitalists, both in Paris and the provinces, by the internal situation. Bonnet said that the bombings in the Rue de Pressbourg and the Rue de Boissiere had produced a feeling of temporary dismay, which had reacted unfavorably on the franc, but these bombings in the long run would produce a tendency of public opinion in France to turn toward the right parties.

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FILE COPY,  
A. LOCHHEAD

-3-

I inquired of Bonnet as to what effect he thought the cantonal elections would have on the franc; I pointed out that it was almost certain that the Radical Socialists would lose and that a number of offices would be gained by the Communists. Bonnet's reply was that it was his feeling that the manner in which the election would be presented to French public opinion in advance would largely determine the effect on the franc. The event need not prove disastrous or even unfavorable if it could be realized in advance by everyone in France that it was certain that the Radical Socialists would lose a number of seats and that the Communists would gain a considerable number of seats.

Bonnet informed me that he would announce his ordinary budget for the coming year on next Tuesday. Not only would a balance be shown but there would be a surplus of 4,000,000,000 francs to be applied to amortization of the public debt. It was his belief that a decided favorable effect on the future exchange rate of the franc would result.

I discussed the coming cantonal elections in this connection yesterday with Blum, who expressed the opinion that the Socialists might gain a few posts, that the Radical Socialists would lose considerably, and that the Communists would gain considerably. The proposed fusion of the Communist

-3-

unist and Socialist parties which has been under discussion for many months, he said, is now in suspense. He said that fusion would certainly not take place before the cantonal elections and he did not believe that there was any possibility that it would take place this fall.

BULLITT

RECEIVED  
SEP 17 1937  
TREASURY DEPARTMENT  
Office of the Secretary  
Domestic Relations in the Secretary

EA; EB

PS

CODAT

Paris

Dated September 16, 1937

Rec'd 7:40 p.m.

Secretary of State,  
Washington.

1300, September 16, 5 p.m. (SECTION TWO)

AGENCE ECONOMIQUE this morning carried signed statement by Belgian Finance Minister De Man of which following is translation.

"I am told that there are some people who are concerned over the repercussions of the decline of the French franc upon Belgian economy. They are wrong.

Evidently any monetary uneasiness is regrettable in itself if only because of the element of insecurity that it introduces into commercial relations. But in the particular case of France and Belgium at the present moment no serious disturbance is to be feared in Belgium. The movements of the French franc at about par cannot constitute a serious danger for our commercial relations.

Moreover, it must be remarked that in France the movement of prices has followed exchange movements in a much more rapid and complete manner than in our own country. This again reduces the effect of the variations of the franc on our commercial relations.

As for the direct repercussion of French franc movements

ments

FS 2-No. 1300, September 16, 5 p.m. from Paris  
(SECTION TWO)

ments on the value of our money, it is nil. Those who express fears concerning the stability of the Belgian franc seem to ignore everything that has occurred in our country during these last years. It has been a long time since the Belgian franc has been 'tied' to the French franc in any manner whatsoever; and it is only regrettable that there are still people who ignore it even after so many years.

What counts in such a matter is the actual fact and not a backward state of mind. The fact which remains actual--the only decisive one--is that since March 1935 the Belgian franc has found its real parity with respect to the world market. The Belgian franc is protected against any surprise because its future is bound, not with that of the French franc, but to our interior budgetary equilibrium, to the sound proportion between our gold reserves and the volume of our circulation and finally to the 'real parity' on the world market, with respect to essential merchandise that we import and that we export.

Those who will go to the trouble of thinking over these realities can themselves draw the conclusions without there being any necessity of an official declaration relative to a problem that is not even raised."

END OF MESSAGE.

SMS:RGC

BULLITT

ML

CODAT

Paris

Dated Sept. 17, 1937

Rec'd 8:45 a. m.

Secretary of State

Washington

RUSH

1306, September 17, noon.

FROM COCHRAN.

French control began giving sterling at one hundred forty six point ninety when bank opened this morning. Rate has somewhat improved during the forenoon but continued intervention has been necessary. Yesterday the control yielded one hundred ninety million francs of foreign exchange.

My informant told me that there was absolutely no truth in press report yesterday that Bank of France officials had made quick visit to London. He told me in strict confidence, however, that Cobbold of Bank of England is due here Monday morning.

AGENCE ECONOMIQUE carries full column New York story on American Treasury's plan for conference with Phillips and on sympathetic American attitude toward France.

BULLITT

KLP

HJD

CODAT

Paris

Dated September 17, 1937.

Rec'd. 2:50 p. m.

Secretary of State,  
Washington.

1307, September 17, 4 p. m.

FROM COCHRAN.

Fair turnover on small lots of sterling. Technical reaction which is sooner or later expected from oversold position has not yet set in. For a while the market seemed to improve on press report from London that the French control would endeavor to bring the rate to one hundred forty five and hold it there. My usual market contacts think the franc is far from settled and that it cannot be held very long at even one hundred fifty. French control still intervening in forward market. Feature of today's trading is weakness of belga. Forward discount two days ago on belga was five while today it has passed fourteen and still unsaleable. In spite of de Lens' statement quoted yesterday market evidently believes belga can not stand much more depreciation in the franc.

Paris press continues to stress possibility of London bankers renewing in December their forty million pound credit

VH 2-No. 1307, September 17, 4 p.m., from Paris.

credit and is happy to quote financial news opinion that if the British bankers should not desire to prolong this profitable transaction, Dutch bankers would be glad to take over at least a part of the credit. Knowing how Trip feels about the French situation I seriously doubt France obtaining any assistance on his market.

European financial press continues play up Washington meetings. French writers and observers are inclined to emphasize presumed interest of Americans and British in seeing political difficulties avoided in France and consequently to expect assistance for France as a result of Anglo-American conference.

BULLITT

KLS

RECEIVED

SEP 17 1945  
TREASURY DEPARTMENT  
U.S. DEPARTMENT OF THE TREASURY

RE ECONOMY IN C.C.C.

September 17, 1937  
10:30 a.m.

Present: Mr. Bell  
Mr. Fechner, Director of C.C.C.

H.M.Jr: Well, the finances for the balance of this fiscal year - Mr. Bell talked about different conversations he had with you, and I just wondered what we could do for the rest of eight and a half months; if, from a financial standpoint... Do you (Bell) want to.....

Bell: Yes. We're trying to find ways and means of eliminating this deficit, some four or five hundred million dollars, for the fiscal year 1938. And C.C.C., of course, has about 350 million dollars to spend, plus whatever carry-over they had last year - about 400 million, the total. And we'd just like to know what could be done to cut down on that expenditure, economize; maybe, if necessary, reduce the number of camps, if that isn't going to....

Fechner: Well, I didn't understand that we had 350 or 400 million dollars. We have definitely turned back 35 million.

Bell: Well, I mean appropriated there was 350 million.

Fechner: That's right.

Bell: We have 35 million dollars in reserve.

Fechner: And we have no intention of asking for any of that. We are making our plans on the basis of getting along on the 315 million. And if we had any carry-over, Dan, I don't know anything about it.

Bell: Well, that was just your unliquidated obligations.

Fechner: Yes, for last year.

Bell: You'll have almost an equivalent amount, probably, carried over next year.

Fechner: Yes, sir; yes, sir.

-2-

Bell: 1939.

H.M.Jr: Well, Mr. Fechner, this was the thing, as I get it. I mean I want to get this thing in my own head, if I can.

Fechner: Yes, sir.

H.M.Jr: How many camps are you down to now?

Fechner: At the present time we have 1851, and we're closing 247 at the end of this month; and we'll close the remainder to bring it down to 1500 at the end of December.

H.M.Jr: Now, you bring it down to 1500.

Fechner: Yes, sir.

H.M.Jr: Now, how many people will that - that's the end of December?

Fechner: Yes, sir; beginning January 1 we plan on having 1500 camps in operation.

H.M.Jr: Now, how many boys will that be?

Fechner: An authorized enrollment of 300,000, which we expect to be able to get; that's what the law authorizes.

H.M.Jr: Yes. As a maximum?

Fechner: Yes, sir.

H.M.Jr: Well now, that means - that's 200 boys to a camp?

Fechner: Yes, sir.

H.M.Jr: Well, am I correct that all the rules are off now about taking the boys from relief families?

Fechner: Oh no. But we are not confined exclusively to boys from families receiving public welfare aid. We are permitted to enroll boys who are unemployed and in need of employment - that's the exact wording of the legislation - and whose families are earning below a reasonable standard for their maintenance.

-3-

- Bell: There's just been a release of some of the strict requirements.
- H.M.Jr: Well, the reason is that the boys aren't available - isn't that the answer? - to fill those requirements.
- Bell: Strictly from relief rolls.
- Fechner: Strictly from relief. Yes, that's correct. But then, Congress, Mr. Secretary - when the new legislation was under consideration before the Senate and House Committees, both Committees very definitely expressed opposition to retaining "relief," but we had the word "relief" written in the original draft of the legislation, if Mr. Bell will recall, and both the Senate and House Committees eliminated the word "relief" and wouldn't permit that word to be included in the legislation. They just said "unemployed" and "in need of employment."
- H.M.Jr: Well now, is it going to be difficult or easy to close 351 camps?
- Fechner: Every Congressman and every Senator and every Chamber of Commerce and every local organization is just raising hell about every one of them, but that's been the story for the last 18 months, since the reduction program started. Of course, we're just standing pat and telling them that that's all the money we've got and we've got to close them.
- H.M.Jr: That's your answer?
- Fechner: Yes, sir. I think you must know, Mr. Secretary, that these darn camps are just about the most popular thing I know that the Government is doing.
- H.M.Jr: You have done a beautiful job. Everybody's been delighted with it. You've done a magnificent job.
- Bell: Are you still going to require that they send the money home?
- Fechner: Yes, sir. Or in the case of orphans or those without dependents, it will be impounded or given to the Chief of Finance to hold until the boy is discharged.

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H.M.Jr: Well, Dan, how much money has he got now to work with?

Bell: This year he had an appropriation of 350 million dollars, and we have put in reserve - Mr. Fechner's agreed to it - 35 million dollars, or the ten percent. Now, his expenditures at the present time are running about 32 million dollars a month. That's pretty high. Much of that is due to liquidation of large obligations incurred prior to June 30. See, he was on a 350,000 base prior to that time and they had 400 million dollars last year to spend. I take it those expenditures ought to begin to drop off now.

Fechner: I think they are; I'm sure they are.

Bell: You've spent 16 million dollars the first half of this month, and I was hoping that this would go down to around - somewhere around 22 million dollars a month.

Fechner: Well, I don't know what the expenditures are for, Dan. I think, as you say, that probably much of the money that's been expended in July and August was for obligations that were incurred in the last fiscal year.

Bell: I expected that, but I felt certainly at the end of August and the first of September we'd see a substantial decline in those expenditures. Is the War Department buying a lot of equipment of any kind - trucks or....

Fechner: Not a large amount. We have authorized a small amount - not important. Of course they have placed contracts for about 16 million dollars worth of clothing, shoes,....

Bell: That's for next enlistment.

Fechner: Yes, sir.

Bell: That hasn't gone out yet in expenditures; won't go out until January.

H.M.Jr: When is your next enlistment?

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Fechner: October 1.

Bell: October 1.

H.M.Jr: Is that over now?

Fechner: Oh yes, every quarter the enrollment is brought up to the authorized maximum.

Bell: You have at the present time about what?

Fechner: 270 thousand boys.

Bell: You don't have your 300,000.

Fechner: No; I don't think we've got 270,000.

Bell: Haven't you?

Fechner: No. We failed to get the full enrollment July 1, the full 300,000; we only got about 270,000.

Bell: And a lot of those have gone.

Fechner: A lot of those have gone. See, there is a great deal of employment in the summer - resorts and farms and things like that - so we failed to get it. But the Department of Labor assures me that they can get the full 300,000 for the October enrollment. Boys stick during the winter.

H.M.Jr: Well then, between October 1 and January 1, you've got to drop a hundred thousand.

Fechner: No, the vacancies are there now and we're just filling them.

Bell: See, these boys were enlisted on July 1 for six months.

Fechner: Yes, sir.

Bell: Now the only thing they do on October 1 is fill the vacancies of those that have dropped out. I believe you lose - how many, nine thousand a month?

Fechner: Well, in June, which is the last month I recollect, we lost 13,000. And then, you see, the new legislation

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that will become effective October 1, reducing the age limit from 28 to 23, is going to force out a very large number of boys. That's the reason a large replacement will be necessary.

- H.M.Jr: I think the thing to do is - if he's got this enrollment, it's under way, let's wait to see what he gets after October 1 and talk to him then; especially if he is planning to drop 350 camps.
- Bell: That will be quite a jolt right now.
- H.M.Jr: Yes. Well, those 350 - you're closing 247 now?
- Fechner: Yes, sir.
- H.M.Jr: So - and another hundred....
- Fechner: Another 104 will be closed at the end of December.
- H.M.Jr: I mean there's no sense of making any more pressure on him until after the first of October; and I'd like very much to have another talk after the first of October and see where this thing stands.
- Bell: You will probably know when, the middle of October?
- Fechner: Well, the enrollment covers October 1 to 20, and we get the report about the 26th.
- Bell: It will be - at the end of October he'll know what the result will be on this October 1 enrollment.
- H.M.Jr: You get it on the 26th, about the 26th. (To reporter) Make a note - October 27 or 28, ask Mr. Bell if he will arrange for Mr. Fechner to come over. Huh? And then you would - that wouldn't be too late - you wouldn't have already made your plans for the first of January?
- Fechner: Oh no, the January plans won't be made until about the 10th of December.
- H.M.Jr: All right, then.
- Fechner: Except for the losing of that additional number of camps.

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- H.M.Jr: Then I think the end of October would be the time to take it up.
- Bell: Yes, that's right.
- You don't feel that having your enlistments twice a year would be economical?
- Fechner: No, it wouldn't be, Dan. And the President talked to me some time ago and I talked to the technical services about it. We are losing such a large number of men...
- Bell: Well, that's the reason.
- Fechner: But when a camp goes down, unless you're going to close the camp and discharge the rest of the camp you have to keep practically the same overhead. We only have two reserve officers in a camp, and you can't run a camp with less than two, because we've got to have one on duty all the time, and you can't require a man to stay there 24 hours a day, 30 days a month. And the camp has to have a medical officer whether there's 200 or a hundred men. So that in the overhead you don't save anything when the enrollment drops down; but the efficiency of the camp is just lowered terribly.
- Bell: You don't feel that you could get greater economy and efficiency if you had more than 200 in a camp.
- Fechner: No, I don't think so.
- Bell: It seems to me your overhead is very high. You have one supervisor to eight boys and you are now attempting to put it down to one to six.
- Fechner: Trying to.....
- Bell: I should think....
- Fechner: No, oh no - one supervisor to 13. It was one to eight. It was one to six. But we're reducing it....
- Bell: One to thirteen now?

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- Fechner: ...with the objective by the end of December of one to thirteen in the technical services and one to ten in the War Department.
- H.M.Jr: I think that's about all.
- Bell: Have you thought any more about reducing the \$30 to \$21?
- Fechner: The President refused to approve that. We submitted a definite plan to him.
- H.M.Jr: He didn't approve that, huh?
- Fechner: After writing me that that's what he wanted - of course, this is off the record - .....
- H.M.Jr: This doesn't go anywhere; there's just one copy in my file.
- Fechner: ....- but just among us, the President sent me a memorandum to submit a plan to reduce the pay to \$21, and I did, and sent it over to him, and he sent not a memorandum, but sent me a full page letter saying that he didn't think it would be desirable, and directed that the \$30 be continued.
- Bell: (Laughs)
- Fechner: I got quite a kick out of it.
- Bell: I get quite a kick out of it because he's always led me to believe that he wanted it reduced. I'd like to have a copy of that letter if I may. I won't make any more recommendations.
- H.M.Jr: I see where the thing is, and along the 26th or 28th of October I'd like to have another talk with you. Thank you very much for coming over.
- Bell: We've got to balance the budget. Glad to have seen you.

PROPOSED TREASURY BILL PROGRAM

(In millions of dollars)

252

	Present Maturities		Proposed new issues				Total Outstanding
	Regular	Special	Tax Bills		Ninety-Day bills		
			Amount	Maturity	Amount	Maturity	
<b>1937</b>							2,400
October 6	50		50	Mar. 16			
13	50		50	16			
20	50		50	17			
27	50		50	17			
November 3	50		50	18			
10	50		50	18			
17	50		50	19			
24	50		50	19			
December 1	50				50	Mar. 2	
8	50				50	9	
15	50				50	16	
16		100					
17		100					
18		100					
20		100					
21		50					
		450	400				1,950
22	50				50	23	
29	50				50	30	
<b>1938</b>							
January 5	50		50	June 16	50	Apr. 6	
12	50		50	16	50	13	
19	50		50	17	50	20	
26	50		50	17	50	27	
February 2	50		50	18	50	May 4	
9	50		50	18	50	11	
16	50				50	18	
23	50				50	25	
			New funds 300				2,200
March 2	50				100	July 1	
9	50				100	8	
16	50				100	15	
23	50				100	22	
30	50				100	29	
							1,950
April 6	50		50	Sept 16	100	July 6	
13	50		50	14	100	13	
20	50		50	17	100	20	
27	50		50	17	100	27	
May 4	50		50	18	100	Aug. 3	
11	50		50	18	100	10	
18	50				100	17	
25	50				100	24	
			New funds 300				2,150
June 1	50				150	Sept. 5	
8	50				150	7	
15	50				150	14	
22	50				150	21	
29	50				150	28	
	1,950	450					1,800
July 6			50	Dec. 16	100	Oct. 5	
13			50	16	100	12	
20			50	17	100	19	
27			50	17	100	26	
Aug. 3			50	18	100	Nov. 2	
10			50	18	100	9	
17					100	16	
24					100	23	
31					150	30	
			New funds 300				2,150
September 7					150	Dec. 7	
14					150	14	
21					150	21	
28					150	28	
	1,950	450	300		1,550		1,850

September 17, 1937.

Mr. Hull visited me this morning and gave me his philosophy on the Trade Treaty and I agreed with him that we must work together and that at this time our gold buying and silver buying could be used as a lever to bring Great Britain into line.

The first thing he said to me was that the President must do something about Black. He just cannot let it ride. He said the Supreme Court and the sitdown strikes are bothering the people most. I sounded him out to see whether he was behind the idea that the President has that he, the President, wants to send a message to the 55 nations and offer his services as a clearing house. Cordell is against it. I said that I did not feel that there was one chance in 50 of the President being successful and that the President at this time could not risk another failure. I told Cordell a little bit about what we were trying to do about the budget and he said, "yes, that is the third thing that the people are interested in".

After I got back to the office and had time to think over the interview it seems to me that at this time the President should do something to regain the confidence of the backbone of America, particularly the middle class in the cities and I do not know of anything that he can do where he would be assured of success in advance which would help him more to regain prestige at this time than if he would demonstrate to this country that he does mean to make a real effort to balance the budget.

\* \* \* \* \*

I find that Bell at this time has an absolute defeatist attitude and I think it is most important that he get away and get back his sense of values.

FS

CODAT

Paris

Dated September 18, 1937

Rec'd 9:03 a.m.

Secretary of State,  
Washington.

1310, September 18, 1 p.m.

FROM COCHRAN.

My informant said that franc closed slightly firmer here last night and that no intervention was required in New York in the evening. Nevertheless the fund lost one hundred seventy five million francs of foreign exchange yesterday.

From banking sources in Zurich I learn that Bachmann, disturbed over renewal of hot money influx into Switzerland, asked private bankers to cooperate toward checking the movement but has so far found no effective measures.

CSB

BULLITT

RECEIVED  
SEP 19  
TREASURY DEPT  
WASHINGTON, D.C.

LONDON

Dated September 18 1937

Rec'd 12:30 p.m.

Secretary of State,

Washington, D.C.

597, September 18, 1 p.m.

FOR TREASURY

"The falling franc" in today's ECONOMIST is quoted as follows:

"The immediate problem could be solved if a return flow of French capital could be stimulated, or even if the outflow could be stemmed. In the last analysis, that is a political problem which French politicians alone can solve. Either the capitalist must be made to feel that he is welcome in France or the unpleasant consequences of his departure will have to be endured. That may seem to many to be a bitter alternative; but its bitterness does not diminish its ineluctability." ..

The TIMES city editor commenting today on weakness of Belgian and Swiss currencies says "This weakness however is chiefly psychological--fear of the possible repercussion of the depreciated French franc--for their intrinsic position is strong."

Extracts of comments on the dollar exchange are quoted from today's STATIST. "Movements in the dollar have as usual tended to approximate inversely to those

of the

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From London, #507.

of the franc, by far the greater portion of the transfers from Paris seeking refuge in New York. after appreciating to 4.94½ at one time in sympathy with the first fall in the franc, the dollar relapsed in terms of sterling to 4.95 5/8, partly on account of the temporary rally in the French exchange, and partly on account of outright selling of the American currency following the announcement that the Federal Reserve Board intended to 'desterilize' three hundred million dollars of the inactive gold fund. While failing to prevent further waves of selling on Wall Street, this was interpreted in financial circles as a mildly inflationary measure, and while its immediate object is the support of Roosevelt's easy money policy through the development of open market purchases of government bonds, its longer-term effects may be of far-reaching importance."

In some quarters the latest American move to desterilize gold is considered a bull point for the maintenance of the price of the metal, in the sense that the more gold is allowed to exercise its normal effect upon the credit structure the less are the authorities on the other side likely to tamper with the buying price of \$35 per ounce."

With regard to the week's market summaries, extracts are quoted as follows:

From the ECONOMIST, "The London Stock Exchange has experienced its worst week for many months. Internal politics have not provided the most depressing factor--

it is

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From London #597.

it is a long time since the Stock Exchange had an international agreement to discount. But the preliminaries of the Nyon Conference have left a transatlantic tale of destruction. Wall Street's worries were renewed at first, and as soon as Wall Street found its own level, London began to sell internationals and domestic securities on a fair scale. \*\*\* The market outlook remains extremely uncertain, with only moderate support for the funds to relieve the general situation."

From the STATIST. "This week has seen the closing stages of the end September account. Up to the present the expected Autumn revival has not materialized, and market activity is at a lower ebb than it has been in the past five years. There is evidently an abundance of money still available for investment; but of the British and American Treasuries to exchange views on subjects of common interest, but there is no foundation for the suggestion that the conversation will take place in pursuit of a programme. The discussions will have no particular objective; they will consist of a friendly exchange of views, even allowing for the pressure of this, is there little incentive to invest."

The city editor of today's TIMES comments on the Washington visit of Sir Frederick Phillips as follows:

"It is obviously desirable that every opportunity should be

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From London #597.

should be taken by reexamining, the opportunity for which will no doubt be as welcome to one side as to the other."

JOHNSON

RGC

RECEIVED  
FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE  
WASHINGTON, D. C. 20535