

DIARY

Book 90

September 26 - September 30, 1937

Appointments and Resignations

Collector of Internal Revenue, Minneapolis:

HMJr will not accept Arthur Reynolds, recommended by Farley -  
9/28/37.....

XC 85

- B -

Bids, Collusive or Identical

See Purchasing, Government

Black, Hugo (Justice, Supreme Court)

HMJr tells Gibbons of his pleasure in the way landing was  
handled - 9/30/37.....

186

Budget

Plans for savings in departments discussed briefly by HMJr  
at 9:30 meeting - 9/27/37.....

6

"Economy Plans" conference; present: HMJr, Oliphant, Gaston,  
Haas, Bartelt; Bailey and Lawton, of Budget - 9/27/37.....

33

a) Two problems to be discussed: (1) revolving fund; and  
(2) stretching public works funds over eighteen months

b) Telephone conversation between Bartelt and Mulligan  
(Treasurer, Reconstruction Finance Corporation)

65

HMJr considering recommendation that Works Progress Administration  
be turned over to Reconstruction Finance Corporation for  
liquidation - 9/28/37.....

109

Jones and HMJr confer concerning Reconstruction Finance

Corporation budget for 1938 - 9/28/37.....

111

Federal Highway Act of 1921, as amended; Oliphant opinion as to  
whether Secretary of Agriculture must obligate Federal  
Government to pay out future money which has not, at the time  
action is taken, been appropriated by Congress - 9/28/37.....

120

Public Works Administration and Reconstruction Finance

Corporation accounting and the difficulties of making it  
agree discussed by HMJr at 9:30 meeting - 9/29/37.....

139

Farm Credit Administration: Bell memorandum on proposed

financing for November 1st - 9/29/37.....

172

a) HMJr talks to Myers - 9/30/37.....

176

Ickes favorable to economy move - so HMJr tells 9:30 group -  
9/30/37.....

180

- E -

Excess Reserves

HMJr suggests getting in touch with Federal Reserve Board when  
calls are made on Mondays and Thursdays of next few weeks -

9/28/37.....

110

Farm Credit Administration

See Budget

Federal Highway Act

See Budget

Financing, Government

"The short dated debt": Lochhead-Harris memorandum -

9/28/37..... XC 127

Burgess-HWJr conversation concerning retirement of \$500 million

to \$1 billion of Government debts during this fiscal year -

9/28/37..... 129

Open Market Committee meets with Treasury - 9/29/37..... 147

Gilbert (S. Parker) asked to advise with HWJr concerning next

financing - 9/30/37..... 195

Rentschler consulted by HWJr concerning future financing -

9/30/37..... 210

Gilbert, S. Parker

See Financing, Government

Gold

Japan has stopped selling gold; none received since

September 9th - 9/28/37..... 84

Japan

See Gold

Morgenthau, Henry, Senior

See "Whirligig"

Open Market Committee

Purchasing, Government

Tire bids discussed by HWJr and Collins (Procurement Division) -

9/28/37..... 95

a) HWJr thanks Leon Henderson for his assistance in

this matter - 9/28/37..... 97

Reconstruction Finance Corporation  
See Budget  
Reynolds, Arthur  
See Appointments and Resignations

Social Security		
Reserves discussed by HMJr, Altmeyer, and Haas - 9/30/37.....	XC	199
a) Copy of Altmeyer's memorandum to FDR, asking for conference to discuss proposed amendments to Social Security Act, attached.....		205
Stabilization		
France:		
Cochran reports that "French control has had a bad day" - 9/27/37.....		70
HMJr discusses situation with Cochran - 9/28/37.....		99
Bonnet letter to Bank of France, asking why his policies have not caused immediate improvement in French monetary situation, reported on by Cochran - 9/29/37.....		103
Cochran reports further on yield by French control of approximately E4 million of foreign exchange - 9/30/37....		221

Taxation		
Magill memorandum concerning conference with Vinson in re revenue program for 1938 - 9/28/37.....		107
a) HMJr discusses ideas with Magill - 9/30/37.....		180
Tax on capital gains and the undistributed profits tax discussed by Magill, Congressman Celler (New York), Morris Tremaine, and L. H. Parker (Joint Committee) - 9/30/37.....		208

"Whirligig"		
HMJr consults Waldo about statements concerning him (HMJr) written by James McMullen - 9/27/37.....		24
a) HMSr reported urging son to resign as Secretary of the Treasury		
Works Progress Administration		
See Budget		

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 27, 1947.

TO COMPTONENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

FROM L. V. Knicker

BANK OF ENGLAND

I called Mr. Bolton at 9:55 today and asked him about the London gold market for forward delivery, its size and who was particularly interested in it. It was very small Bolton replied and bidding usually developed when conditions became more upset in Europe. At the present time, there was some buying on the part of commercial firms which had to furnish a gold clause in their contracts and, as a result, wanted to hedge against such gold liability. That type of business was likely to come from France, from Germany or, for that matter, from anywhere in Europe. India, which in Bombay had a very speculative gold market for forward delivery, was also likely, from time to time, to come into the London market to offset contracts closed in Bombay. The volume most of the time was unimportant: £50,000 for six months might for instance be a whole day's turnover.

As regards spot delivery, Bolton continued, the demand had been good recently with all the gold available at fixing being taken by the market at a slight premium above New York shipping parity. <sup>continued</sup> ~~denise~~ of some gold again going into hoarding.

I made reference to the recent shipment of gold valued at about £500,000 made by Japan to London, which I stated had been freely commented upon in our press. This shipment, Bolton explained, had been purely experimental and had proved to be very expensive to the Japanese, with the result that there would be no more such shipments, at least according to the information which he had. Bolton had known of this

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 27, 1937.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnobeBANK OF ENGLAND.

- 2 -

shipment about three weeks ago, when the Japanese had come to him and asked the Bank of England to help them to market it. I inquired whether, in case there should be further shipments in the future, he would be willing to exchange information with us on that point and Bolton assured me that they most certainly would. I mentioned that there were no further gold shipments on the way from Japan to San Francisco and wondered how the Japanese would finance their requirements in the future. Bolton thought that the Japanese might well have made their preparations for the rest of the year, having apparently built up a fairly substantial balance in London. He added that all this was greatly surmise on his part because, at the Bank of England, they had no definite information. At any rate the Japanese were not showing any signs of being short of money.

Conditions in Paris, Bolton thought, continued very unsatisfactory. On the surface things were quiet but, nevertheless, Cariguel was losing sterling every day, all day long. This sort of thing went on from a quarter before ten until six every day, unceasingly.

Belgas might have turned a bit, at least temporarily. The British had given the Belgians dollars against gold in Brussels, where it was being held for the time being.

Stock markets had been better today in London, Paris and Amsterdam; the faith of the British in the American market seemed to continue without abatement. The London market was more cheerful after

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 27, 1937.

~~CONFIDENTIAL FILES~~

SUBJECT TELEPHONE CONVERSATION WITH

BANK OF ENGLAND.

FROM L. W. Knake

- 3 -

the account had been settled, with only two minor casualties. There seemed to be a very big speculation going on in Amsterdam, which was not confined to American securities only but pounced on anything that seemed to offer an opportunity for gambling.

LWK:KNC

RECEIVED  
205 30 000  
FEDERAL RESERVE BANK  
OF NEW YORK  
SEP 29 1937

September 27, 1937.

~~10:10~~ p.m.

11:13

Joe  
Kennedy: These go through my switchboard.

H.M.Jr: Well mine is all right, I don't know how yours is.

K: (Laughs) Well I imagine it is but it's all right then.

H.M.Jr: Yes.

K: Well supposing I call you back in ten minutes, huh?

H.M.Jr: Well I'll have people here and then you've got somebody with you.

K: Yes.

H.M.Jr: Oh.

K: How would that be. Well you give me the time. I have a message that I've got to deliver to you and I want to deliver it very quietly.

H.M.Jr: Well I'll tell you - I've got people coming in here at 11:30.

K: Yes, well I'll get it to you before then.

H.M.Jr: O.K.

K: Will that be all right?

H.M.Jr: Sure.

K: All right, Henry.

GROUP MEETING

September 27, 1937  
11:30 a.m.

Present: Mr. Magill  
Mr. Oliphant  
Mr. Gaston  
Mr. Haas  
Miss Roche  
Mr. Lochhead  
Mr. Thompson

Roche: Good morning, Mr. Secretary.

H.M.Jr: How do you do. ~~-----~~

Herbert, read this thing over about this fellow from Minnesota. I don't know, they say he's been with Regional Agricultural Credit Corporation for the past two years. Before I appoint another Collector of Internal Revenue from Minnesota, I'd like to get a good one. I don't know - you see, they're in a great hurry. You might ask Bill Myers about it. Two years with the R.A.C.C. In that one they don't say - they just give such cold facts - it doesn't look as if... Anyway, Mr. Farley is in a great hurry; he says we ought to appoint him before the President comes back through Minnesota.

Gaston: One of my friends from Minneapolis sent me a copy of a letter that he wrote to Farley and a copy of a letter from Farley in which Farley just thanked him for making the suggestion for a man, but he already had a good man picked out.

H.M.Jr: Well, he says this is not a - what's the beer man?

Gaston: Bremer.

H.M.Jr: This is not a Bremer man. Anyway, if I could have something on it this afternoon.

Gaston: Yes.

H.M.Jr: If not this afternoon - well, I told Jim I'd try to clear it today.

Gaston: Uh-huh.

H.M.Jr: See? If you can't call up Floyd - what's his name? - any more and ask him....

Gaston: Olson.

H.M.Jr: Yes.

Magill: I have nothing in particular. I'd like to go on with our discussions whenever you're ready.

H.M.Jr: Well....

Magill: Not today.

H.M.Jr: No, I don't - I want to be very frank with you. I've got to see Jesse Jones, Wallace, and Ickes this week in regard to this year's budget. And then I've got each time to prepare myself, because, with the exception of Danny Bell, who has it in his head, nobody can give the stuff to me.

For instance, Jones just called me up and said, "What's the method of getting the P.W.A. money back into the Treasury?" He says, "Am I right that if I turn the money over to you it stays there definitely?" He says, "I think so." So I just had Eddie Bartelt in and he said he never heard of it. I told him to give me an answer by 2:30. Herman, I wish you'd look it up - for instance, if Ickes has ten million dollars worth of securities for a community, he turns those over to Jones, Jones sells them and gives the money back to Ickes; but if Jones should give me that money, that sterilizes it forever. And that's what Jones thinks and I think. But I want a definite clean-cut opinion on that. Do I make myself clear? Now, Bartelt had never heard of it. And we're meeting on it again at 2:30, see?

Oliphant: (Nods yes)

H.M.Jr: So that's the situation. And it's - frankly, unless I've got a chance of saving by approaching this thing in a different way, I've got a chance of saving several hundred million dollars on the revolving funds. And I want it ready when the President comes back, and I don't know anything more important than that. And nobody's doing anything about it. I can't find, talking very confidentially, for instance, that anybody is

doing - for instance, Agriculture is given so much money; are they spending per month one-twelfth of the allotment, taking care of the seasonal variation? I mean that they'd spend more one time of year than another. Will they use up all or won't they? I mean I can't get the feeling that once the money is allotted there is any control anywhere.

Now, do you (Thompson) for instance know, has anybody ever checked up on the Treasury? Are you spending all your money? Does anybody ever check up on us?

Thompson: Well, the Bureau of the Budget keeps a check.

H.M.Jr: Each month?

Thompson: Yes, they approve the apportionments and they get the regular reports.

H.M.Jr: Do they ever tell us we're spending too much?

Thompson: No. If we spend over the allotment, over the apportionment, we generally put in a request for a waiver of the apportionment and a reallocation of funds. It is usually granted; not much check-up.

H.M.Jr: Well, it may be being done, but - I don't want to criticize them - but I just can't find it: the central nerve center that is watching this thing. The particular thing that I am working on is now; next year's thing will come in a couple weeks, but....

Thompson: The really only effective control is the setting up of reserves such as the recent 10% reserve applying to this year's appropriations - Budget control.

H.M.Jr: I imagine it's all in Dan's hands. But I'll put it this way: just as soon as I get a breathing spell, but I - I really don't see that I can do much more this week.

Magill: Well, that's entirely satisfactory from my point of view. I can go right ahead, of course, until such a time as you're ready.

-4-

H.M.Jr: I don't see why you can't.

Magill: There are several major issues we ought to discuss, but we don't have to discuss them this week.

H.M.Jr: Well, if I get a chance, but - let's see - the secret confidential figures for this year, I think, exclusive of definite - we're in the hole 471 million dollars. Now, I'm trying to pick up 400 million dollars. I'll know more this afternoon. My God, if I could do that this week and then have it ready for the President next week, what can I do that is any more important? And not a dollar out of relief, Miss Roche - not a dollar out of relief. And I've got my own secret figures for next year's budget too - I did that over the week-end - on expenditures, not on receipts.

So I just wanted to tell you what I'm working on. I don't know how I can spend my time any more profitably. And Jones is in the most cooperative mood. Most cooperative. Now, I may be kidding myself on this other thing; maybe the money has all been allocated; but I'll know within a day or two. And it gets just down to the two places: P.W.A. and R.F.C.

Magill: That's all.

H.M.Jr: Family all O.K.?

Magill: Fine, yes.

H.M.Jr: Good.

Oliphant: Nothing from my shop to report. In going over those mimeographed sheets you gave us the other day....

H.M.Jr: What?

Oliphant: I say, in going over those mimeographed sheets, or photostated sheets, that last sheet contained the list of the wholly-owned or partly-owned government agencies....

H.M.Jr: Yes.

Oliphant: And it looked to me, in discussing it with the two

men that worked with me....

H.M.Jr: Little louder.

Oliphant: It looked to me, in discussing it with the two men that worked with me on it, that almost any of those were very promising if you were interested in reducing the Government's participation, but each one of them would be a study in itself. For instance, you mentioned Export-Import, I think, to Wayne Taylor.

H.M.Jr: Yes.

Oliphant: I'm not sure but what something could be done on F.D.I.C. and others. But each one would be an independent study.

H.M.Jr: Well, what we need here very badly is somebody having a real - I mean a really experienced business man who will take - for instance, the one which has been lying on our doorstep here for three months is Home Owners Loan and Federal Housing; it would take some very able business man a three months' study just to study those two organizations. But we just haven't got the manpower to do it. Wayne can't do it, because he's got more than he can tend to now. And it was suggested to me that I might - there's a chance of getting General Woods down; I hear he's through. Now, if a man like that would come down, I'd say, "All right, now, you take these two organizations, take three months; we'll give you what staff you need. At the end of three months, tell me who's right, who's wrong. Got to listen to Fahey and Stewart McDonald. Buy yourselves six pairs of trousers and a couple of chairs and go to it. And a sofa." But I mean it's that kind of thing which none of us have time to do and nobody in the Government is doing.

Oliphant: I just wondered whether from that staff - whether the request that is on its way through for more money from Home Owners Loan has been canvassed.

H.M.Jr: Well, on the next year's budget - nothing has jelled on that yet. And the President told me that he personally expects to sit on next year's budget. Himself. But what I am concentrating on right now is this fiscal year.

-6-

- Oliphant: That's a request for the Treasury to allocate more funds to Home Owners Loan.
- H.M.Jr: Oh. But I just think this legal end is coming up at 2:30 - several legal points. I'd like to have you here at 2:30, if you will.
- Oliphant: All right. Then, I'd like to just make that answer on that. That is, a sort of separate study of each one of those items - I think a separate study of each one of those items would yield a great deal.
- H.M.Jr: Why don't you put that in the form of a memorandum: that you think each one should be studied, and then the question as to where we will get the man to study it. I wouldn't start your shop on that, but I don't want.....
- Oliphant: You asked the other morning for a suggestion.
- H.M.Jr: But if you can - I don't know whether you can or not - give me a legal explanation of just how this revolving fund money of P.W.A. comes to us.
- Oliphant: Oh yes, I'll get that.
- H.M.Jr: I would like a legal explanation of that: how we can sterilize P.W.A. fund money in the General Fund. I think we can do it.
- By the way, before I go by you (Magill), how did you and Sir Frederick get along?
- Magill: Oh, very well. I've got a memorandum of the conference that Butterworth prepared. Be in to you some time today. But he wound up on this question of treaties between the different countries for exchange of tax information just where we all supposed he would, namely, that Great Britain wasn't going to do any such thing; that wasn't the practice. Their whole practice was to keep their tax returns secret. They were not going to give information to other countries no matter what the rest of the world did. I think that was about the essence of it.
- On the "hot" money, I told him the situation and he had

-7-

substantially no comments. Very friendly; asked us what we wanted him to do. I said that wasn't the purpose of the conference; the purpose of the conference was to give him information as to what steps we were taking. So he asked to see King when King goes over to the Geneva conference; or, rather, asked him to see - have King see revenue officials over there.

H.M.Jr: I might say, if you're going to talk about creating a lot of excitement, it's created a lot of excitement. It's all right.

Herbert?

Gaston: I don't know of anything. They asked more questions about our negotiations with Great Britain about reciprocal taxation than anything else over the week-end. I told them there weren't any negotiations, just informal talks.

Magill: If these reporters would use their heads instead of their ears, they could probably write better stories.

H.M.Jr: Is that all?

Gaston: That's all.

H.M.Jr: George...

Haas: Yes, sir.

H.M.Jr: Here's an article which I didn't know about. I'll give it to you. Following the failure of the biggest Indian conversion operation, amounting to 900,000 florins, Amsterdam and Rotterdam announced a 3-1/2 percent conversion loan at par. Now, I never heard that 900,000 was a failure; that's a lot of money, and I'd like to know more about it.

Haas: Yes, sir.

H.M.Jr: Did you send a boy up to Detroit?

Haas: He got there Sunday night. Took a plane.

-8-

H.M.Jr: Good.

Haas: And I've got a little information already over the telephone. Not from him, but some of the people in the automobile business that we know.

H.M.Jr: Yes.

Haas: That Chevrolet - well, the whole General Motors and Chrysler are sailing along very nicely, their dies and everything all in shape, and they expect to be in production in about a week or ten days. Now we'll see how Murphy's stuff checks with that. Ford, however, is still working on his old model. And these men - well, one was a Chrysler man, the other is a General Motors man - they didn't know - just knew that Ford was working on the old model; didn't know when he was going into production. Now, maybe Henry can get some more information on that.

On the other matters, they are moving along. On this general business situation, if I could have till tomorrow noon I could really do a real good job, I think.

H.M.Jr: Well, I'm not available before then anyway.

Haas: O.K.

H.M.Jr: I am meeting at 2:30 on this.....

Haas: I had a meeting with my staff this morning, and I think I've got that lined up fairly well. It's a question of getting the evidence accumulated, getting it written up, and so on.

H.M.Jr: I want you here at 2:30.

Haas: All right.

H.M.Jr: (To Thompson) Tell Eddie Bartelt I want him at 2:30, to make sure, and Mr. Bailey, Acting Director of the Budget. 2:30, please.

All right, O.K.?

-9-

Haas: O.K.

Oliphant: On this other thing, you want it at 2 o'clock, don't you - on the revolving fund?

H.M.Jr: 2:30.

Oliphant: 2:30?

H.M.Jr: 2:30. I'd like you to be here if you could. A lot of this stuff gets down to drawing up something for the President to sign. I mean this saying so doesn't seem to mean much, but if we actually get him to sign something, it might mean something.

Oliphant: Yes.

H.M.Jr: Miss Roche?

Roche: Nothing this morning.

H.M.Jr: Could you stay a minute?

Roche: Yes. I have something I'd like.....

Lochhead: The market seemed to flatten out after the first hour. I don't think they're going anywhere in particular.

H.M.Jr: You're working on that Japanese loan?

Lochhead: Put the call through. Haven't got a report yet.

H.M.Jr: We ought to know that. I mean if they're shipping to England, we ought to know that.

Lochhead: Yes, we ought to. It seems to me anyway that if the Japanese have been notifying us when they made the shipments, they should do the same thing - they'd have to know from a voluntary viewpoint. In other words, I don't think the statistics will show up until it arrives.

H.M.Jr: You tell Knoke the next time the Japs come in and want to notify us that they're going to send us some gold, I think tell me and I want to see those babies.

Lochhead: You mean you want them to come down?

-10-

H.M.Jr: Well, I want to see - whether it's the Embassy people or their Finance Commission - but the next time they walk in and say they're shipping us five million, I want to see them.

Lochhead: They're simply sending a letter in.

H.M.Jr: But I still go back to their statement when they said they were only going to give us 150.

Lochhead: Well, they revise upward every time.

H.M.Jr: Well, I'd just like to - I've got a perfect right to ask them - I'd like to know. Didn't they say 150?

Lochhead: That was the total.

H.M.Jr: Yes.

Lochhead: At one time they said 150, and then when they brought in a shipment they didn't say much of anything except that they needed the balances.

H.M.Jr: Well, I've got to adjust my borrowing, I've got to know.  
Chinese drawing out any more money?

Lochhead: No. They took out that five million dollars they notified they would, but nothing more.

Thompson: Mr. McReynolds phoned from Jacksonville Saturday that he was leaving last night.

H.M.Jr: Did he go to Jacksonville?

Thompson: He went to St. Petersburg.

H.M.Jr: I hope he and Bell didn't go to the same place.

Thompson: He said Bell was with him at Jacksonville; they met there.

H.M.Jr: I knew that would happen.

Gaston: Should have been positive orders that they were not to see each other.

-11-

H.M.Jr: What?

Gaston: You should have ordered them not to see each other.

Lochhead: I got a note from Frank Dietrich; he said that at Miami Beach he went to the Coast Guard station and found them there one morning.

H.M.Jr: Bell and Mac are taking sort of a "postman's holiday" - they're spending their vacation together.

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: September 24, 1937, noon

NO.: 503

CONFIDENTIAL.

FOR COCHRAN FROM SECRETARY MORGENTHAU.

We have decided to omit from the message to Mr. Bonnet the third sentence in the first paragraph, beginning "I am also glad" and ending "to the pound sterling".

You are requested to modify the draft accordingly and deliver to Mr. Bonnet immediately. It is understood that the same reply is being made by the British Government.

HULL

EA: LWW

September 27, 1937.

~~12:10~~ p.m.410  
/210

H.M.Jr: Hello

Gibbons: Hello

H.M.Jr: Where are you, Steve?

G: I'm in New York.

H.M.Jr: Oh. Well I mean where am I talking to you?

G: At the Hotel Astor.

H.M.Jr: Where?

G: At the Hotel Astor.

H.M.Jr: Oh gosh, I can't talk to you there.

G: Hello

H.M.Jr: Where can you go - are you talking through the hotel switchboard?

G: Yes.

H.M.Jr: Well you better get to a pay station and call me right away.

G: All right.

H.M.Jr: What are you doing at the Hotel Astor?

G: I was just staying over the week-end. I came up - I'll tell you about it when I see you. Ah - it's pretty public here.

H.M.Jr: For what?

G: Ah - well there's a fellow coming in to-day on this beer-thing.....

H.M.Jr: On the what thing?

G: On the beer tax that claim - these breweries claim that Farley and Frank Walker promised that - ah - there would be a refund on it, see?

H.M.Jr: Oh well that's a.....

- 2 -

G: I told them - I've got a copy of the law.

H.M.Jr: That's an old story. - What?

G: Ah - we can't give them any refund.

H.M.Jr: Oh well my God - I've heard that thing - I've handled that thing - I mean - right here's where I need you.

G: What's that?

H.M.Jr: I need you - I mean you're never here whenever I want you. I mean - last week - I don't know where you were last week.

G: Last week?

H.M.Jr: Well anyway, will you please get to a pay station and call me.

G: The only time I was away last week was at the Coast Guard graduation.

H.M.Jr: I know - I know.

G: Huh?

H.M.Jr: Will you call me at District 2626.

G: What's that?

H.M.Jr: District 2626.

G: 2626.

H.M.Jr: Collect.

G: Yes sir.

H.M.Jr: And get to a pay station because this is something you've got to handle right away.

G: O.K. goodbye.

September 27, 1937.  
12:19 p.m.

H.M.Jr: Hello

Gibbons: Yes.

H.M.Jr: Are you on a pay station there?

G: Yep - yep.

H.M.Jr: Well our friend Joe.....

G: Who?

H.M.Jr: Joe.

G: Yes.

H.M.Jr: .....called me.....

G: Yep.

H.M.Jr: .....and - it's about what Jimmy called him.

G: Ah - Jimmy called Joe

H.M.Jr: Yes.

G: Yes.

H.M.Jr: And they wanted to send a fellow by the name of Tom Woodward down on a special boat.

G: Yes, I know - I turned that down.

H.M.Jr: Well -

G: Ah - they want a special coast guard boat to get out there and contact this fellow before the - ah - it comes out in the newspapers.

H.M.Jr: Right. Now I'd told him that you'd spoken to me about it and that there were two other people that wanted to go down - I don't think that their name was Woodward, see?

G: Ah - his brother-in-law is one of them.

H.M.Jr: Well any way I couldn't tell him and I told - I told Kennedy why I thought it was a mistake, especially in view of our public announcement and I thought it would be harmful to the President.

G: Well I think it would be a terrible thing.

H.M.Jr: And when I got through - ah - Joe said he agreed with me and he thought my judgment was right and that the other people were wrong.

G: Yes.

H.M.Jr: Now he wanted to know who those other two people were; I said I couldn't tell him but I'd call you up and that you would call him directly.

G: Yep - yep.

H.M.Jr: Now if you'll wait a minute I'll try to get my operator to put you through to Joe, see?

G: Yes. I don't know the other fellow's name; one is his brother-in-law and the other fellow I think was on the - ah.....

H.M.Jr: Well now let's have a clear cut understanding that unless I personally approve it there shant be more than this one usual cutter and nothing extra - taking the man off or anything else.

G: If he wants to come back on the cutter that goes down with the Health Officers and all that sort of thing.....

H.M.Jr: You'd better talk it over with me first.

G: Yes, I don't even - ah - I talked to Harry Durning. He would have done it and com in here . He's coming here to New York, you know.

H.M.Jr: Yes.

G: And Harry said that he thought that he'd just let the newspapermen go down there and - he doesn't have to talk to them if he doesn't want to.

H.M.Jr: No.

G: If we're going to take him off one side of the ship while they come in on the other you're going to have yourself in a jam in my opinion.

H.M.Jr: Well don't - please don't make any arrangements.....

G: Yes.

H.M.Jr: .....without discussing it with me.

G: O.K.

H.M.Jr: And when will you be back?

G: Oh I'll be back tomorrow morning. This thing doesn't happen until Wednesday.

H.M.Jr: I know.

O: Your three minutes are up.

G: All right.

H.M.Jr: Well didn't you reverse the charges?

G: No I - ah - I thought it would take too long.

H.M.Jr: Well now just a minute - don't you - do you want call Joe up or go through my switchboard?

G: I can call Joe - ah - direct from here.

H.M.Jr: All right. On that other thing that you're talking - Frank Walker was in here and talked to me about that himself.

G: 9 I know and blaming you for it and I want to put them - ah - right where they belong and I'll tell you about it - I didn't want to annoy you with it but I'm meeting with Dutchman up here to-day whose head of a brewery in Milwaukee.....

H.M.Jr: Yes.

G: .....and he's a friend of - ah - Walter Cummings too.

H.M.Jr: Sure.....

- G: But they think that you can do this without - just by the scratch of a pen - why it's right in the law that you couldn't do it if you did - if you wanted to.
- H.M.Jr: I've been in to it twice; Walter Cummings has talked to me about and Frank Walker has talked.....
- G: Well they seem to think it's a regulation and that - stead of that apparently they never got the idea that it's the law, see?
- H.M.Jr: Well -
- G: I've talked to Graves about it; I've talked to Berkshire; I've talked to Guy Helvering - ah - Jim Farley said, "Well for God's sake, won't you please get somebody to straighten them out on this". I said, "All right". I - ah - now when did you look for me before - the only time I've been away - ah - .....
- H.M.Jr: Well the other - last week something broke here.....
- G: Well I was up at the - ah - I know what it was - the -
- H.M.Jr: It was on Monday.
- G: Yes, about that fellow Oliphant wanted to put on?
- H.M.Jr; That's right.
- G: Well I was up at the Coast Guard; I couldn't avoid that.
- H.M.Jr: No, that's right - that's right.
- G: But I haven't been away -
- H.M.Jr: O.K., all right.
- G: And I thought I was doing you a service by coming up here to-day.
- H.M.Jr: All right, well the pressure is pretty hard down here.

G: All right, now I'll get ahold of Joe right away.

H.M.Jr: All right.

G: But I - I really - I think you'd be going overboard if you - ah - I think you'd be putting the President in a bad spot.

H.M.Jr: Well I don't count - it's the President. I'd certainly put him in a bad spot.

G: Yes.

H.M.Jr: All right, Steve.

G: O.K. I'll talk to Joe and I won't do a thing without consulting with you.

H.M.Jr: Thank you.

G: O.K.

(Mr. Waldo of Whirligig)

September 27, 1937.  
12:25 p.m.

H.M.Jr: Hello

O: Mr. Waldo. Go ahead.

H.M.Jr: Hello

Hello

H.M.Jr: Mr. Waldo.

Waldo: Yes.

H.M.Jr: Henry Morgenthau, Jr.

W: Yes, how do you do.

H.M.Jr: All right, thank you. Mr. Waldo I'm calling you up about statements on a pink sheet of September 27th and September 28th written by James McMullen in regard to myself. I don't know whether you've seen it or not.

W: No, I've been away.

H.M.Jr: Well may I read it to you?

W: Yes, please.

H.M.Jr: It says here - "New York Editorial Information - Pressure". Then it starts, "Exceptionally informed sources report that H. Morgenthau, Sr., has been privately urging his son to resign as Secretary of the Treasury. The elder Morgenthau is understood to believe that there is serious economic trouble brewing. Naturally he would not wish to have his son in the position where he would have to take the rap for it."

"Mr. Morgenthau, Sr., has a reputation in financial quarters for shrewd judgment in sensing storms ahead. He has weathered depressions a great deal better than most men of wealth. He has not been happy about certain of Mr. Roosevelt's policies for some time past.

"The Black situation may also have a considerable bearing on Mr. Morgenthau, Jr's., future relations with the President. Intrusion of the Klan motives won't help matters any. Jewish leaders generally are taking it much more seriously than they are letting on publicly. It is not far fetched to anticipate that the Treasury Secretary may find himself subjected to considerable back-stage pressure to sever connections with the Administration".

H.M.Jr: Now get this next thing and get the hook-up between what went first and what comes now.

"Advice", at the heading.

"When H.M.Jr. was named to the Treasury post many New Yorkers predicted that he would be a colossal flop; his co-religionists in banking circles were especially shocked that a man with such slight financial back-ground should be given such vast responsibility.

"They also realized that it would, to some extent , reflect a \_\_\_\_\_ on them if he didn't make good. Eager to prevent this unfortunate reaction they determined to help him all they could. As a result, few Secretaries of the Treasury have had the benefit of so much expert and genuinely disinterested advice. This is one of the main reasons why he's handled his job so much better than was generally expected".

H.M.Jr: Now I ask you.

W: Well - ah - what - ah - ah - what would you like to have us do on that?

H.M.Jr: Well - what is your reaction to it? Now you - you go around - in the first place - ah - you meet a lot of my Jewish acquaintances and have you ever heard of one of them that's ever lifted his little finger for me?

W: Ah - well yes, I can say there - there's been the most amazing change in the last three years - for about several years that I've ever known in connection with any public man.

H.M.Jr: Well I.....

W: You may not know that.

H.M.Jr: Well I don't know it because I've scrupulously kept away from them and none of them ever approached me.....

W: Ah - the - ah.....

H.M.Jr: .....and I'm not in contact with any of them.

W: The - ah - I think you - do you recall an incident that I told you about in connection with the announcement of - ah - the - ah - appointment that took place at a private luncheon in New York?

H.M.Jr: Yes - fairly vaguely, yes.

W: Well you remember that.....

H.M.Jr: I remember your talk.....

W: Something of that kind to-day is even remotely in the - ah - conversation or in any way of anybody known to me.

H.M.Jr: But Mr. Waldo, you're a smart fellow and this thing - the only way I could interpret it - to call a spade a spade - is pretty insidious anti-semitic propoganda. I mean.....

W: I can assure you that there is nothing of the kind possible with that rancor.

H.M.Jr: Well -

W: Nothing possible or intended.

H.M.Jr: Well I didn't interpret it that way but people around me did - they were simply shocked.

W: Well that - that's very amazing because it's not - it did not, of course, strike me so when you read it nor could it be possible from that source for very personal reasons.

H.M.Jr: Well, in the first place, the article isn't based on facts and I take it you're interested in giving your people facts.

WF (Short laugh) Frankly.

H.M.Jr: And I don't know anything which could be more than 100% wrong and - ah - taking this particular angle at this time I don't know any way that somebody wanted to do me an injury could find a more subtle way of doing it than doing it this way.

W: Well that, of course, as you can imagine is regrettable to me as anything in the world could be.

H.M.Jr: And -

W: Suppose - ah - I can - ah - get - ah - we're putting out another one tomorrow you know. We can handle the thing then. Your idea is to have it, as I get it, an entirely different point of view taken.

H.M.Jr: Well I wouldn't know how to handle it.

W: Well I - I

H.M.Jr: I - I mean I'm not very good at this thing but - I mean - in the first place - the part about my father, see?

W: Yes.

H.M.Jr: He has never talked to me along those lines in any way whatsoever.

W: I see - now.....

H.M.Jr: That's No. 1.

W: Yes, thank you.

H.M.Jr: Ah - No. 2 - ah - for your own information, you might be interested to know that my advice was asked about this Black business, see, and I said, "On account of my religion, I wished to keep completely out of it" and I kept entirely out of it officially or otherwise, see?

- 5 -

W: Well that I can't use though.

H.M.Jr: What?

W: That I mustn't use?

H.M.Jr: No.

W: All right, but that's helpful.

H.M.Jr: But I just wanted to give you the facts.

W: Yes, thank you.

H.M.Jr: And - ah - and as to any help or contact I'd like McMullen to name one single Jewish Banking House that's ever talked to me about Treasury business - one.

W: Well I'll ask him to do that.

H.M.Jr: I'd like to have him name one Jewish Banking House - there is one - Solomon Brothers of Hutzler come down on - come down occasionally with the other three or four Discount Houses, you see?

W: Yes.

H.M.Jr: But they're purely on issues, you see?

W: Yes.

H.M.Jr: I mean they're so-called the big five who have to do with government bonds.

W: Yes, of course.

H.M.Jr: Solomon Brothers are one of those.

W: Yes.

H.M.Jr: And on several occasions one of their partners, who is a government bond expert, has come down just the way the people from the First National, the Discount Corporation or any of those have, you see? But with that exception that is the only time that I've ever had any contact or any advice....

- 6 -

W: That's purely formal.

H.M.Jr: Pardon me?

W: That's purely formal. That's purely a formal contact.

H.M.Jr: Oh yes.

W: Ex-officio.

H.M.Jr: Oh yes - yes, but I mean I've never had any advice or any help of any kind from them. I mean the inferences, you see - these - here's the inferences. Here's these Jewish bankers - they help me make good, see? Now - they - they're excited about this thing so I've got to pay my debt and they're going to bring pressure to me - on me and make me get out, see?

W: Oh well, I see.

H.M.Jr: See? Do you get it?

W: No I didn 't but I do now. I get the point, yes.

H.M.Jr: And also that the Jewish bankers are running the Treasury.

W: Ah -

H.M.Jr: I mean it's the most insidious.

W: Leave that to me, will you?

H.M.Jr: Pardon me?

W: Well I - I can have that - I didn't get that but you give me your points of view right along - I'm not getting them - and when I read it again I will be guided by what you are telling me now.

H.M.Jr: I mean I consider it the most insidious anti-semetic line that's been taken since I've been in the Treasury.

- 7 -

W: Well I - I can't tell you how far I'd be willing to go from my knowledge of the man in every way and our organization in every way that there is nothing of the kind intended though it may have that appearance. It couldn't be intended.

H.M.Jr: Well - ah. ...

W: We - we go the other direction.

H.M.Jr: We'll give him the benefit of the doubt.

W: Yes.

H.M.Jr: Who sold him this - this bill of goods? Where does this come from.

W: Ah - that we have a record of in the office.....

H.M.Jr: Sure.

W: .....and when I get back there - I shall be back there on Thursday.

H.M.Jr: Yes.

W: In the meantime, I shall have the office on the telephone this afternoon.

H.M.Jr: Yes. Well I felt this way - I mean - I felt that if I presented the facts to you calmly.....

W: Yes.

H.M.Jr: .....that I couldn't imagine that you, as an individual, would knowingly be back of a thing like this. I just couldn't imagine it.

W: Well - ah - not intentionally.

H.M.Jr: Intentionally.

W: Not intentionally.

H.M.Jr: No, that's what I mean.

- 8 -

W: After all, I have to run an organization and I have been out - covering a good deal of territory.

H.M.Jr: Oh I understand but I meant in view of our conversations we've had over three or four years.

W: Well you know that.

H.M.Jr: Yes.

W: There's nothing of the kind could be intended and you have given me some very startling light from the other side which I might have missed entirely had I read it to myself.....

H.M.Jr: Yes.

W: ....but cannot miss now and shall act accordingly.

H.M.Jr: Yes.

W: I appreciate very much your giving me the benefit of this. It means a very great to me and I think you will find that the situation can be met satisfactorily.

H.M.Jr: Well I sincerely hope so.

W: At my attention.

H.M.Jr: And then just as soon as you do get this straightened out, I wish you'd come down and I'd like to see you and I wish you'd bring McMullen with you.

W: I'm.....

H.M.Jr: Or else see you alone.

W: I'd like to see you alone after - after I get the facts.

H.M.Jr: Well after you've got them - ah - ah .....

W: Would that be acceptable?

H.M.Jr: Ah -

W: Well let me - let me use my own judgment on it, will you?

- 9 -

H.M.Jr: Well I mean - I just - yes.

W: Let me use my judgment.

H.M.Jr: I'll let you use your judgment.

W: I'll - and I shall be down - I don't know that I can do it this week because they tell me there's a lot of work waiting for me.....

H.M.Jr: Yes.

W: .....but if I got down next week?

H.M.Jr: Any time - if you can just give me a day or two notice, that's all.

W: Thanks so much.

H.M.Jr: And - ah....

W: That's all and my very deep regrets.

H.M.Jr: Thank you.

W: Thanks.

RE ECONOMY PLANS

September 27, 1937  
2:35 p.m.

Present: Mr. Oliphant  
Mr. Gaston  
Mr. Haas  
Mr. Bartelt  
Mr. Bailey  
Mr. Lawton

H.M.Jr: Do I know this gentleman?

Bailey: I brought Mr. Lawton along, Mr. Secretary. He worked with Mr. Bell on the summation.

H.M.Jr: How do you do. Know everybody else?

Lawton: I think so.

Bartelt: Mr. Secretary, there is a transcript of my telephone conversation with Mr. Mulligan. You may wish to read that. (Hands to Secretary)

H.M.Jr: The way I'd like to divide - as you told me, this is divided into two problems: one, the revolving fund, which you told me Bartelt had; and then, the other thing, trying to make the public works stretch for 18 months instead of - so shall we do the - let's do the revolving fund first, huh?

Bailey: O.K.

H.M.Jr: I'll get some of this junk out of my way.

I'm going to read this out loud, Mr. Bartelt. Do you have any objection?

Bartelt: No, sir.

H.M.Jr: To my reading this?

Bartelt: No, sir.

H.M.Jr: May I just explain to you so we can all travel together. Mr. Jones asked whether he could come over and see me

-2-

tomorrow, and what he's trying to do is to find some way to get the P.W.A. revolving fund into the Treasury. In other words - this is just a guess - he figured, well, if he's got to do it, by God, he's got to see that Ickes does it too. Which is beautiful, see? So Mr. Jones is going to help me find a way to get hold of this Ickes money, which means that Mr. Jones is going to play ball. He's figured that if he's going to play ball, he's going to see that Mr. Ickes plays ball. Which is all to the good. I mean we're talking strictly in the family.

"Mr. Bartelt: I was just down with the Secretary of the Treasury and he told me that he is going to have a conference with Mr. Jones tomorrow. He wanted to know if you would have Mr. Jones bring with him commitments outstanding against your balances. In connection with that I would like to ask you a question or two.

"You expect to make payments this year of about \$400,000,000 and your receipts from figures we have are estimated at \$550,000,000, leaving net receipts over payments of \$150,000,000.

"Mr. Mulligan: I am going over the thing again today and I'll be able to give you a better idea of it then. That was made sometime ago and I want to go over the figures before I say anything.

"Mr. Bartelt: Will Mr. Jones have that?

"Mr. Mulligan: I don't know. If he wants it he will. I'm going to start right now.

"Mr. Bartelt: Will you have him bring it with him?

"Another thing, Mr. Mulligan, do you know of any way in which the Reconstruction Finance Corporation can turn the proceeds of its sales into the Treasury so as to avoid respending the money by the Public Works Administration?

"Mr. Mulligan: I don't know of any way. We can buy securities from them.

-3-

"Mr. Bartelt: Do you know of any way in which they would not be able to use the money?"

"Mr. Mulligan: I know of no way it could be done. We buy from the Public Works Administration. We have no control over the money from that point on. Mr. Claude Hamilton, the General Counsel, may be able to help you.

"Mr. Bartelt: When you sell those securities can the money be turned into the Treasury?"

"Mr. Mulligan: It is turned into the Treasury.

"Mr. Bartelt: It goes to your account?"

"Mr. Mulligan: You get it all. The only difference is our debt to you. When we sell to the Public Works Administration it increases our debt to you.

"Mr. Bartelt: Would that be available for expenditure again?"

"Mr. Mulligan: Under the original law we were authorized to buy from the Public Works Administration but not over \$250,000,000. This was later increased to \$500,000,000. Beyond that we can't go.

"Mr. Bartelt: When you buy the securities from Ickes you give him a check and when you sell the securities you deposit that in the Treasury. I was wondering if there was some step in there that I had overlooked.

"Mr. Mulligan: I don't think so. You seem to have a good idea of the thing.

"Mr. Bartelt: The Secretary would like for Mr. Jones to bring those figures."

Who's General Counsel Hamilton?

Bartelt: R.F.C. General Counsel. But I wasn't able to get him.

H.M.Jr: Oh, I see.

I'm still not convinced. There's some intermediate step in there, by God, that when the money - I know

-4-

it - that when the money once gets into the Treasury General Fund, Ickes can't reloan it. There's some catch in it. Have you (Oliphant) had a chance to look at it?

- Oliphant: I've had a chance to look at it, and I've got a tentative conclusion, but it needs a little study to be sure. So this is going to be a horseback opinion.
- H.M.Jr: I'll take it on horseback; I'll receive it on horseback.
- Oliphant: The thing to do is divide carefully two situations: First, Jones has not yet bought his securities; and second, Jones has bought his securities.
- H.M.Jr: Both those conditions exist.
- Oliphant: Now, those two different problems, see? Now, it's my.....
- H.M.Jr: Now just a second. Can you hold it right there? You (Bartelt) gave me those figures. Jones has got what - 80 million, and there's still 120 million to go?
- Bartelt: 125 million, I think, he's agreed to take.
- H.M.Jr: Well, anyway, I won't confuse you by getting.... Go ahead. Just theoretical.
- Oliphant: Well, it is my horseback opinion that if Jones has not yet bought the securities and the President told him not to buy them and he decided not to buy them, and Ickes had to sell them, then the proceeds would have to be applied to the reduction of the national debt.
- H.M.Jr: Now, say that again, Herman.
- Oliphant: If Jones has not yet bought the securities, so that Ickes still has them, and Jones refused to buy them and sell them for Ickes, so that Ickes would have to sell them, which he is authorized to do, then the money realized would have to go, not into the revolving fund, but into reduction of the national debt.

H.M.Jr: Now, can I tell you what's back here (back of head) - and Jones has the same thing, and you've got it. I'm going to ask you boys, whoever is working on it, to work through if necessary, so that when Jones comes here at ten tomorrow I can have more. Back here is something that says this, that under the law Ickes must let Jones sell them, as I understand it.

Oliphant: (Nods no)

H.M.Jr: Well, let me put it this way, that under the law there are two ways to do it, that Ickes can get the money: Ickes says to Jones, "Will you sell these for me?" And Jones says, "Yes." He gets the money and gives it back to Ickes. Back here there is another thought, that if Jones sells these - now, maybe it's when Ickes sells them - if he sells them or we sell them for him.....

Oliphant: (Nods yes)

H.M.Jr: ...there is a way that once the money comes here, so to speak, it becomes sterilized and he can't use it over again.

Oliphant: That's right; that's what I'm saying.

H.M.Jr: There's that thing in there; there are two ways.

Oliphant: That's right. Now, if Jones, on the other hand, has already bought the securities.....

H.M.Jr: Well, let me just... You (Bailey) gave me this memo.

Bailey: What's that?

H.M.Jr: I can't find it.

Lawton: Jones holds about 86 million on August 31 of P.W.A. securities.

H.M.Jr: I'm just looking for this memo so I can mark it.

Bailey: Here's a copy, sir.

H.M.Jr: Where is it?

-6-

Bailey: Underneath that one. That's it.

H.M.Jr: Yes, I've got it. Let me read it.

"The balance of funds (words not understandable) P.W.A. is entirely obligated. To meet obligations on the program which the President approved, it will be necessary to supplement the existing balance of P.W.A. funds by the sale of 61 million and the total amount of 129 million of bonds held by P.W.A."

In other words, Ickes has 129 million now, and in order to make these commitments which he made and the President announced the other day, he needs another 61 million.

Lawton: That's right.

H.M.Jr: "It will also be necessary to sell bonds in the amount of about 8 million to provide funds for administrative expenses for the fiscal year 1939." In other words, he needs 8 in one and he needs 61 - 69 million. That checks with that figure that Congress - well, anyway, I'll read through.

"Just how much of the remaining 60 in bonds can be converted into cash during '38 could not be estimated without examination of the portfolio of P.W.A. Some of these securities are readily marketable. Others, by reason of the small size of the issues, are only available in local communities in which projects are under way. Still others are payable from revenue produced by the project for the construction of which they are issued. This latter group could not be considered readily marketable until the project had been completed and begins to bring in revenue, and some of these projects will not be completed during the current fiscal year.

"If the 60 million in bonds are sold to the R.F.C., the cash will be deposited to the credit of P.W.A. However, unless the R.F.C. is able to dispose of these bonds, the total of Government credit will not be affected, since R.F.C. expenditures will increase in the same amount as those of the Public Works Administration. Proceeds of all bonds held to maturity by P.W.A. must be applied to reduction of public debt, but this amount would be small in '38."

-7-

Now, I just need one minute to bring all of these pieces together. I'm afraid somebody knows all this, but I don't.

In this statement the President gave out: "The President announced today that he had just approved the allotment of a few border-line applications for PWA projects, which increases the number allotted under the new program to 1,253 projects, amounting to \$113,034,735 in grants and \$58,005,700 in loans." Now, that's the cut-off date of the President's.

And in this memorandum to me which you sent me, Bailey, you say here: "Grants authorized under E.R.A. for '36, 300 million. Additional grants authorized for PWA on the extension of Act of '37, 59. Making a total of 359 million. Projects approved by the President under E.R.A. of 1936, up to June 30, 163 million; under PWA extension of September 20, 113 million. Making a total of 276 million, or a balance of 82 million; less administrative expenses, 67 million."

- Bailey: Less administrative expenses for '38.
- H.M.Jr: Yes, well....
- Bailey: Leaves 67. Of the 67, about 8 million is counted for administrative expenses in '39, and that leaves the 59 million balance that the President, up to date, hasn't intended to use.
- H.M.Jr: Well, do I understand, then - where is that sheet you(Bartelt) gave me this morning?
- Bartelt: I gave you the - that's it.
- H.M.Jr: Do I understand that in Public Works loans and grants to states....
- Bartelt: Mr. Secretary, I think I should say that those figures are subject to rather material revision.
- H.M.Jr: Well then, I shouldn't use it.
- Bartelt: Well, it's based upon the April message. I can give you some totals that I got from Mr. Maxcy, the Chief

-8-

Accountant, this morning, if you'd like to hear them.

H.M.Jr: Well, let me get everybody - see if we're all talking the same language. Let's forget the administrative expenses for a minute and use the 82 million. Shall we use 82?

Bailey: O.K., beginning this year.

H.M.Jr: Well, he has a balance after the President - after the President allotted this 113 million, he had a balance of 82 million?

Bailey: Yes, but we've got 15 million ~~to~~ charge out against that for administrative expenses this year.

H.M.Jr: 15 million it cost this year?

Bailey: To charge out, yes.

H.M.Jr: That leaves 67.

Bailey: That's right.

H.M.Jr: Do I understand that's all we might fish for?

Bailey: That's all you might fish for, except that there's supposed to be eight of that to carry the closing up in 1939.

H.M.Jr: Well, for the moment I just pass that. But I mean that the most I can hope to salvage is 67?

Bailey: Well, that's the way - on ultimate savings.

H.M.Jr: Well, let me put it another way. Has Mr. Bell already counted on the 67? Has that been counted once?

Lawton: Well, that 67, of course, is a commitment figure, and he hasn't counted that, of course, in his cash figures, because they'll be running on cash for two or three years yet. This is on an obligation or commitment basis, and of the total authorized for PWA there is 67 million which they will not commit or obligate or allocate. That can be saved.

H.M.Jr: Let me put it this way. What I am working on right

-9-

now is the fiscal year that we are in, see, and if we use the figures of July 1, it showed - I want to use that basis rather than any subsequent - I mean let's use those figures. Now, those figures of July 1 - our deficit was 418 million. Now, if I could get back 67 million dollars either in cash or Mr. Ickes' securities, you see, and get that now - let's say I could get the 67; would that reduce the 418 million by 67 million?

Lawton: Yes.

H.M.Jr: "o you see what I mean? If I could, some way or other, lay my hands legally or illegally on 67 million, would it reduce the 418 million by that amount?

Lawton: It would reduce it by approximately that amount, yes.

H.M.Jr: Well...

Bartelt: Does that mean that you would cancel any commitments outstanding?

Lawton: Wouldn't have to with that.

H.M.Jr: No, no, that's - the President announced - I've got his announcement here. Incidentally, Herbert, would you get for me the official copy of the President's announcement on that PWA? The date of it is - I mean I've just got the New York Times - September 21, at Hyde Park.

Gaston: Yes.

H.M.Jr: The President announced commitments of 113 million. Bailey takes that in this sheet here, see, and he brings that down to 67 after allowing 15 million for administrative expenses for this year and next year.

Bailey: No, this year; another eight comes out of that for next year.

H.M.Jr: My God, has he spent 15 million dollars to administer that thing?

Lawton: Spent almost 26 million last year.

-10-

H.M.Jr: On administrative expenses?

Bailey: (Nods yes)

H.M.Jr: It seems unbelievable, doesn't it? Well, anyway, there's 67 million, and then all I could hope to salvage for the President for this fiscal year is 67 million.

Bailey: (Nods yes)

Bartelt: According to this statement, that's right.

H.M.Jr: What?

Bartelt: According to this statement, that would be right.

H.M.Jr: Well then, let's put these two things together. Where's the one - oh, here it is. Then, putting the 61 and 8 - well, these two go together. Let's just see, we've got - this clicks in a minute, Oliphant, but now do this thing again. Do this thing again. PWA has 129 million dollars. You say in order to complete the 113 of their program, they have to sell 61 million, which would leave a balance with PWA of 68 million dollars.

Oliphant: May I suggest that instead of selling theirs, let them sell Jesse's. See what I mean?

H.M.Jr: Well, what I am trying - well, it would be easier to get Jesse to turn his in to me.

Oliphant: No, no, if Jesse sells their securities, then it's for loans and grants.

H.M.Jr: But if I wrote a memorandum to the President - "Would you please turn over 67 million dollars of Mr. Ickes' securities to the Treasury" - then your horseback opinion would be that that would stick, is that right?

Oliphant: Let's put it this way. If they don't route them through Jesse to sell, then those securities can be taken out of the revolving fund. Now, just the details I don't....

-11-

- H.M.Jr: Allowing Mr. Ickes - because, - I mean 15 million dollars to run his shop this year, and going on the theory that if they want administrative expenses to run PWA they should get it the same way any other department gets its allotments; should come down and submit it to the Budget, get it out of the general appropriations, not from securities which are supposed to go to retire the debt - let them justify it. I don't take it he justifies this 15 million.
- Bailey: No, he's reduced....
- H.M.Jr: Well, anyway, it's the worst budgeting I can imagine to take administrative expenses out of a revolving fund which we - on record that the assets from that should go to retire the public debt. So I mean I certainly would fight not to take any more. I don't think it would be fair to do it this year, but certainly as far as '39 is concerned he should get his administrative expenses from Congress through the Budget, shouldn't he, Bailey?
- Bailey: Well, if he can get his money back in the receipts, that's the way to do it, of course.
- H.M.Jr: Well then, we ought to aim to get 67 million, and that would reduce the 418.... I know - he (Bartelt) tells me it's 470, but I don't want to go on that figure; I want to keep using the July figure. There's one way the President can pick up 67 million.
- Bartelt: This is only the grant statement, isn't it?
- Bailey: That's right.
- H.M.Jr: What?
- Bartelt: This covers only the grants. This isn't the whole revolving fund. These are only grants.
- H.M.Jr: Now, can we do loans the same way?
- Bartelt: I should think so. I wanted to give you some figures that I got from the Chief Accountant this morning.
- H.M.Jr: Well, I just wanted to put these pieces of paper together.

-12-

- Bartelt: Looks to me like they've got a pretty big commitment that I haven't heard you mention yet - loans that come out of the revolving fund. Mr. Maxcy told me this morning that he had a cash balance now of 74 million and a half. He's got to reserve 53 million, 300 thousand for grants. That leaves him 21 million, one in the revolving fund in cash for loans. He's got commitments at the present time of 148 million, plus the 58 million that you mentioned before that the President authorized, making a total commitment of 206 million. That's his total commitment. Now, he said that he's got an R.F.C. agreement to purchase 125 million dollars more of his securities. Now, that 125 million dollars, plus the 60 million dollars that you mentioned before, plus the 21 million cash, takes care of the 206 million dollars in commitments.
- H.M.Jr: In other words, there's nothing left of it.
- Bartelt: Well, it isn't absolutely clear to me at the present moment that there is. I'd want to make some further analysis of these figures before stating positively that there is. It looks to me like they've got a tremendous commitment hanging over their heads here.
- H.M.Jr: Well now, just do that again, because this is the first time that I have heard - I don't know, it may be familiar to the Budget, but it isn't - is this.....
- Bailey: No.
- H.M.Jr: Are you familiar with this?
- Bailey: No.
- Oliphant: Could I ask a few preliminary figures before you get him to repeat that?
- H.M.Jr: Yes.
- Oliphant: What's the total of bonds and securities that Ickes has?
- Bartelt: 129 million, as I understand it, right now.
- Oliphant: That's all he has?

-13-

Bartelt: Uh-huh.

Oliphant: What are the total volume of bonds and so forth that Jesse has that he got from Ickes?

Lawton: About 86 million on August 31.

Oliphant: Uh-huh.

Lawton: For which he has already paid.

H.M.Jr: Yes, but that doesn't.... All right, now, go ahead and say that again, what you have said.

Bartelt: Mr. Maxcy advised me this morning over the telephone that he has 148 million dollars in commitments. Added to that....

H.M.Jr: What does that mean? 148 committed to what?

Bartelt: Obligations, agreements to purchase the obligations of public bodies. To that must be added the recent authorization of 58 million dollars. That makes a total of 206 million dollars of potential obligations.

H.M.Jr: Yes.

Bartelt: He says that he has 74½ million dollars in his revolving fund in cash, of which he must reserve 53 million, three for grants. That leaves 21 million in cash for loans. He has an agreement from the R.F.C., as I understand it, to purchase an additional 125 million dollars of their securities. That 125 million, plus the 21 cash, plus the 60 million dollars that they are going to sell - the securities that they now have out of the 125 - would make up the 206 million.

H.M.Jr: Well, in other words, they have committed themselves right up to their hilt.

Bartelt: It looks to me like they have.

H.M.Jr: And there isn't a chance to save a nickel there unless they cancel some of these commitments?

Lawton: Well, when he makes an agreement to purchase this 148 million dollars in bonds he will expect to sell

-14-

those bonds to R.F.C. That will be 148 million dollars worth of bonds that he will get in addition to what he has now on his loan commitments, and he will roll those over, sell them to R.F.C., and use that money to make the loans.

H.M.Jr: Yes, but doesn't the 113 million come out of that 148?

Lawton: The 148 is loans.

H.M.Jr: Let me put it this way....

Lawton: The 113 is grants.

H.M.Jr: You fellows put your heads together on this. Loans and grants. If Mr. Ickes didn't make a single new commitment after September 20, when the President gave out this statement, see; if that really was the cut-off date and no more commitments were made after September 20 of either loans or grants, how much could the United States Treasury salvage out of that thing? I mean if they stopped on September 20 and made no more loans, no more grants, of any kind, if they really went into liquidation, how much could we take? Now, isn't that the - that's what I want, and I haven't got the answer yet. You can't give it to me, Bartelt.

Bartelt: I can't right this moment, Mr. Secretary. I've got to get into these figures.

H.M.Jr: All right, now what I have allowed for - what we are trying to do here is to get those figures so that when the President returns here on the sixth I've got them. But I want them this week. We've got all week to work on this, but I'm going to push like hell, see.

Bartelt: Well, I didn't feel free to talk to any of these people until I talked to you this morning.

H.M.Jr: Well, as I say, I gradually explained to you what I want, and you'll tell me whether you've got them, like that or not. But I'm going to go back to this. And incidentally, Herbert, get enough copies to give everybody in this room the official statement the President gave out on September 20. Get a half dozen copies.

-15-

Gaston: This same one on PWA allocation.

H.M.Jr: This same one, so they can all take a look at it. Then I can go to the President - "All right, Mr. President, if this is what you said, PWA is through. Well now, if that was the cut-off date and you meant no more loans, no more grants, after September 20, there are so many bonds left or will come into the possession of Mr. Ickes which could go to the Treasury, which we feel....." - Mr. Oliphant will no longer be riding horseback; by that time he will have explored the cellar and will give us a legal opinion as to how we can do that. And, you see, evidently now he needs another night, so.....

Oliphant: Yes.

H.M.Jr: See what I mean?

Now, do I make - and now you (Bartelt) are carrying the ball on that, as opposed to the Budget.

Bartelt: Well, I'll work with the Budget on it, to be sure that we are in agreement.

H.M.Jr: It's terribly important. Do you get what I want?

Bartelt: Yes.

H.M.Jr: All right.

Bartelt: Along that line, you see, there's a figure of 180 million dollars in this budget statement with this 418 million dollar deficit. And from what I got in connection with my talk this morning with Maxcy, I wouldn't be a bit surprised that that would be 200 million instead of 180 million. So I'm just trying to figure out how you can reduce this 418 million dollar deficit when you had such conditions.

H.M.Jr: Well, certainly the Commissioner of Accounts and Deposits, the Budget, and the Secretary of the Treasury are entitled to know. We're talking in big figures. How is a poor public expected to understand it?

-16-

- Bartelt: Well, I just didn't want to mislead you by indicating that we could reduce this 418 million dollar deficit by, say, 67 million dollars from that particular source, when the figure in here looks a little bit low already by 20 million.
- H.M.Jr: Well, I don't expect anything until we get it, but what I want - whatever it is, I want to be able to put it on the President's desk and say, "Now, Mr. President, using September 20 as a cut-off date, this is what we can do. This is what we interpret that you meant."
- And incidentally, as you talk to Maxcy, you could say, "By the way, Maxcy, that was a good statement the President gave out. Did you prepare that for him?" Let's find out who prepared that statement for him, see. Will you, Bartelt?
- Bartelt: Yes, sure.
- H.M.Jr: "By the way...." Because that didn't come out of the Budget, that statement, and it didn't come out of this office, and I just wondered who slipped that to him. Huh? Do you suppose? Huh?
- Bartelt: (Nods yes)
- H.M.Jr: Now, that's as far as - now that's Mr. Ickes. Now shall we talk about Mr. Jones, who is coming in here tomorrow morning?
- Bartelt: All right.
- H.M.Jr: Are you ready on that? What? You know, if this wasn't so serious, it would be funny. But I've done this with Bell for the last three years, and it's always the same thing. It's always like looking for - it's almost impossible to get a straight story out of PWA. But we'll get it this time.
- Now Mr. Jones. If Mr. Jones doesn't make any more commitments, then what? Who's going to give me revolving funds? Come on, Bartelt, you're the revolving funds.
- Bartelt: Well, I was hopeful to have with me right now the obligations of the R.F.C.

-17-

H.M.Jr: But you're not ready.

Bartelt: Those figures ought to be down here any minute. Unfortunately, they are not.

H.M.Jr: You're not ready?

Bartelt: I think these figures will have to be revised.

H.M.Jr: All right, I'll give you time.

Are there any other revolving funds that we can squeeze anything out of? Bartelt? Eddie?

Bartelt: I don't know of any large - any material sums.

H.M.Jr: Anybody else know of any?

Bailey: Not talking now about possible abolishment of any of the corporations?

H.M.Jr: Well, I'll come to that in a minute. I just want to give Eddie a chance.

Bartelt: I don't know of any other source from revolving funds.

H.M.Jr: Well, think about it a little more. Now, what I'd like to do is read out loud the memorandum which Mr. Bailey has given me, which I haven't had a chance to read yet.

Oliphant: Is that loans of the Federal Reserve - is that a revolving fund?

H.M.Jr: The only way to stop that is through legislation, and then - then we get our gold back.

Oliphant: It's not a revolving fund?

H.M.Jr: Well, it's a separate thing, and we've got to go and get a piece of legislation through. And as I remember, if they stop now we can get about one hundred million dollars worth of gold back out of it, and then it would take them, oh, 15 or 20 years to do what they've got.... But any time we can get a hundred million dollars worth of gold back and retire that much.

-18-

Gaston: Certificates.

H.M.Jr: National bank notes. I think we're short, as a matter of fact, that much on National bank notes. But that's the way to do it. It should be done in this next Congress. I mean they should be stopped. No excuse for it.

(Reading memorandum from Mr. Bailey) "The estimate is based on two factors; First.... (this portion read in undistinguishable undertone) ..... that this reserve be maintained."

That doesn't help this picture very much.

Then you come and say: "Agencies which appear to have accomplished the purpose for which they were established and which may now be discontinued by Executive Order."

Before I go on that would you mind telling me what I call the postponement of public works for this year. Have you got the answer on that?

Bailey: Here's this table. There's a running comment...

H.M.Jr: Better come here and sit down.

Bailey: There's a running comment as to each of those figures - running comment there.

H.M.Jr: Well, suppose - pardon me?

Bailey: I have copies.

H.M.Jr: Would you give a few around? Everything's confidential here.

"Public Buildings outside of the District of Columbia. - Amount available for cash withdrawal. - '38." How does that mean '38? First column, first page.

Bailey: 1938 fiscal year.

H.M.Jr: Is that the year we're in now?

Bailey: That's right.

-19-

H.M.Jr: Do you call that '38?

Bailey: Ending June 30, 1938.

H.M.Jr: Total, 130 million dollars. "Amount available for cash withdrawal, by departments."

Bailey: That's the apportionment.

H.M.Jr: You mean they've been given....

Bailey: That's what they estimate will be the cash withdrawals under the approved apportionments for 1938.

H.M.Jr: That's 76 million, and the Budget estimates 45 million. Huh?

Bailey: At the present time.

H.M.Jr: "Appropriated for '38, 35 million."

Bailey: Those are the appropriations for the fiscal year '38 - in the law for '38.

H.M.Jr: "Estimated cash withdrawal for '38 is 26 million, Budget 16 million." Hey, listen, you've got to come around. This just doesn't - I don't get this. You start with 130 and you're going to spend 16.

Bailey: Out of the 35 spend 16. Take the first item.

H.M.Jr: You mean he has 130 million to work with?

Bailey: Oh yes, starting back with the unliquidated, unobligated money - it's available coming from '36 and '37 year appropriations, that much. But I kept separate the '38, because you remember Admiral Peoples' memorandum....

H.M.Jr: Yes.

Bailey: ...on the 23 million, in which the Department originally estimated a cash withdrawal of 15 and he now estimates 3 million 8 hundred; and the purpose of these columns is to.....

H.M.Jr: So they've got 130 as a backlog.

-20-

Bailey: That's right.

H.M.Jr: And the current Budget estimate is that they will only spend 16 million.

Bailey: No, sir, they will spend out of all their money here, which includes this 45.

H.M.Jr: 45.

Bailey: That's right.

H.M.Jr: Is this 16 in that 45?

Bailey: That's right, but I wanted to show it this way for you because that was the illustration, you know, we started with, and I thought you would also.....

H.M.Jr: How does that 45 compare with what we said we'd do on July 1?

Bailey: Well....

H.M.Jr: See what I mean? On July 1 how much did you say you'd spend?

Lawton: 45.

Bailey: 45 was in the July figure.

H.M.Jr: Must have been more.

Bailey: And that's our summation figure.

H.M.Jr: But he only agreed here the other day to cut this down to three million eight from 23.

Bailey: And that's why that 16 million is set apart from this total appropriation for '38. But he had - you see, he had 90 million dollars worth of available previous year appropriations.

H.M.Jr: But I still say, is this figure here, this column, the same as the July 1 column?

Bailey: Oh, that is, isn't it, Lawton?

-21-

Lawton: Yes.

H.M.Jr: Well, it doesn't check, because on July 1 he didn't know he was only going to spend three, eight out of the 23.

Lawton: No, but the Budget estimate was that he would spend about 10 percent of his appropriation for the fiscal year, based upon what he did in the two previous years with larger appropriations.

H.M.Jr: Well, let me put it another way. On these figures you're going to give me you're not going to save any savings?

Lawton: Some.

H.M.Jr: Where am I going to compare the savings?

Bailey: Here's the present - no, that's the apportionment. What was the July figure as compared with our current 387 million dollar figure for all of them?

Lawton: It was about 395.

Bailey: You see, we discounted.....

H.M.Jr: But there's no way of my showing... There's room there; couldn't you run right in there the column on what the July figure was? There's room, without retyping all of this. Huh?

Lawton: All right.

H.M.Jr: Couldn't you put it right in there?

Bailey: That's right. Now, how these figures compare with July - of course, I thought you were particularly interested in how much of the 1938 appropriation....

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

Bailey: In the whole picture.

H.M.Jr: I'm interested in the whole picture. I'm interested particularly in how much cash is going out of the till in this fiscal year and how much can we slow it up. That's the best way I can describe it. I mean that's

-22-

what the President said - "Slow up these public works."

- Bailey: Well, this is - it was estimated that their cash withdrawals would be 419 million dollars. Now our cash withdrawals are 387 million.
- H.M.Jr: Well, would that - if that figure - could you say to the President that there is one hundred million dollars of saving on the 418 million?
- Lawton: No, we discounted their estimate by practically that amount.
- Bailey: \* Almost that amount.
- Bartelt: You're about 38 million down in the River and Harbor, aren't you - about 38 million dollars less in this statement than in the July 1 statement.
- H.M.Jr: Then, taking again the 387 million, you'd have to improve on that to save anything out of the 418 million deficit.
- Bailey: Well, that is an improvement.
- Lawton: That is an improvement over the original amount included in the 418, which we will supply in a separate column.
- H.M.Jr: How much, roughly?
- Gaston: 7 million.
- Bartelt: About 41 million, isn't it, Fred?
- Lawton: Have you got a copy of that?
- Bartelt: I think it's 38 million flood control and about 3 million dollars in the T.V.A. Those are the principal differences.
- H.M.Jr: Well, they....
- Bailey: I think there is a million dollars in the Park Service and Indian Service, about five million dollars in Reclamation.

-23-

- H.M.Jr: Well, you could give me that figure and the July 1 figure, can't you?
- Bailey: I can show you how much what we do now is below the July figure. Of course, in July we discounted most all of this.
- H.M.Jr: I know, but I need another figure there.
- Bailey: Now, these are the emergency figures: Cash withdrawals for the year and for seven months. Our present figure is about that much.
- H.M.Jr: What funds are these?
- Bailey: Emergency funds, available for the same major construction work.
- H.M.Jr: Where do they come from?
- Bailey: Those are the different emergency fund appropriations. 150 million dollar figure on that is about the July figure.
- H.M.Jr: Now let me just put it this way a minute. I'll get something through here.
- Well now, when the President says that he's going to spend 500 million for public works - I have down here for '38 these figures that Haas gave me, which he says he got from you people: Public buildings, 60 million dollars - these don't check with any figures that I've got here - public highways, 253; rivers and harbors, 173; PWA grants, 250; others, 150; total, 386.
- Lawton: That includes emergency and regular money, combines the figures that are on both these statements.
- H.M.Jr: All right, but does that check on these two? It's an addition of these two? Well, that's 387 - using your figure here, 387 plus 150 is 527. That doesn't make.....
- Bailey: When all that....
- H.M.Jr: That doesn't make 386.

-24-

Lawton: That doesn't include PWA at all.

H.M.Jr: He's got 250 for PWA.

Bailey: And then the other public works - we haven't all of those in this list of the major ones. So the difference lies in the 250 to add to your figure there....

H.M.Jr: Well, there's 250.

Bailey: ...and then the sum of this and 250 there would make you 777, and about the difference between that and the 886 is out of this 150.

H.M.Jr: You see, what I want to get is this. Let me get over the idea; I've got all week, and we want these figures. The President keeps saying publicly he's going to spend 500 million dollars a year for public works. Now, that's what he thinks, but according to this figure it's 886.

Bailey: Including emergency money.

H.M.Jr: Now, what I want to show him is - "Mr. President, using your own figure of 500 million which you have used for three years, let's get down to 500 million." And therefore this stuff here is a start, but it isn't all. This thing here - I want it all together so I can say, "Mr. President, we're going to spend 886." And the first thing he says, "How do you arrive at 886?" Then I can't, when I'm with him, begin to fish around all over my desk the way I'm doing now. I mean I've got to have it all in one place and say, "You're spending for this year 886 million." And he'll say, "Is that out of the Treasury, or is that obligations or is that commitments or what?" And you fellows have got to get together and give me a figure which will stand up under his eyes, and believe me, he is sharp. I want a figure - now, if I say, "Now, Mr. President" - if 886 is right - "I want to show you where we can put that down to 500 million. Then we'll have a backlog of so many million to carry over to next year, and we can ask Congress for that much less, and it would help us balance the budget beginning with July first." But I haven't got it now.

-25-

- Bailey: No use talking about a 500 million dollar program; that is, a 500 million dollar Budget estimate of appropriations. He can't get to a 500 million dollar cash withdrawal program in 1939, but he's got that carry-over.
- H.M.Jr: Yes, but I'm not - you fellows haven't been tough enough for me. I want to slow this thing down, if I can, to 500 million dollars cash withdrawal for all public works this year.
- Bailey: This year?
- H.M.Jr: Yes sir!
- Bailey: And emergency funds?
- H.M.Jr: Yes sir!
- Bailey: You've got to go some, sir.
- H.M.Jr: Well, I'd like at least to put it on the President's desk and show him how it can be done, and show him how much carry-over we've got for next year without appropriating a dollar. But I want to get it all. Now, I have here Public Works. Under that I have Public Buildings, Public Highways, Rivers and Harbors, PWA, and others.
- George, you ought to give them a copy of this.
- Unemployment Relief would not be Public Works, would it? Direct Relief, Work Relief, Civilian Conservation. Would it?
- Bailey: It isn't in our tabulation.
- H.M.Jr: No, but is this - I want a cash withdrawal figure the way it is now; I'd like to put it down to 500 million. And then, without appropriating another dollar, how much can we carry over to the first of July? Or start this way, do it two ways. Do it the way you've got it, using your figure of 387 plus 150; and then get our Public Works figure, you see. Then we have those three things, that's all. And put them all down and show the way the thing stands now; that

-26-

we'll spend out of the Treasury so many hundred millions of dollars and we'll have so much left over. "Now, Mr. President, if you want to cut that to 500 million, you can save so many hundred millions of dollars and put that over to next year." But I'd like to have those all together.

Bartelt: He's got 858 here in the budget. Here's 451 in his general Public Works program. Then he's got 407 additional in his recovery and relief program. So he's got 858 million dollars.

H.M.Jr: Well, I want all the figures. I want it so the thing is all the same. I want to keep using those figures. But this breakdown here - I mean it isn't in so many items. Have you (Bartelt) got a copy of this that Haas prepared for me?

Bartelt: No.

Haas: I've got a copy of it here. I kept it very close on account of this last column here.

H.M.Jr: Well, give it to him.

Now let me go over it once more. I want from you gentlemen, first, what are all of the Public Works figures as they were of July 1 - everything from any source, Public Works - what you people estimated would be spent out of the till this year, see; and how much the carry-over would be. Then let's take a figure and say to the President how much we think we could slow that up. Now, I - I don't say I can - but I think I've got a chance, if you fellows will show me how, by putting all these figures on one page of Public Works, of getting them to slow down to the actual expenditure this year of 500 million dollars. You notice, I'm not - and then I want how much we've got left over. I don't think it is at all impossible to get the President to say that he will not permit the expenditure of in excess of 500 million dollars for Public Works this year. I mean that's a possibility and that's what I'd like to aim for.

But you've got - you've got - Eddie, the missing figures on this thing are the PWA figures.

-27-

Bartelt: (Nods yes)

H.M.Jr: Am I asking - I'm not asking impossible information, am I?

Bailey: No, sir.

H.M.Jr: It's there, but it just isn't in the way I asked for it.

Lawton: This is the major items included in this general Public Works program, what he calls his general Public Works program, that he includes in the budget as such.

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

Lawton: Which eliminated PWA funds.

H.M.Jr: Pardon me?

Lawton: PWA funds were not included in his 500 million dollar program.

H.M.Jr: Well, I'm going to include them for this. Why the hell don't they belong in there?

Lawton: They were non-federal expenditures, that's the reason.

Bartelt: 135 million dollars in highways that weren't in there either.

Lawton: No emergency money.

H.M.Jr: Well, but - you say they're non-federal, but we're financing them, aren't we?

Lawton: Yes.

H.M.Jr: And as a result of the activity of the Federal Government, these works are going ahead. I mean, gentlemen, that's the mark I want to shoot for. Then let him go back as far as he wants to. But he's thrown - I don't know in how many speeches he's made, he's said that the figure he wants is 500 million. Will you (Gaston) look that up? Going back three years, how many times has he said he only expected to spend 500 million a year for Public Works?

-28-

Gaston: Said it a number of times at press conferences.

H.M.Jr: Just look it up. Then we say, "Mr. President, we have put together all the funds that's come out of the Treasury for public works." And if you notice, in this press release he even included Soil Erosion, at which I was surprised. He even included Soil Erosion.

Bailey: But he hasn't been including in his contemplation of that half a billion dollar Public Works program the carry-over on PWA, completing those projects.

H.M.Jr: But you don't mind if I do it?

Bailey: O.A., sir.

H.M.Jr: I mean I may be fighting against windmills, but don't discourage me.

Bailey: That's right.

H.M.Jr: Because what you gentlemen have done in the Budget - you have just scraped the barrel clean. Now, what I want to do is take the barrel apart, see?

(Hearty laughter)

See? You've absolutely scraped all the molasses out of it. Now, I want to take that barrel apart so they can't fill it up again. I don't want them to fill the damn thing up again, see? Do you see it? And I don't think until you give me....

Now, there's just one thing that they keep throwing in my teeth all the time, and I'd like Mr. Oliphant to work on that. Am I correct that on the first of January each year they apportion this road money? How does that work? Have you got that yet, Herman?

Oliphant: It's pretty plain. The law's pretty plain. I'll have a memorandum on it for you.

Lawton: Before the first of January.

H.M.Jr: When do they do that?

-29-

- Lawton: They have an authorization now for the fiscal year '39, which is the year beginning July first next. That money must be apportioned before the first of January, 1938 - before the first of next January.
- H.M.Jr: Has it been voted - the money?
- Lawton: No appropriation has been made. They are two years back on the appropriations, - that far.
- H.M.Jr: Do you get that, George?
- Haas: Yes.
- H.M.Jr: Now, would you mind calling up MacDonald - is that his name - and telling him that if he is thinking of making these things, please not to do it until I get a chance to talk to him, or the President gets a chance to talk to him.
- Bailey: Between now and January first.
- H.M.Jr: Between now and the first of January, not to do that until the President has had a chance. But as I understand it, they sit down now and appropriate money for the states beginning to be spent July 1, '38.
- Bailey: Allotment money. They are required by law to do it.
- H.M.Jr: And that money - they don't draw on us for that until when?
- Bailey: A year later. The last half of that first sheet memorandum sets that out.
- H.M.Jr: Well, you see, what I'm going to do - I don't want to take the time of you gentlemen now, but I want to read that all at home. Then I'll be up with you. But I don't want to take your time now. But so there's no overlapping, Eddie Bartelt is going to get this stuff from Maxcy and also the R.F.C., those two things, is that right? And you fellows are going to set this thing up differently for me - the Budget - going back to July first. I don't have to go over it again.
- Bailey: All construction items; not just the major ones, but all.

-30-

- H.M.Jr: All. Put it this way: Put everything in there that would go there if there was a Department of Public Works. What would the President do if he had a Department of Public Works? What would he put in there?
- Bailey: Which would assume that any emergency loan money would go to the Department of Public Works.
- H.M.Jr: Yes. Sure.
- Bailey: For construction.
- H.M.Jr: Yes.
- Now, in this memorandum do you take up land?
- Bailey: No, I don't think we have land, because there's none of it that is - well, the most is ten million dollars for 1938 for buying sub-marginal lands.
- H.M.Jr: How about forest lands?
- Lawton: That isn't in there.
- Bailey: It isn't in there, no.
- H.M.Jr: Could you have somebody do a memorandum of all land buying? Throw that all together. Throw that all into one pot - from all funds - all funds, all land buying.
- Haas: Mr. Secretary, we have the loans and also the expenditures of Public Works. Would you want those - even though you have the total, you want them separately.
- H.M.Jr: What's that, George?
- Haas: You want the loans.... For instance, Mr. Bailey asked the question whether you wanted loans used for Public Works all put in. I think you'd want them but you'd want to see separately how big the loan aspect is, because it's quite a different thing to loan money than to spend it outright.
- H.M.Jr: What's the difference? They don't get it back. I'm just thinking out loud here.

-31-

I think that the best way to think of this thing - if the reorganization is going through, the President would set up a Department of Public Works. What would he have put in there? Certainly everything that has to do with construction. And I know he was going to put public highways in there; I know he was going to put PWA in there.

Bailey: Of course, the largest, biggest single piece of money is this public roads money.

H.M.Jr: True. That's why I want to....

Bailey: There's 408 million and a half million dollars worth of legally authorized obligations standing now that there's been no appropriation for.

H.M.Jr: Well, there you are. That's shocking.

Bailey: That's the thing to...

H.M.Jr: Four hundred and eight million...

Bailey: ...five hundred thousand dollars worth still to be appropriated of amounts that the Secretary of Agriculture is directed to apportion to the states, and their expenditure of that is a contractual obligation.

H.M.Jr: Which has not been....

Bailey: Which has not been appropriated.

Oliphant: Not sure when that obligation arises; whether or not the obligation arises on apportionment or arises when the state acts.

Bailey: I think it arises when the state acts.

H.M.Jr: Well, that's the whole question.

But do you gentlemen see the way I'm trying to work this thing? Now, when shall we meet again? Tomorrow afternoon, will that give you a little time? About three o'clock tomorrow afternoon?

Bailey: O.K.

H.M.Jr: What's tomorrow, Tuesday? Let's say three o'clock tomorrow afternoon.

Bailey: The new road authorization act, of course, will be up, probably be one of the first bills - be all ready at the beginning of the next session.

H.M.Jr: Well, let us be ready for it. That's the kind of thing - George, the road thing is a glaring example. How can you balance the budget in the future when your hands are tied two years in advance and you're sunk 408 million dollars before you start?

Bailey: If the President might hand a road bill of his own to Cartwright in the House and Hayden or McKellar in the Senate, instead of waiting for their bill to come along through, I don't know what that would do.

H.M.Jr: Do you get that, George?

Haas: Uh-huh.

H.M.Jr: O.K., gentlemen. Thanks very much.

Telephone conversation between Mr. Mulligan, Treasurer of the Reconstruction Finance Corporation, and Mr. Bartelt, September 27, 1937.

65

Mr. Bartelt:

I was just down with the Secretary of the Treasury and he told me that he is going to have a conference with Mr. Jones tomorrow. He wanted to know if you would have Mr. Jones bring with him commitments outstanding against your balances. In connection with that I would like to ask you a question or two.

You expect to make payments this year of about \$400,000,000 and your receipts from figures we have are estimated at \$650,000,000, leaving net receipts over payments of \$150,000,000.

Mr. Mulligan:

I am going over the thing again today and I'll be able to give you a better idea of it then. That was made sometime ago and I want to go over the figures before I say anything.

Mr. Bartelt: Will Mr. Jones have that?

Mr. Mulligan: I don't know. If he wants it he will. I'm going to start right now.

Mr. Bartelt: Will you have him bring it with him?

Another thing, Mr. Mulligan, do you know of any way in which the Reconstruction Finance Corporation can turn the proceeds of its sales into the Treasury so as to avoid resending the money by the Public Works Administration?

Mr. Mulligan: I don't know of any way. We can buy securities from them.

Mr. Bartelt: Do you know of any way in which they would not be able to use the money?

Mr. Mulligan: I know of no way it could be done. We buy from the Public Works Administration. We have no control over the money from that point on. Mr. Claude Hamilton, the General Counsel, may be able to help you.

Mr. Bartelt: Then you sell those securities can the money be turned into the Treasury?

Mr. Mulligan: It is turned into the Treasury.

Mr. Bartelt: It goes to your account?

Mr. Mulligan: You get it all. The only difference is our debt to you. Then we sell to the Public Works Administration it increases our debt to you.

Mr. Bartelt: Would that be available for expenditure again?

Mr. Mulligan: Under the original law we were authorized to buy from the

Public Works Administration but not over \$200,000,000. This was later increased to \$300,000,000. Beyond that we can't go.

Mr. Bartelt: When you buy the securities from Ickes you give him a check and when you call the securities you deposit that in the Treasury. I was wondering if there was some step in there that I had overlooked.

Mr. Malligan: I don't think so. You seem to have a good idea of the thing.

Mr. Bartelt: The Secretary would like for Mr. Jones to bring those figures.

September 27, 1937.  
2:38 p.m.

67

H.M.Jr: Hello

S.  
Gibbons: I talked to that fellow and he thinks that we're handling this thing in the proper way.

H.M.Jr: Good

G: This man Woodward made that request to Waesche you know, he wanted a special boat to go down there.

H.M.Jr: Well-

G: And we turned the whole thing down - we're handling it just as you said the other morning, in the usual way.

H.M.Jr: Good - but the point that I want to make - I didn't want somebody else outside to say to you, I said so and so.

G: Yes, I see.

H.M.Jr: See

G: Uh-huh.

H.M.Jr: So -

G: Well, I wouldn't - they wouldn't talk to me without my checking on it.

H.M.Jr: Well - forget what I said about this morning in - the personal matter.

G: Yes.

H.M.Jr: You just have to be it, that's all.

G: Yes.

H.M.Jr: I'll see you tomorrow.

G: O.K. All right sir, I'll report to you on that other thing - on - what the fellow said, because - you know you get kicked around for a lot of stuff, but -

H.M.Jr: I know -

G: - But this Dutchman that I'm going to see told me

- 2 -

that they had a promise when they contributed -

H.M.Jr: Uh-huh -

G: To the Campaign Fund, that they were going to get this stuff back -

H.M.Jr: Well -

G: Now, that's just -

H.M.Jr: I doubt it.

G: You know -

H.M.Jr: But, you've got - I've got to leave those so my tax will take care of it.

G: Yes, but -

H.M.Jr: Take care of me - I don't believe he ever got any such promise.

G: Ah - I'm going to put it right up to Jim - I'm going to ask him.

H.M.Jr: That fellow from Chicago might have given him such a promise.

G: Well, if he did, why - it's too bad.

H.M.Jr: Well, let him make good.

G: Uh -

H.M.Jr: Let him make good.

G: Yes.

H.M.Jr: He's a rich guy.

G: This man is all right, only he - he doesn't understand the thing and is under a wrong impression, and he's got a bad impression of you, and me and everybody else.

- 3 -

H.M.Jr: Well, you try and straighten him out.

G: O. K.

H.M.Jr: Thank you.

RB

GRAY

Paris

Dated September 27, 1937

Rec'd 3:45 p. m.

Secretary of State

Washington.

1347, September 27, 4 p. m. SECTION ONE.

FROM COCHRAN.

French control apparently has had a bad day  
yielding sterling directly and through Credit Lyonnais  
at 144.52 to 60. Discount against sterling for one  
month has touched three and three fourths and for three  
months seven and one-half. Understand big Paris banks  
have been requested to send representatives to confidential  
meeting at Bank of France at 6 o'clock tonight when it  
is anticipated they will be asked to cooperate against  
speculative transactions in francs. Rentes opened weak;  
internationals better here with heartening news the  
Americans improved at London. News that Van Zeeland re-  
considered his resignation and is continuing to head  
Government and work toward improving international economics  
had little market effect here. FINANCIAL NEWS presents  
what it interprets as an effort on the part of Finance  
Minister de Man to succeed Van Zeeland.

WILSON

GW:VWC

RB

GRAY

Paris

Dated September 27, 1937

Rec'd 3:59 p. m.

Secretary of State

Washington.

1347, September 27, 4 p. m. (SECTION TWO)

British press comments on renewed gold hoarding.

Kung sailed from Naples for China.

Leading French financial writers are not in sympathy with editorial in Friday's LONDON TIMES which blames exchange speculation for the difficulty of the franc and leads for a "Nyon arrangement" against "financial piracy". Jenny among others considers speculation the result and finds the cause in France's economic and political situation.

At Bank of France on Saturday morning I was told that defense of franc is proving especially difficult for the French control since funds other than francs coming directly from the banks are being converted into foreign currencies. That is with bank deposits so low future discounts so wide and control still possessing resources of gold and foreign exchange sufficient to be effective in more normal circumstances additional funds for conversion into flight

from

RB

-2-#1347, September 27, 4p. m.  
SECTION TWO from Paris

from the franc are becoming constantly available. Part of these are attributed to the fact that with an official fund now supporting French rentes holders thereof find it quite easy to step out of these into francs which can be at once sent abroad. Furthermore the new disbursements by the state from funds borrowed from

(END SECTION TWO)

WILSON

NPL

CSB

RB

GRAY

Paris

Dated September 27, 1937

Rec'd 3:50 p. m.

Secretary of State  
Washington.

1347, September 27, 4 p. m. (SECTION THREE)  
Bank of France release the new currency which the Bank  
has had to put into circulation. Certain Paris acceptance  
facilities to foreign interests are also blamed. French  
press partly realizes above mentioned factors.

Referring to Washington conversations and particularly  
to tripartite agreement London ECONOMIST says in part  
"The difficulties of France since the agreement was  
signed a year ago are not, of course, in any way an  
argument for its abrogation. The term "tripartite"  
has long been misleading for the agreement was quickly  
adhered to by many other countries besides the three  
original signatories. Nor has France broken the terms  
of the agreement for she has neither imposed exchange  
restrictions nor indulged in a willful and competitive  
depreciation of her currency. Today the chief need is  
to continue the agreement and to interpret it elastically."  
British

RB

-2-#1347, September 27, 4 p. m.  
SECTION THREE from Paris

British press gives much space but little praise to  
idea of Anglo-American reciprocity with respect to hot  
money. French writers refer to present efforts to make  
American markets antagonistic to foreign capital. AGENCE  
ECONOMIC commenting upon curious fate of alien funds  
which have already suffered such a loss on Wall Street  
now facing further prospect of federal punishment.

(END OF MESSAGE)

WILSON

6391233  
TELETYPE UNIT  
100

WIC

September 27, 1937.  
3:48 p.m.

B:

H.M.Jr: That's right.

Randolph  
Burgess:

That market's being doing very nicely, I think, under the strain of circumstances. It's a little wobbly today and a little wobbly on Saturday.

H.M.Jr: Yes. Did you do anything today?

B: Not today - no, we did a little something Saturday, you know.

H.M.Jr: Uh-huh.

B: Just used up a few hundred thousand of that order we still had.

H.M.Jr: How much?

B: Five hundred thousand of what we had.

H.M.Jr: I see. Have you got some left.

B: We've still got a million and a quarter left - F.I.C.

H.M.Jr: Well, that'll come in useful some time.

B: Oh very - and we're holding off and letting the market take care of itself as fully as it will.

H.M.Jr: Uh-huh.

B: There's apparently buyers around for notes - very few for bonds.

H.M.Jr: Uh-huh.

B: Very quiet, and the dealers get a little nervous when the stock market goes down.

H.M.Jr: Uh-huh.

B: It all hangs on the stock market now.

H.M.Jr: What

B: It's all a stock market proposition here now.

H.M.Jr: Uh-

B: Everybody's watching that.

H.M.Jr: Yes. Well, of course the market was up today but that may be just technical.

B: Yes - it may have reached what they call a selling climax today or something.

H.M.Jr: Yes.

B: I hope so.

H.M.Jr: Well, you're ~~re-coming~~ coming down Wednesday.

B: I'll be there Wednesday - yes.

H.M.Jr: We got another good break today.

B: Yes, very satisfactory wasn't it.

H.M.Jr: Yes. And - are you in any rush to stop selling these nine months.

B:

H.M.Jr: Well, I thought the idea was to go to these tax bills first.

B: Well - I'll do the two together.

H.M.Jr: Well, you must be having some idea different than what we've got down here.

B: No, I don't think so.

H.M.Jr: We don't need more than just a turnover each week. We don't need any new money.

B: Well what do you mean - you're going to need new money before the end of the year aren't you.

H.M.Jr: Not necessarily.

B: Aren't you really.

H.M.Jr: No. It's too early to tell, but we may be able to squeak through.

B: Well when you say - new money, then we don't mean the same thing. You buy yourself some tax bills.

H.M.Jr: Yes.

B: And roll over the others, aren't you.

H.M.Jr: No - I'm just - I'm thinking about - that's what I'm calling you, so you can be thinking and call me back tomorrow. The suggestion is that when we stop the nine months we begin selling the tax bills, fifty million a week in place of them.

B: Oh - I see.

H.M.Jr: And continue that through until some time in December and then start the ninety days.

B: Yes.

H.M.Jr: I want to - I want to give you that to think about.

B: Well I'll turn that over - I think it's a pity not to - There are two problems there, one is the problem of keeping the market (fade out) and if you don't sell any to speak of, those rates can be driven down to too low a level.

H.M.Jr: Yes, but the point I want to get to you is, we don't - believe it or not - we don't need any more money.

B: (laughs)

H.M.Jr: Now

B: Well, I hear what you say anyway .....

H.M.Jr: Whether you believe it - (laughs) - I mean the best figure that we've got now - certainly go through the 15th without anything in addition to the fifty million a week.

B: Yes.

H.M.Jr: See.

B: Yes.

H.M.Jr: Now - so the question is if we stop the nine months, what are we going to substitute, it's a question of substitution,

- 4 -

not addition.

- B: Yes - yes. The other point is that I think it would be helpful, from a Federal Reserve point of view, to have more January and February bills out then.
- H.M.Jr: January and February.
- B: Bills, yes - so that if we - if we had to go in and buy, there'd be some January and February bills that we could buy, which would off after the end of the year.
- H.M.Jr: You mean on a nine months.
- B: No, ninety days. Supposing that money tightens up around Christmas time.
- H.M.Jr: Yes.
- B: So that the Federal Reserve System has to do some buying.
- H.M.Jr: Yes.
- B: To put money into the market - if we can buy January bills, say, which ran off -
- H.M.Jr: I see
- B: After the turn of the year, it would be very advantageous.
- H.M.Jr: Yes.
- B: We only have about fifty million in January bills now.
- H.M.Jr: Well, here's the point - if we were going to stop selling the nine months, and start the ninety days, I wouldn't want to do it until - so that the ninety days - the first ninety days wouldn't mature until say, about the middle of January.
- B: I see. But you wouldn't want to do it until then.
- H.M.Jr: Well, so that the first ninety days would begin to mature, say about the second week in January.
- B: So they can start about the 13th of October.
- H.M.Jr: That's the idea.

B: Yes. Well that's all right. I don't think - we can  
( fade out )

H.M.Jr: But then the other point, if we start that, and we  
don't need any additional money, we won't have any -  
sell any additional tax bills into March.

B: Yes. The tax bills are the most important in a way.

H.M.Jr: Pardon me.

B: The tax bills are important because -

H.M.Jr: Well, that's what I wanted you to sleep over, which  
is more important.

B: I see

H.M.Jr: I mean - if we stop the nine months to sell ninety  
days or to sell tax bills.

B: I see

H.M.Jr: Now people here in the Treasury lean toward the March  
15th tax date.

B: I see, yes.

H.M.Jr: See

B: Yes

H.M.Jr: And then to start the ninety days after Christmas

B: Not till then, huh

H.M.Jr: No

B: My gosh you must be rich.

H.M.Jr: Well, we're comfortable.

B: Well, that's very good news, I'm glad to hear it  
anyway.

H.M.Jr: But - I just wanted to get that to you, so that -

B: Yes

H.M.Jr: And I'd like to talk to you about it again tomorrow

- 6 -

- come down here you know.

B: Yes - come down loaded.

H.M.Jr: Well, at least -

B: At least intelligent - as possible.

H.M.Jr: As possible. All right

B: All right.

H.M.Jr: Thank you

B: Yes, sir.

H.M.Jr: Goodbye

B: Goodbye.

MEMORANDUM OF THE DAY'S ACTIVITIES

81

September 27, 1937

To: The Secretary

From: Mr. Magill

1. Revision of administrative provisions of the revenue laws

Mr. Traynor who is in charge of this work discussed his progress in organizing the topics to be considered. Mr. Oliphant has appointed a group of six men to do the actual work and they will begin upon it at once. We hope to complete the revision in about six months. If it is well done, it will be in my opinion the most important accomplishment in this field for twenty years.

2. Treaties on tax evasion

Mr. King is leaving in another day or two for Geneva. He feels hopeful that the groundwork can be laid for treaties for the exchange of tax information between ourselves and France, Belgium, Holland, and possibly Italy and Switzerland. Sir Frederick Phillips asked that Mr. King come to London at the close of the Geneva conferences for informal discussions with the inland revenue authorities there.

3. Revision of rules of the Board of Tax Appeals

You will recall that a joint committee from the Board of Tax Appeals and the General Counsel's office has been working on a revision of the rules of the Board. The work has been somewhat impeded by the resignations of Messrs. Russell Ryan and Logan Morris, Mr. Morris having been chairman of the committee. Mr. Surrey who has served as secretary has put in my hands a draft revision of the rules. I think there will be difficulty in persuading the Board to make these changes but I am going to work on the subject as soon as the General Counsel's office indicates its approval of their proposals.

Rm

## GROUP MEETING

September 28, 1937  
9:30 a.m.

Present: Mr. Magill  
Mr. Oliphant  
Mr. Lochhead  
Mr. Gaston  
Mr. Haas  
Mr. Gibbons  
Mr. Thompson

H.M.Jr: Something which interested me very much was a little line of Waley-Eaton in which it said, "I wonder if this is another Federal Reserve panic."

Oliphant: Yes, that's a marvelous line.

H.M.Jr: Ha ha! That's a marvelous line.

Oliphant: Well, it was.

H.M.Jr: What? I don't think - what's their publicity man over there - I don't think he put that in.

Gaston: Elliot Thurston.

H.M.Jr: Yes.

And would you mind, half-seriously, half-jokingly, telling the New York Tribune Bureau that my son Bob is not at Princeton with John Lewis, Jr.; he happens to be at Amherst.

Gaston: Oh, he's going to Amherst.

H.M.Jr: Otherwise they're all right.

Gaston: Well, they got this from Princeton.

H.M.Jr: Bob almost forgot to cancel his registration.

Gaston: Oh, he registered in both places.

H.M.Jr: Well, he did originally - took his examinations for Princeton and passed. I told him all summer that he ought to write them a letter and tell them he was no longer planning to go there. Whether he did I don't

-2-

know. He was pretty busy this summer - Honolulu.

Who do they refer to as the pump-priming group in Washington, Herbert?

Gaston: Uh....

H.M.Jr: What?

Gaston: I don't know.

H.M.Jr: Well, it will come out. I don't think it's Hopkins.

Gibbons: Mrs. Hopkins died.

H.M.Jr: I know.

Magill: Mrs. Hopkins?

Haas: Harry Hopkins' wife?

Gibbons: (Nods yes)

Magill: She's a young woman.

H.M.Jr: Here's all I've got - which simply proves that I'm not going to do again what I did last week. I was a damn fool last week, worked every night. Not going to do it any more. This is from the British Embassy:  
"I have received a telegram from the Chancellor of the Exchequer asking me to convey to you an expression of his thanks to you for having kept so closely in touch with him with regard to the French situation. It has been a great satisfaction to Sir John Simon to feel that your views and his own have so closely coincided."

After it took him one week to agree with me!

"May I add, on behalf of Sir Frederick Phillips, Mr. Trentham and myself a special word of thanks for your courtesy in giving up so much of your valuable time last week and for the princely hospitality with which you honoured us on that delightful visit to Mount Vernon."

All very nice, but I "aint" goin' to do it again. I'm paying for it this week.

-3-

Archie?

Lochhead: I've given you everything I had for this morning.

H.M.Jr: In this room, it's very interesting, the fact that - we just don't know what the answer is; we've checked up now all around the world - the Japanese have stopped selling gold. Either they got enough money or they're afraid to sell more on account of the reaction at home. But the fact remains that since the 9th of September we haven't received any gold. And they tried one shipment to England of what?

Lochhead: Four million.

H.M.Jr: But previous....

Lochhead: Well, they shipped three weeks ago - previous gold - just arrived.

H.M.Jr: For over three weeks, they practically haven't shipped any gold?

Lochhead: Three weeks, haven't shipped any.

H.M.Jr: The question is, "Button, button, who's supplying them with the money?" Just passing a little gossip, that's all.

Mr. Gibbons?

Gibbons: I've got two things I'd like to see you about later on.

H.M.Jr: Well, Mr. Jesse....

Gibbons: No hurry.

H.M.Jr: Well, Jesse Jones comes in at 10. Now, if it's anything about Black or Landy, you better say it now.

Gibbons: No, it's not about Black.

H.M.Jr: About who? Not Justice Black?

Gibbons: No, no, that's official business.

H.M.Jr: Now I've got one thing for you. I'm not going to accept that suggestion for the Internal Revenue Collector.

-4-

Gibbons: Reynolds?

H.M.Jr: That isn't his name, is it?

Gaston: Yes, Arthur Reynolds.

H.M.Jr: And you've got to pass it down.

Gibbons: Jim Farley passed it, so I just....

H.M.Jr: And I'm not going to clear it. I won't accept it. The last fellow was a crook; I had to fire him. The best he could ever earn - this fellow - was two thousand dollars. Perfectly true, Jim Farley says he's an honest man and he's got a clean record. Well, Mr. Jones, my doorman down here - you can check up on him and he's an honest man, but I wouldn't make him Collector of Internal Revenue for Baltimore; and I think he'd do a better job than this fellow he suggested. And I think it's bad policy if you have to fire a man and then take on somebody else you may have to fire.

I asked Herbert to do a little checking, because he worked for Bill Myers, and what he did for Bill Myers was to interview people wanting a job, and they paid him two thousand dollars. And after he left that, he got a job for \$1800. And that's the man they want to make Collector. After having made an ass of him for one year, I should think they'd come along with an outstanding fellow. Instead, they give me a clerk.

Gibbons: Congressman Ryan was up and said there was a namesake of Tom Gibbons, the ex-prize fighter, a college graduate, you could appoint.

H.M.Jr: There's a letter there.....

Gaston: This man here, Commissioner of Labor, says Einar Hoidale - he would be an immensely better appointment than this man he mentioned.

H.M.Jr: Would you mind turning that over to Steve and tell Steve afterwards what.... Will you assume this responsibility?

Gibbons: This thing was jammed right through. Jim called me

-5-

on Saturday and wanted me to get hold of you.

H.M.Jr: I'm not going to do it.

Gibbons: I haven't seen this Reynolds report at all.

H.M.Jr: I'm not going to do the President a disservice. I'm not doing the President any service to appoint an \$1800 clerk just because he's honest.

Gibbons: Yes.

H.M.Jr: It is certainly an awful reflection on the Democratic party that the only person that is honest in the State of Minnesota is an \$1800 clerk.

Oliphant: Honesty extends no higher.

H.M.Jr: Well, honest in that you can't find anything else against him. It's ridiculous, and I'm disappointed that the thing has come up to me all signed and everything else.

Gibbons: Well, I didn't see it.

H.M.Jr: No, I'm looking at Thompson. No red flag on it, Thompson.

Thompson: I gave it to Miss Chauncey. I thought you had given instructions to make it....

H.M.Jr: No, just to get it ready. No red flag on it, I mean. Well, anyway.....

Gibbons: This other man was a candidate for Senator. He was a candidate also.

H.M.Jr: Why is Hoidale's name so familiar to me?

Gaston: He was Congressman and then Democratic candidate for Senator, and then he later had some job, I think, in the Farm Credit set-up.

H.M.Jr: I should think they've had an experience here recently about rushing people through. Don't we ever learn any

-6-

lessons? I mean the reason I'm saying this is so that you (Gibbons) can repeat. "This is what Henry told me." See? Do you get the point?

Gibbons: The answer will be - he gave it to me - that the Party was in such bad shape out there, and just as soon as this other fellow was out they wanted to have somebody put in his place so there wouldn't be a wide-open fight. But that's nonsense.

H.M.Jr: I know this much about public relations, not politics. If you want to have people forget we had to fire the fellow, then give us such an outstanding fellow that they will forget; but not immediately begin to say, "My God, look at this fellow."

Gibbons: And particularly in a community like this. Not like New York, Philadelphia, some big community. They take their politics seriously out there.

H.M.Jr: And they know their people.

Gibbons: Sure they do.

H.M.Jr: Do you mind my pinning this on you, and you're simply quoting me. I hope you agree.

Gibbons: Oh, absolutely. What you have just told me is the first I ever heard about the fellow. But if he's an \$1800 clerk, absolutely.

H.M.Jr: They say he worked for one of these subsidiaries of Farm Credit. We asked Bill Myers, "What about this fellow?" Well, Bill had to stop and think. They couldn't find him.

Now, the other - what you've got isn't pressing?

Gibbons: No, no, that's just a lot of nasty gossip. You know the thing I mentioned to you yesterday.

H.M.Jr: Yes.

Gibbons: It smells lousier than this thing out there. Nearly everything that was done was done in cash, currency.

H.M.Jr: Was it?

Oliphant: Steve enjoyed it.

H.M.Jr: What?

Oliphant: He enjoyed it.

Gibbons: Just smells bad.

H.M.Jr: Not so good. When you get through. Good juicy gossip might cheer me up. I don't want anything depressing today.

Thompson, your decks clear?

Thompson: All clear, yes, sir.

H.M.Jr: All right.

Georgie?

Haas: I put this bill stuff on a sheet somewhat similar to Danny.

H.M.Jr: Yes.

Haas: And changed ours somewhat and also changed Danny's on the same design, so you can see the....

H.M.Jr: Do you mind telling me what you recommend to take the place of the 9-months?

Haas: Of the 9-months?

H.M.Jr: (On phone) Bartelt on the wire.

I mean what do you recommend? Just tell me. What do you recommend?

Haas: Well, it's just a question of when. It runs this way. On the 22d we're issuing - continued to issue 9-months - 22d, 29th, October 6th.

H.M.Jr: Wait a second.

(On phone) Hello, Eddie. Can you bring down to that Open Market Committee at 11 o'clock tomorrow the usual

-8-

thing which Bell brings, which is an estimate of what we need in the way of money from now until the 15th of December. Who makes that up for Bell? - - Well, you bring it down at 11 o'clock tomorrow. Because when I told Burgess that we didn't need any money until the 15th, he wept bitterly. - - Yes, because he said the Federal Reserve have only 50 million dollars maturing in January, and what are they going to do in case they have to go in and buy some stuff? They'd actually have to put in fresh money. - - All right.

You know, it's really - he wasn't joking; he said, "My God, we have only 50 million dollars maturing in January, and supposing there is a shortage." He says, "What are we going to do? We wouldn't have any bills to run off. We wouldn't have any odd money to use."

Haas: That is something to worry about.

H.M.Jr: Now, he says, "What are we going to do? So if there is a tight situation over Christmas, if you don't give us anything now to buy, we don't have anything maturing in January, we'd have to actually increase our portfolio."

Lochhead: Spoil that nice authorization.

H.M.Jr: And they'd actually have to use it.

Lochhead: That's the point.

H.M.Jr: Well, what do you suggest?

Haas: Well,....

H.M.Jr: Oh, come on.

Haas: Here's the 273-day bills; here's the dates; issue four more of them, up to the 13th. Then we run these tax bills into March.

H.M.Jr: Yes.

Haas: And then down here....

-9-

H.M.Jr: That's enough.

Haas: Down here the 91-days start.

H.M.Jr: All right. I told him the 13th. But this is the taxes. How many taxes?

Haas: 1 - 2 - 3 - 4 - 5 - 6 - 7 - 8 - 9.

H.M.Jr: Nine - 450. And then you start the 90-days on the.....

Haas: On the 22d of December. And then the certificates we're doing on the 15th.

H.M.Jr: 300 million. Don't do that.

Haas: O.K., drop that out.

H.M.Jr: And do it down here when you do need it.

Haas: Now Danny's is a little bit different.

H.M.Jr: I know.

Haas: You've got two sheets. That's Danny's suggestion.

H.M.Jr: What's that?

Haas: That's Danny's suggestion, and the only difference is that down here we didn't want to start a hundred million dollars just before the March financing, so we modified to get away from that. That's the only difference.

H.M.Jr: These fellows can't get used to it here. May not need new money until the 15th of December; may not need it then. But I got a great kick out of hearing Burgess; really, he was upset. So I repeated. He says, "You don't have to yell at me. I know it the first time."

You're (Thompson) all right?

Thompson: Yes.

Haas: I'm clear.

-10-

H.M.Jr: Have you heard - did you see what happened on the automobile stuff in the Times today?

Haas: No, I didn't.

H.M.Jr: Went up about 20 notches.

Haas: On their index?

H.M.Jr: Yes.

Haas: No, I didn't see that.

H.M.Jr: Is your boy back?

Haas: No. He may be on the wire trying to get me now. But he is to call me this morning. Either that or he's back.

H.M.Jr: (On phone) Find out if Henry Murphy is back from Detroit - in Mr. Haas' office. Please.

Haas: Well, that would line up somewhat with the information that they're going back into production.

H.M.Jr: Automobile index, Times, jumped from 108.7 to 133.6. Just as a matter of interest I called up George Haas and asked him to send a man out to Detroit to find out when this automobile thing was going to turn, because I thought it was one of the most important things. So she's jumped.

But the thing that doesn't check here - it says the Ford and Lincoln plants were closed completely. You said they were in production.

Haas: The story I got was that they were working on old models; that would keep some of them open. That wasn't Henry's check.

H.M.Jr: This would make a terrific difference in the Times index next week.

Oliphant: In the steel index too.

H.M.Jr: Yes, I know. All right, George. That meeting this

-11-

afternoon with all the boys - I'm going to have it at 2:30. I mean on this question of economy, budget.

Haas: Oh, 2:30.

H.M.Jr: 2:30.

Gaston: (Nods nothing)

H.M.Jr: You feeling all right?

Gaston: Yes, yes, I'm O.K.

H.M.Jr: What?

Gaston: Yes, I feel all right.

Oliphant: There's a question - the Attorney General gave me that - gives you this authority to - gives us authority to go out and find it somewhere else, having failed twice to get competition.

H.M.Jr: You're going - we're asking him to give us something so that we can go out somewhere else and buy tires, is that the idea?

Oliphant: (Nods yes)

H.M.Jr: Hello (On phone) - - Thank you.

Murphy is not in.

Oliphant: I know what they're going to say, but I want to get their opinion so as to keep our records straight.

H.M.Jr: Did they bid?

Oliphant: Bid simultaneously.

H.M.Jr: Then why do you need this?

Oliphant: I just want the record. I've got their verbal opinion. But I don't want their....

H.M.Jr: But you don't have to use this?

Oliphant: Just to keep our records straight.

-12-

- Gaston: They're not bidding in open bidding.
- Oliphant: We're acting on the authority which this will formally register; namely, having tried to get competitive bids twice, then under the law the Government is entitled to go out and buy as best it can.
- H.M.Jr: You know this, you've got it pat, and I haven't. Twice we have asked for bids and twice they were identical. And now, on the third time, we have gone out and gotten Sears-Roebuck and they've come in with something lower. And this is the authority to close, is that the idea?
- Oliphant: This confirms their previous oral opinion to us.
- H.M.Jr: Do you think I ought to see Captain Collins? What?
- Oliphant: Just telephone him. Give you very interesting news. I'd just call him.
- H.M.Jr: All right. You stay. We'll call him.
- Oliphant: Miss Chauncey gave me this telegram, sent it in to me.
- H.M.Jr: Well, this fellow's been phoning all day and he's an attorney; I don't see lawyers.
- Oliphant: I'll see him.
- H.M.Jr: But you better get from Wayne Taylor the memorandum.
- Oliphant: Well, I know the story.
- H.M.Jr: I don't. But he's an attorney, and I told Kieley to turn him over to you, that I don't see lawyers. I mean if there's an ammonium sulphate company, one company - I think he represents an association, doesn't he?
- Oliphant: (Nods yes)
- H.M.Jr: I won't see him. If the President of a company wants to come down and see me, all right, but if it's an

-13-

association and I don't belong to....

Gibbons: Is that a dumping case?

H.M.Jr: Yes. Laurel Curtis' husband

Gibbons: Domestic concern.

H.M.Jr: It's an association.

Gibbons: Yes, I know.

Oliphant: I'll see him; I'll take care of it.

Magill: Nothing. \*

H.M.Jr: All right.

September 28, 1937.  
9:58 a.m.

95

H.M.Jr: Hello

Operator: Admiral Peoples won't be in at all today. I have  
Captain Collins for you.

O: Go ahead.

H.M.Jr: Hello

Collins: Good morning, sir.

H.M.Jr: Sir Captain Collins.

C: Yes, sir.

H.M.Jr: I hear we've got a good bid on tires.

C: It looks that way sir, yes, sir.

H.M.Jr: Tell me about it.

C: Well, the prices apparently - I wouldn't want to say  
definitely how much of a reduction it is but it looks  
like probably a ten to a twelve per cent reduction.  
I'm working on the tabulation now, sir.

H.M.Jr: I see.

C: These people came in yesterday morning through the  
courtesy of Leon Henderson of - Harry Hopkins sent up.

H.M.Jr: Yes.

C: - and ostensibly to give us some advice as to where  
the source of supply was, and when they got here they  
became very much interested in it, and they have sub-  
mitted the price list - is what it really amounts to,  
sir.

H.M.Jr: Who is they

C: Sears and Roebuck.

H.M.Jr: Uh-huh.

C: And they have tires manufactured by four companies -  
practically the total output of those companies  
and while they do not bid on all the sizes  
they do bid on all of the popular sizes.

- 2 -

H.M.Jr: Yes.

C: And they take - there's no bid at all however for such things as aeroplane tires and specialties, such as we have carried on a schedule in the past.

H.M.Jr: Yes.

C: I am laying it down now, Mr. Secretary, in order that we may have a picture, - as I told Mr. Oliphant last night, a picture of the whole transaction from start to finish, and until I can get that laid out and see how it affects other tire prices on which bids had been received, why we will not know just what the reduction is.

H.M.Jr: Well, now, when you've got it ready, and it's all ready for decision, let me know and I want you to come over here.

C: All right, sir, I'll be over.

H.M.Jr: Righto.

C: Thank you, sir.

H.M.Jr: Because I'm - this is

C: Sir.

H.M.Jr: This is a matter both the President and I are interested in.

C: Yes, sir. Well, I'll be in contact with your office as soon as I finish.

H.M.Jr: Thank you.

C: Thank you, sir.

September 28, 1937.  
10:00 a.m.

H.M.Jr: Hello

Operator: Mr. Henderson - Go ahead.

H.M.Jr: Leon Henderson

Leon

Henderson: Yes, sir.

H.M.Jr: Morgenthau

H: Yes, Mr. Secretary.

H.M.Jr: I just want to tell you how much pleased I am on the assistance you gave us on that tire business.

H: Well, I'm just holding my breath to see whether it works out all right, I don't know -

H.M.Jr: Well, I just talked to Captain Collins, and I told him both the President and I were very much interested when he's got it laid out, and he knows where he's at, to come over and see me.

H: Well, that's swell. Well, now I tell you - what I think would be a good idea, - now you're going to talk to Herman about it, I think it would be a good idea to anticipate some of these things and look ahead to new lettings where we've had identical bids in the past.

H.M.Jr: I know

H: I've always felt - one of the things I've wanted to talk to you about, and never really got around to, I believe the Government ought to centralize all its information about the - say, pretty largest industries, particularly those with which it has dealings and which policy is concerned. When you get into a situation like oil, rubber or steel, there's a great difference of opinion, and the information on which the Government can base its action is scattered all over - all over all the Departments.

H.M.Jr: But that suggestion is so practical

H: And -

one will

H.M.Jr: No / most likely pay any attention to it.

H: You people down in your Procurement have a closer

- 2 -

contact with industry, than practically anyone else.

H.M.Jr: Yes

H: And - I'm going to talk to Herman to see whether it couldn't be worked out.

H.M.Jr: I don't see why it can't, unless the fact that it's so practical, it kills it before we start.

H: How are you feeling after your trip?

H.M.Jr: How do I sound.

H: You sound pretty good, I'll tell you.

H.M.Jr: O.K.

H: Well, I hope to see you some evening.

H.M.Jr: I hope so.

H: All right, Mr. Secretary.

September 28, 1937.  
12:06 p.m.

H.M.Jr: Hello, Cochran.

Cochran: Yes, sir.

H.M.Jr: What do you know

C: The situation is a little nervous here but not quite so much pressure on the franc.

H.M.Jr: I see

C: Money is awfully scarce for the month end so we can't tell much by it.

H.M.Jr: Uh-huh

C: Yesterday and today on each state operation the control is less than one hundred billion francs

H.M.Jr: Yesterday

C: Yesterday less than one hundred

H.M.Jr: Yes, a hundred million francs

C: A hundred million francs

H.M.Jr: And how much today

C: I would say it was less than one hundred

H.M.Jr: Oh, so between - in two days they've done about two hundred million

C: Yes - I'll get the dispatch ticker tomorrow but that's the estimate I got.

H.M.Jr: I see

C:

H.M.Jr: Well -

C: I expected a circular out today following that statement at the bank last night.

H.M.Jr: Yes

- 2 -

C: Which wont expect banks to refrain from ticker operation which were not of a commercial character.

H.M.Jr: I see

C: And also to give bank notes only to bona fide while the rumored it might come out, the rumor on the market is that the Minister of Finance stopped it.

H.M.Jr: I see

C: I - I called my friend and he asked me to come out and see him in the morning.

H.M.Jr: I see

C: So that

H.M.Jr: Well, how much longer is this going to last.

C: It's awfully hard to say, I got straight information this - the 26th, that the statement on Thursday would not show any new advance to the

H.M.Jr: Uh-huh. I see

C: So the thing is up in the air.

H.M.Jr: Uh-huh. All right, I just want to check with you personally. I - I hope the Belgian thing will quiet down a little bit.

C: I think that is - it looked a little better today.

H.M.Jr: Yes

C: And I - because my worry about this whole thing was, that it might start some of these nearby getting nervous.

H.M.Jr: Yes

C: And that they'll be susceptible.

H.M.Jr: Yes

C: But today it looks a little better and I think that man may hold on, now.

- 3 -

H.M.Jr: Uh-huh

C: Until December

H.M.Jr: Until when?

C: December

H.M.Jr: I see

C: At least, that's my personal belief that it will get out then and go into the banks.

H.M.Jr: Yes

C: I - I'm not sure of course, that's my hope.

H.M.Jr: O.K. All right.

C: And here - as you know the election

H.M.Jr: Yes

C: Then they have a radical socialist convention on the 28th of October.

H.M.Jr: Yes

C: Then Parliament would like to speak on the 6th - about the 6th of November.

H.M.Jr: Yes All right.

C: Whether anything will happen and when, is still a question.

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

C: You have no change in your plans for me, is there.

H.M.Jr: No you'd better stick there and see this thing through until it either gets better or worse.

C: Yes - that's what I feel too, because -

H.M.Jr: You mean there's no sense of coming over here with this thing pending.

C: Oh no, no, no this is the interesting place right now.

- 4 -

H.M.Jr: Well, - stick it through until it gets better or worse

C: Well, I think we'll know something within the next ten days.

H.M.Jr: All right

C: Maybe the week, and if I was on the way home - it'd be -

H.M.Jr: No, no, you could serve us much better by being there than being on the water.

C: All right, if you feel that way I'm very

H.M.Jr: All right

C: There's nothing more right here.

H.M.Jr: All right

C: Goodbye

H.M.Jr: Goodbye.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 29, 1937, noon.

NO.: 1355

RUSH

FROM COCHRAN. ULTRA CONFIDENTIAL.

Re my telegram No. 1345, September 25, 3 p.m. The letter as drafted by Bonnet was duly signed and delivered to the Bank of France. In the letter Bonnet practically called upon the Bank of France for an explanation as to why the French monetary situation has not improved in spite of the policies which Bonnet has followed. Bonnet intimated that the Bank of France should take stronger measures to check speculation against the franc. The preparation of a reply was immediately begun by the Bank of France in which no reference was made to politics. In it the point was maintained that the reason for the inability of the stabilization fund and the Bank of France to improve the currency situation lay outside the technical monetary field.

The Bank, acting upon the suggestion in the letter that steps to check speculation be taken, called a meeting for 6 o'clock on Monday evening of leading Paris bankers, as I reported previously. The Bank of France at this meeting sought pledges of cooperation which involved limiting future exchange operations against the franc to purely commercial transactions

transactions and only giving bona fide travelers foreign bank notes. Plans were made for issuance of a circular letter to the banks the following morning.

However, before the circular could be issued yesterday morning, Bonnet got in touch with the Bank. Bonnet said that he had thought over more carefully the letter he had sent to the Bank; since he particularly desired to avoid any possible appearance of controversy between himself and the Bank Governor, he had decided to withdraw the letter and asked that the original which he had sent to the Governor be canceled. This was agreed to by the Governor, who also stopped preparation of his reply to Bonnet.

Bonnet told the Bank Governor, also, that he did not believe the Bank should bear down too severely on the banks along the lines which had been discussed at the meeting the night before. Therefore no circular letter was issued by the Bank of France. My friends are of the opinion that bankers who had attended the conference - and Lazard in particular - who have very close contact with the Minister of Finance reported to him after the meeting what took place there and set forth their objections to the proceedings. Officials of the Bank of France decided that on their own responsibility they would continue to do what they could to check speculation against the franc, but they realized that the market would know that such efforts could not be very vigorous in view of the above-mentioned circumstances.

- 3 -

There is a story in today's press of the cooperation which Paris banks have pledged in helping the Bank of France to check speculation.

The market this morning reacted very strongly against the franc, as fully anticipated by the Bank of France officials as a result of the above developments - which all of the bankers who attended the conference knew about or at least suspected. The field seems to be left fairly clear for bear speculation in view of Bonnet's public intimations that further gold resources of the Bank of France itself will not be used to support the franc, the promises of the Government that exchange control will not be imposed, and in view of the Ministry of Finance now failing to back up the informal restrictive measures which it was contemplated the Bank of France should inaugurate. The French stabilization fund is, of course, the main obstacle. The fund by 11 o'clock this morning had been obliged to yield a little over one million pounds of sterling at 144.80 operating through its own trader and through the Societe Generale and the Comptoir. The losses for Monday and Tuesday of this week each day were less than 100 million francs of foreign exchange.

The Bank of Spain for several years has had on deposit in France gold as security for a franc credit from the

Bank

- 4 -

Bank of France; I have been most confidentially informed ~~ix~~ that decision has been reached by the Valencia Government to pay off the franc loan. The Valencia Government has sold ~~ix~~ gold to the French stabilization fund in order to procure the francs, with the result that the gold holdings of the stabilization fund are now increased by a little over one billion French francs.

My informants are of the opinion that the letter drafted by Bonnet to Chautemps (which I previously mentioned) has actually gone forward; this however has not been confirmed as yet. My usual informants and other sources have convinced me that there is active political maneuvering. Some action may be hastened by renewed pressure on the franc.

END MESSAGE.

WILSON.

EA:LWW

September 26, 1937

To: The Secretary

From: Mr. Magill

Subject: Conference with Congressman Fred M. Vinson -  
Re: Revenue program for 1938

Mr. Vinson said that he would be in town continuously during the fall. He thought his subcommittee of the Ways and Means Committee would all be ready to come to Washington early in November to begin work upon the proposed revenue bill. He said Mr. Doughton had, as he put it, "sworn in" each of the members of the committee with a view to insuring peaceful and objective consideration of the various proposals. He anticipated, however, that we would have difficulty on particular subjects, such as percentage depletion and community property, from such men as Congressmen Buck and Disney, from California and Oklahoma respectively. He thinks, however, that we will be able to eliminate percentage depletion or cut it down in some way so as to insure a large increase in revenue.

Mr. Vinson is very anxious to keep the budget balanced and to eliminate no taxes unless we can be sure of obtaining an equivalent amount of revenue from some other source. He said he thought the sentiment of the country was not in favor of eliminating the tax on capital gains. He thought it might be well to tax capital gains at a flat rate and he is toying with the idea of some form of transfer tax to be collected at the time of the sale. He believes that one basic trouble with our present revenue system is too long deferment of collections of taxes after the transactions have occurred and, hence, he would like to see the introduction of provisions for withholding the tax at the source, particularly in the case of salaries and possibly in the case of transfers of property. You will recall that his last week's press release suggested the possibility of withholding the tax at source on salaries.

His present thought seems to be either to retain the undistributed profits tax without much change or to return more nearly to the provisions of the house bill on the subject. If this were done, he might be willing to repeal the capital stock tax and the normal tax on corporations but he is doubtful about the repeal of these two latter taxes on account of the amount of revenue involved.

He thinks the upper rates of the estate tax and probably the income tax are too high to be effective.

- 2 -

He contemplates the repeal of only a few of the excise taxes on account of his basic desire to keep the total volume of revenue up to its present level.

He would like to do something about tax-exempt bonds but he is not very clear as to what should be done.

In general Mr. Vinson was very friendly and I have the impression that if we consult him in advance he will be quite open to our suggestions. I am sure that he realizes his chairmanship of the subcommittee gives him an excellent chance to increase his reputation and that the best way to do it is to work with the Treasury as closely as possible. He has not as yet done much thinking about specific proposals. In my judgment it will be to our advantage to discuss our major recommendations with him privately since I think that in that way we can generally secure his strong support. I told him that I would get in touch with him again within a week.

RM

September 28, 1937.

If the President wants to do it and if he means what he says, that they are not going to make any more commitments to WPA, then I suggest that they turn the whole of WPA over to the RFC for liquidation. I told this to Jesse Jones and I could tell that he was just crazy to have it. He said that all of these lending agencies should be fitted together and headed up by a business man which, of course, he says he is.

September 28, 1937

TO MR. HILL:

I was in conference today with the Secretary, Mr. Shildanweiser, and Mr. Ransom of the Federal Reserve Board, in connection with the problem of excess reserves. The Secretary thought that it would be advisable, for at least two weeks, when we make our calls on Monday and Thursday, to get in touch with the Federal Reserve Board (Mr. Ransom), and advise him with respect to the proposed call in order that the Board might have an opportunity to acquaint us with any matters which they feel should be called to our attention before the call is sent out.

A handwritten signature or set of initials, possibly 'EJ', written in dark ink. The signature is stylized and loops around itself.

EJB:EBW



# TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

COMMISSIONER OF  
ACCOUNTS AND DEPOSITS

111

RE: CONFERENCE BETWEEN SECRETARY MORGENTHAU  
AND HONORABLE JESSE JONES, SEPTEMBER 28,  
1937, REGARDING BUDGET OUTLOOK FOR 1938

A conference was held in the Office of the Secretary of the Treasury at 10:00 o'clock, a. m., September 28, 1937, for the purpose of discussing the estimated receipts and expenditures of the Reconstruction Finance Corporation for the fiscal year ending June 30, 1938.

There were present at the conference Secretary Morgenthau, Honorable Jesse Jones, Mr. Mulligan of the Reconstruction Finance Corporation, Messrs. Bailey and Lawton of the Bureau of the Budget, and Mr. Bartelt, Commissioner of Accounts and Deposits.

Mr. Jones presented to the Secretary a letter dated September 28, 1937, in which he stated that the Reconstruction Finance Corporation had submitted to the Bureau of the Budget, for inclusion in the 1938 budget, an estimate of disbursements in excess of receipts of \$148,500,000, and that this estimate had been changed by the Bureau of the Budget from a net disbursement of \$148,500,000 to net receipts of \$150,000,000, a difference of \$298,500,000.

I understood Mr. Jones to say that he had received a letter from the President some time ago requesting that the Reconstruction Finance Corporation improve its cash position with the Treasury during the fiscal year 1938 to the extent of \$150,000,000. I also understood Mr. Jones to say that he took this to mean that the improvement requested by the President was to be made in relation to his net disbursement estimate previously submitted to the Bureau of the Budget. This would practically balance the Reconstruction Finance Corporation's budget on a cash basis for the fiscal year 1938. Mr. Jones indicated that if the Reconstruction Finance Corporation can reach the Budget estimate of \$150,000,000 in excess of receipts during the fiscal year 1938, that is all that could be expected. However, he assured the Secretary of his fullest cooperation in the Secretary's effort to reduce the budget deficit below the estimate of \$418,000,000, as submitted to the Congress in the President's Message of April 20, 1937. To this end, he will have

- 2 -

a careful analysis made of the estimated receipts and expenditures of the Reconstruction Finance Corporation and will furnish the Secretary with a statement showing the bed-rock figures on which the Secretary can absolutely depend, plus the additional amount of receipts which the Reconstruction Finance Corporation might deposit in the Treasury if it gets "the breaks". Mr. Jones will also furnish the Secretary with a list of the major projects which enter into the picture.

Mr. Jones mentioned the following undisbursed commitments which are outstanding at the present time:

Loans . . . . .	\$ 520,703,000
Commodity Credit Corporation (including \$150,000,000 for cotton) . . . . .	227,000,000
Rural Electrification Adminis- tration . . . . .	41,900,000
Allocations to other Govern- mental agencies, of which not more than \$5,000,000 will probably be used . . . .	137,247,000

Among the more important items included in the \$520,703,000. of undisbursed commitments for loans, Mr. Jones mentioned the following:

\$48,000,000 for the East River Tunnel (which will be disbursed over a period of approximately 4 years);  
 \$28,000,000 for the Hudson Tube (which will be disbursed over a period of 3 years);  
 \$90,000,000 for jobs in the Metropolitan Water District in Southern California;  
 \$63,000,000 for closed banks; and  
 \$40,000,000 for drainage and irrigation districts.

Mr. Jones agreed to submit his revised estimates within the next week and will have another conference with Secretary Morgenthau at 10:00 o'clock a.m. on October 5, 1937, for further discussion of the situation.

- 3 -

There was then some discussion with respect to the Public Works Administration program, with particular reference to the securities which the Reconstruction Finance Corporation will buy from Public Works Administration. Mr. Jones mentioned an understanding which the Reconstruction Finance Corporation has with the Public Works Administration to take over \$99,000,000 of securities acquired by Public Works Administration in connection with the East River Tunnel, Hudson Tube and a few other major projects. Mr. Jones also indicated that he had tentatively agreed to take from Public Works Administration certain securities now held by Public Works Administration (amounting to approximately \$120,000,000) at 66-2/3. (Mr. Jones said this information should be regarded as strictly confidential.)

Mr. Bartelt gave the following figures as representing the undisbursed commitments of Public Works Administration and the estimated cash outlays by fiscal years in connection with such commitments according to information furnished by Mr. Maxcy, Chief Accountant of Public Works Administration. -- (In millions).

	Loans	Grants	Housing <sup>c/</sup>	Total
Commitments . . . . .	\$ 206	\$ 384	\$ 54	\$ 644
Cash disbursements:				
(estimated)				
1938 . . . . .	\$ 145	\$ 200	\$ 42	\$ 387 <sup>a/</sup>
1939 . . . . .	61	164	12	237 <sup>b/</sup>
1940 . . . . .	-	20	-	20
Total . . . . .	\$ 206	\$ 384	\$ 54	\$ 644
<sup>a/</sup> Exclusive of \$15,000,000 for administrative expenses.				
<sup>b/</sup> Exclusive of \$9,000,000 for administrative expenses.				
<sup>c/</sup> Old program.				

Mr. Bartelt also stated that Mr. Maxcy had advised him that the \$206,000,000 loan commitment for 1938 would be financed as follows:

1. From cash balance now in revolving fund (\$53M must be reserved for grants) . . . . . \$ 21 M

- 4 -

2. From sales of present holdings of securities to Reconstruction Finance Corporation (PWA now holds \$129M) . . . . .	\$ 50 M
3. From additional sales of securities to Reconstruction Finance Corporation (as and when acquired by PWA) . . . . .	<u>125 M</u>
Total . . . . .	<u>\$ 206 M</u>

After the meeting in Secretary Morgenthau's office, Mr. Mulligan of Reconstruction Finance Corporation, Mr. Lawton of the Budget Bureau, and Mr. Bartelt, Commissioner of Accounts and Deposits, called Mr. Maxcy, Chief Accountant of the Public Works Administration, over to the Treasury to discuss the program of Public Works Administration in so far as the budgetary outlook was concerned, and with particular reference to the purchase of Public Works Administration securities by the Reconstruction Finance Corporation.

Mr. Maxcy furnished the following breakdown of projects included in the \$125,000,000 which he stated the Reconstruction Finance Corporation had committed itself to take off their hands as and when acquired:

Midtown Tunnel . . . . .	\$ 47,130,000
City of Detroit . . . . .	7,700,000
Pennsylvania Plan . . . . .	45,000,000
Lincoln Tunnel, New York City. . . . .	<u>26,000,000</u>
Total . . . . .	<u>\$125,830,000</u>

Of the \$125,000,000 of securities, which Mr. Maxcy said the Reconstruction Finance Corporation agreed to take over as and when acquired, Mr. Mulligan of Reconstruction Finance Corporation knew of only \$99,000,000 (previously referred to).

After some discussion, Mr. Maxcy agreed to furnish a list of the major projects making up the present commitments of Public Works Administration. This list will be classified according to probability of execution and also according to periods in which it is estimated the disbursements will be made. Mr. Maxcy also

- 5 -

was requested to group the projects according to the methods by which they will be financed. For example, the list of projects aggregating \$125,000,000 which the Public Works Administration expects to finance through the sale of the securities to the Reconstruction Finance Corporation will be in a separate group and sub-totaled. Mr. Maxcy will also furnish a list of the securities now held by the Public Works Administration. He was also requested to furnish a complete financial statement with respect to each appropriation and fund under the Public Works Administration showing the cash balances with disbursing officers and on the books of the Division of Bookkeeping and Warrants, the estimated receipts to go into each fund and the estimated disbursements from each fund.

Mr. Maxcy and Mr. Mulligan were cautioned to be sure that the receipts from sales by Public Works Administration to the Reconstruction Finance Corporation correspond exactly with the disbursements that the Reconstruction Finance Corporation takes up in its revised estimates on account of such purchases.

Mr. Mulligan was also cautioned to see that both receipts and payments of the Reconstruction Finance Corporation with respect to the Reconstruction Finance Corporation's own obligations which it has sold in the market are stated separately in its revised estimates of receipts and expenditures.



Attachments:

Letter of Honorable Jesse Jones, Chairman of the Reconstruction Finance Corporation, dated September 28, 1937;

Transcript of telephone conversation between Mr. Maxcy of Public Works Administration and Mr. Bartelt, Treasury, September 28, 1937.

**RECONSTRUCTION FINANCE CORPORATION**  
**WASHINGTON**

JESSE H. JONES  
 CHAIRMAN OF THE BOARD

September 28, 1957

Dear Mr. Morgenthau:

Net RFC receipts for the fiscal year 1957 were \$129,000,000 more than the estimate we gave the Director of the Budget. Our estimated receipts were \$715,800,000; actual receipts were \$720,300,000; estimated disbursements were \$514,645,300; due to recovery actual disbursements were \$589,600,000.

The Bureau of the Budget arbitrarily increased our estimate of net receipts from \$201,154,700 to \$425,000,000, which latter estimate was not realized by \$94,000,000, but the bad guessing was by the Budget and not by us.

For 1958 we gave the Budget an estimate of excess disbursements over receipts of \$148,500,000. This estimate the Budget changed from net disbursements of \$148,500,000 to net receipts of \$150,000,000, a difference of \$298,500,000.

The President's letter of June 29th asks that we make every effort to facilitate the liquidation of our loans so as to deposit with the Treasury a net of \$300,000,000 instead of the \$150,000,000 Budget estimate.

This would make \$448,500,000 more than our estimate, and much more than seems likely of accomplishment.

For the past three months our receipts, exclusive of the proceeds of the sale of Triborough Bridge bonds, have about offset our disbursements.

At the conference we all had with the President July 8, 1957, I was asked if the RFC could be depended upon to return to the Treasury \$150,000,000 more in the fiscal year 1958 than the estimate we had furnished. I replied that we could.

We have been curtailing our lending policy for more than a year, and are making no new commitments except where it appears that a real need or emergency exists. The net result of our operations will to a large extent depend upon our ability to sell securities and liquidate loans.

Sincerely yours,

  
 Chairman

Honorable Henry Morgenthau, Jr.  
 Secretary of the Treasury  
 Washington, D. C.

Telephone conversation between  
Mr. Maxcy, Chief Accountant, P.W.A.,  
and Mr. Bartelt, September 29, 1937

After Mr. Bartelt explained the purpose of his telephone call the following conversation ensued.

- Mr. Maxcy: The cash balance in the revolving fund as of September 24, was \$74,000,000.
- Mr. Bartelt: \$74,000,000 in cash?
- Mr. Maxcy: Yes, well you had better make that \$74,500,000.
- Mr. Bartelt: \$74,500,000, all right.
- Mr. Maxcy: There are grants which have not yet been transferred of \$53,300,000.
- Mr. Bartelt: \$53,300,000.
- Mr. Maxcy: That would bring us down to \$21,200,000 of available cash in the revolving fund.
- Mr. Bartelt: Yes.
- Mr. Maxcy: We are under contract to purchase \$148,000,000 and with the new allotments coming through will have \$58,000,000 more, making \$206,000,000, we have entered into.
- Mr. Maxcy: The R.F.C., have obligated themselves to take right off our hands \$125,000,000 of those, or close to \$126,000,000, leaving about \$80,000,000 that we have to purchase.
- Mr. Bartelt: Yes.
- Mr. Maxcy: We will purchase for our own account and have previously arranged for them to buy. If you compare with cash we have on hand, we have to sell about \$60,000,000 in bonds to put this program into being.
- Mr. Bartelt: How will you do that?
- Mr. Maxcy: Out of securities we have on hand.
- Mr. Bartelt: How much in securities do you now hold?
- Mr. Maxcy: \$129,000,000
- Mr. Bartelt: In other words, you would sell securities in the market?

Mr. Maxcy: Oh no, to the R.F.C.

Mr. Maxcy: We have to sell about \$60,000,000 of the \$129,000,000 in order to put us in a cash position where we will be able to take care of the grants. Of course, the grants are transferred to special accounts.

Mr. Bartelt: Will the R.F.C. take the \$60,000,000?

Mr. Maxcy: They have said "we will take those just as fast as you buy them". See, I mean they are committed to those. That commitment runs up to \$125,800,000.

Mr. Bartelt: Does that include the \$60,000,000 in addition to the \$125,000,000? That would make \$185,000,000 in all. That and the \$21,000,000 of available cash would take care of your \$206,000,000.

Mr. Maxcy: Now, on expenditures our forecast shows that we would spend for loans \$145,000,000 or \$150,000,000, and of course, that may be greatly modified by these bonds not being sold to us. For instance, the \$45,000,000 of the Pennsylvania loan - - they may stick it in their sinking fund and may never tender them to us. So, we do not know that any figures we give you now are right.

Estimates for the fiscal year 1938 are \$150,000,000 in loans; \$200,000,000 in grants, and \$42,000,000 for housing, making \$392,000,000 that we will probably spend in the fiscal year 1938.

Mr. Bartelt: How much will you get back?

Mr. Maxcy: Of course, straight off, it's pretty hard to tell but the chances are ten to one you can say we will get back all of our loan money.

Mr. Bartelt: During 1938?

Mr. Maxcy: Yes, because the reason I am saying that is this - - We have got to sell \$60,000,000 now to take care of our present commitments.

Mr. Bartelt: Under the law, are you authorized to sell any of your securities in the market.

Mr. Maxcy: Yes, we are but under the agreement with R.F.C., we would not do that.

Mr. Bartelt: Then you expect total expenditures of \$392,000,000, and receipts from the R.F.C., of \$150,000,000. That would give a net expenditure of \$142,000,000, exclusive of \$15,000,000 administrative expenses. Is that larger than your previous budget estimate?

- 3 -

- Mr. Maxcy: It may be, before we had these allotments, but I don't think it is on our present figures. These figures have been reconciled with the daily treasury statement to a million dollars.
- Mr. Bartelt: Then that figure is approximately right.
- Mr. Bartelt: Under present law you have authority to sell your obligations in the market and put the proceeds in a revolving fund?
- Mr. Maxcy: The 1935 act gave us that privilege. It gave permission to revolve, that is to revolve more than once. That this money should be used over and over, and that at the expiration it would be used for the purpose provided in the N.R.A., Act, that is, public debt retirement.
- Mr. Bartelt: Out of \$150,000,000 of loans, how many have already been made during the first three months.
- Mr. Maxcy: We have only spent \$5,000,000.
- Mr. Bartelt: Then you are going to have \$145,000,000 more from now on?
- Mr. Maxcy: That is right.
- Mr. Maxcy: \$145,000,000 under loans and \$140,000,000 grants and Housing, \$42,000,000. On the receipt side \$150,000,000.
- Mr. Bartelt: You did not get any of that yet.
- Mr. Maxcy: No, we may have one or two million but nothing to amount to anything.
- Mr. Bartelt: The daily Treasury statement for first two months shows total payments for loans and grants of \$41,000,000.
- Mr. Maxcy: I guess that is about right, \$41,000,000.



GENERAL COUNSEL  
TREASURY DEPARTMENT  
WASHINGTON

SEP 28 1937

My dear Mr. Secretary:

My opinion has been requested as to whether in connection with the administration of the provisions of the Federal Highway Act of 1921 (42 Stat. 212), as amended, the Secretary of Agriculture is bound to take any action which might obligate the Federal Government to pay out money in the future which has not at the time the action is taken been appropriated by Congress.

My attention has been directed to the provisions of the Act of June 16, 1936, 49 Stat. 1519, amending the Federal Highway Act of 1921, which read in part as follows:

"Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That for the purpose of carrying out the provisions of the Act entitled 'An Act to provide that the United States shall aid the States in the construction of rural post roads, and for other purposes', approved July 11, 1916, and all Acts amendatory thereof and supplementary thereto, there is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the following sums, to be expended according to the provisions of such Act as amended: The sum of \$125,000,000 for the fiscal year ending June 30, 1938, and the sum of \$125,000,000 for the fiscal year ending June 30, 1939.

"(a) All sums authorized in this section and apportioned to the States shall be available for expenditure for one year after the close of the fiscal year for which said sums, respectively,

- 2 -

are authorized, and any sum remaining unexpended at the end of the period during which it is available for expenditure shall be reapportioned among the States as provided in section 21 of the Federal Highway Act of 1921 (42 Stat. 212).

"(b) On or before January 1 of each year, the Secretary of Agriculture shall apportion among the several States, as provided in section 21 of the Federal Highway Act of 1921, the sums authorized for the fiscal year immediately following. When said apportionment has been made for any fiscal year, the State highway departments may submit projects to the Secretary of Agriculture for his approval. The Secretary of Agriculture shall act upon projects submitted to him under any such apportionment and his approval of any such project shall be deemed a contractual obligation of the Federal Government for the payment of its proportional contribution thereto: Provided, That projects approved under any apportionment before the beginning of the fiscal year for which such apportionment has been made may be contracted for by the States and construction thereon may be begun, but the total reimbursements to any State or Territory before the beginning of such fiscal year shall not exceed the total of all previous apportionments to such State or Territory." (Single underscoring supplied.)

At the outset, it should be pointed out that it is of course clear from the express wording of the above provisions that the obligation of the Federal Government does not arise upon the apportionment under such provisions of the sums authorized to be appropriated, but arises only upon the authorized approval of projects submitted by the State highway departments.

- 3 -

In connection with the aforementioned approval of projects, my attention has also been directed to the fact that a statement submitted to the Committee on Appropriations, House of Representatives, 75th Congress, 1st Session, by the Bureau of Public Roads, indicated that out of the \$400,000,000 appropriated by the National Industrial Recovery Act, the \$200,000,000 authorized to be appropriated by the Hayden-Cartwright Act of 1934 and appropriated by later Acts, and the \$400,000,000 allocated by the President under the Emergency Relief Appropriation Act of 1935, only \$44,929,452 were available for new projects on February 1, 1937. It has been pointed out to me that, in view of this great depletion in the sums available under the emergency appropriation acts to cover commitments for highway construction, if the Secretary of Agriculture approves all the projects for the years 1938 and 1939 falling within the apportionments for those years he will be obligating the Federal Government to pay out large sums of money appropriations for which have not been made.

Section 11 of the Federal Highway Act of 1921, as amended (U.S.C. title 23, sec. 12), reads in part as follows:

"Any State having complied with the provisions of this chapter, and desiring to avail itself of the benefits thereof, shall by its State highway department submit to the Secretary of Agriculture project statements setting forth proposed construction or reconstruction of any

- 4 -

primary or interstate or secondary or inter-county highway therein. If the Secretary of Agriculture approve the project, the State highway department shall furnish to him such surveys, plans, specifications, and estimates therefor as he may require; items included for engineering, inspection, and unforeseen contingencies shall not exceed 10 per centum of the total estimated cost of its construction.

"When the Secretary of Agriculture approves such surveys, plans, specifications, and estimates, he shall notify the State highway department and immediately certify the fact to the Secretary of the Treasury. The Secretary of the Treasury shall thereupon set aside the share of the United States payable under this chapter on account of such projects, \* \* \*." (Underscoring supplied.)

Section 13 of the Federal Highway Act of 1921 (U.S.C. title 23, sec. 14) reads in part as follows:

"When the Secretary of Agriculture shall find that any project approved by him has been constructed or reconstructed in compliance with said plans and specifications, he shall cause to be paid to the proper authorities of said State the amount set aside for said project." (Underscoring supplied.)

In addition to the fact that the Federal Highway Act of 1921 does not by its terms compel the Secretary of Agriculture to approve projects falling within standards which he himself may fix, the above-quoted provisions of section 11 and section 13 thereof make it clear that if, for example, the Secretary of the Treasury should advise the Secretary of Agriculture that he could not, upon the approval of a project and the subsequent approval of the surveys, plans, specifications, etc., in connection therewith, thereupon set aside the share of the United States payable on account of such project, as

provided for by section 11, because there would be no funds in the Treasury by appropriation made available therefor, the Secretary of Agriculture would for that reason be justified in refusing to approve of such project.

This position is fortified by the general policy underlying such sections of law as section 3732 of the Revised Statutes, as amended (U.S.C. title 41, sec. 11), and section 3733 of the Revised Statutes (U.S.C. title 41, sec. 12), which read as follows:

"§ 11. No contract or purchase on behalf of the United States shall be made, unless the same is authorized by law or is under an appropriation adequate to its fulfillment, except in the War and Navy Departments, for clothing, subsistence, forage, fuel, quarters, transportation, or medical and hospital supplies, which, however, shall not exceed the necessities of the current year. (R. S. § 3732; June 12, 1906, c. 3078, 34 Stat. 255.)"

"§ 12. No contract shall be entered into for the erection, repair, or furnishing of any public building, or for any public improvement which shall bind the Government to pay a larger sum of money than the amount in the Treasury appropriated for the specific purpose. (R. S. § 3733.)"

and section 3679 of the Revised Statutes, as amended (U.S.C. title 31, sec. 665), which reads in part as follows:

"No executive department or other Government establishment of the United States shall expend, in any one fiscal year, any sum in excess of appropriations made by Congress for that fiscal year, or involve the Government in any contract or other obligation for the future payment of money in excess of such appropriations unless such contract or obligation is authorized by law. \* \* \* Any person violating any provision of this section shall be summarily removed from office and may also be punished by a fine of not less than \$100 or by imprisonment for not less than one month. (R. S. § 3679; Mar. 3, 1905.)"

c. 1484, § 4, 33 Stat. 1257; Feb. 27, 1906, c. 510, § 3, 34 Stat. 48.)<sup>a</sup>

The requirement that the share of the United States payable on account of a project be set aside upon the approval of the surveys, plans, specifications, etc., submitted in consequence of the approval of the project might not have been a material one and perhaps may justifiably have been ignored so long as (1) funds were actually by appropriation available from some source to pay the share of the United States, or (2) the approval of projects did not bind the Federal Government. However, the making of commitments coupled with a failure to set aside the funds with which to meet such obligations - such failure being due to lack of funds by appropriation available for setting aside - takes on a very serious aspect when it is considered that by express statutory provision, such commitments irrevocably bind the United States. Under such circumstances there can certainly be no question that the Secretary of Agriculture may limit his commitments to the amount by appropriation available to be set aside by the Secretary of the Treasury.

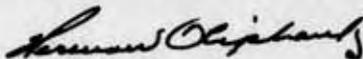
It is my opinion, therefore, that the Secretary of Agriculture is not bound, at least under conditions such as those described above, to take any action in connection with the administration of the provisions of the Federal Highway Act which might obligate the Federal Government to pay out money in the future which has not at the time the action is taken been appropriated by Congress.

It would seem appropriate to suggest that the Secretary of Agriculture, if he has reason to believe, when on or before January 1 of any year he apportions among the several states the sums authorized

- 7 -

for the fiscal year immediately following, that he may wish to disapprove projects submitted under such apportionment because of lack of funds, might well advise the State highway departments at the time of the apportionment that some of the projects submitted may be disapproved for that reason.

Very truly yours,



General Counsel

The Honorable

The Secretary of the Treasury

TREASURY DEPARTMENT

127

INTER OFFICE COMMUNICATION

DATE: September 28, 1937

TO Secretary Morgenthau

FROM A. Lochhead  
M. A. Harris

THE SHORT DATED DEBT

In view of the fact that in the near future discussions will be entered into for the purpose of arriving at some new program for the issuing and refunding of short dated securities, it is suggested:

(1) That any program calling for the refunding of 273-day bills with 3-month bills is undesirable until the Treasury is in a position to retire some of its outstanding obligations, and,

(2) That any program which will result in a better distribution of the short term debt, such as the refunding of maturing bills into 1-year Certificates of Indebtedness at fixed rates, would be of benefit both to the Treasury and the general money market.

The present condition of the bill market is a healthy one as indicated by the recent declining rate at which 273-day bills have been sold and the ease with which dealers are disposing of their allotment but past experiences indicate that any weekly turnover of 100 million for a few weeks result in a congested market. Any new program devised for the refunding of 273-day bills into 3-month bills would mean a weekly turnover of at least 150 millions a week in 9 months' time plus any new money raised through the issuance of bills. Such a refunding in time would result in the concentration of a tremendous debt in a 3-month period. This might result in rising short term rates, assuming that money conditions remain much the same as they are now, and any hardening of these rates would increase enormously the Treasury's carrying

cost of the present debt due in one year, which at present amounts to about five billions of dollars. It is to the Treasury's advantage to have the short dated field to resort to in case of some unforeseen disturbing event and with present international conditions making the future one of uncertainty, this seems even the more necessary. If the Treasury continues to raise new money by the use of tax dated bills this will provide the market with a large supply of short dated securities. The use of these bills has provided a flexible program and makes for orderly conditions in the money market around tax dates.

If a program of issuing Certificates of Indebtedness is to be undertaken, we suggest that these be offered in large amounts such as 300 millions every 3 months rather than weekly, and that such offerings be made for cash subscription. If offered weekly, additional expense and delay would result and small percentage of allotments might be most discouraging. If offered only in exchange for maturing Treasury bills they will go only into the hands of holders of the bills, which would work against the program to secure a better distribution of the short dated debt. It is well known that the bill market under ordinary conditions is practically concentrated in New York and Chicago. Exchanges would also result in uncertainty as to what portion of the maturing issues would be exchanged and the probability that a portion would have to be paid off in cash.

September 28, 1937  
3:35 p.m.

H.M.Jr: Hello Randolph, how are you, sir.

Randolph  
Burgess: Oh, I'm all right - I've been thinking about that  
program you put up last night.

H.M.Jr: Yes

B: And I want to put up a question in return, please.  
Now about answering your question direct, if they  
were - if one were limited to just a choice, I would  
start in with the Marches.

H.M.Jr: With the what -

B: Start in selling the tax paid in the - the March tax  
bills rather than the ninety day, that's more im-  
portant.

H.M.Jr: To start the March

B: Yes

H.M.Jr: Yes

B: But, I want toraise a broader question -

H.M.Jr: Please -

B: Now I assume that this fiscal year, you're going to  
be able to retire from somewhere between five hundred  
millions to a billion dollars of Government debts.  
Of course nobody knows just what that -

H.M.Jr: No, I don't think that's right.

B: What's that?

H.M.Jr: I doubt if that's correct.

B: You think that's too much.

H.M.Jr: I think it's entirely too much

B: Yes - well I think that the stock market makes an  
enormous difference.

H.M.Jr: No, to us

- 2 -

B: I think that this market -

H.M.Jr: On the revenue

B: Yes

H.M.Jr: No, because we figured - our boys were very bearish -

B: Yes

H.M.Jr: And, if I'm correct they figured much lower on the production figure than everything else this Fall, and even

B: I see, yes

H.M.Jr: So, we - in our revenue estimates - I don't think it'll affect us much, we can ask that of Haas tomorrow

B: Yes.

H.M.Jr: But that subject has been very bearish since last June.

B: I see, yes

H.M.Jr: So I doubt if that would make any difference, but we can ask him.

B: Yes - well I think it's quite an interesting question, I didn't know how much it was.

H.M.Jr: No, he's been very bearish and I question whether it will make any difference, but I'll ask him that tomorrow.

B: But on the basis of - of course I don't know the figures - I'm a little handicapped - but you will have a certain amount of debt to retire this year, won't you?

H.M.Jr: No, I don't think so. I've been spending all this time. You see - you go back - I'm going to talk to you - well, I always talk very frankly -

B: Yes.

- 3 -

H.M.Jr: The last budget summation was July 1st.

B: Yes

H.M.Jr: We figured a <sup>deficit</sup> estimate of four hundred and eighteen million.

B: Yes, that's right.

H.M.Jr: Then Congress passed in addition to that - raised that, and passed - legislation cost us two hundred and forty million.

B: Yes

H.M.Jr: Now, I've been working all week to see whether we could/any way overcome that two hundred and forty.

B: Yes

H.M.Jr: And I question whether we can much

B: I see

H.M.Jr: A little, maybe we could hold it down to four hundred and eighteen

B: Yes

H.M.Jr: But that's all

B: But even with that much deficit, you will have receipts from Social Security.

H.M.Jr: Well, we'll ask the boys that. Maybe I don't know, but we'll ask them that tomorrow.

B: The way I figured it, the way our boys here figured it was that the receipts from Social Security will be - oh a billion dollars.

H.M.Jr: Why don't you do this, Randolph. Do you have to go over the Federal Reserve before you come here?

B: Well that's - I think I could come there a few minutes first.

H.M.Jr: Well, a few minutes wouldn't be enough. How about a half an hour.

- 4 -

B: Yes, I mean that. Yes - I don't think we meet there until ten.

H.M.Jr: Could you be here at ten thirty.

B: Well, I ought to - if I come over to the Treasury, I ought to come between nine and ten. I think we have a meeting at ten.

H.M.Jr: Oh.

B: We meet with you at eleven, don't we?

H.M.Jr: Yes

B: I think we meet the Board at ten. Suppose I come to the Treasury at nine. Is that a good time.

H.M.Jr: Well, I tell you, it's - no - supposing you come at - if we had a half an hour -

B: Yes

H.M.Jr: Then the boys could get your figures and ours.

B: Yes

H.M.Jr: And they could work on them and have them ready by the time you come back.

B: Yes - or maybe I could check with somebody there over the phone - who's working on it there.

H.M.Jr: Bartelt

B: Bartelt

H.M.Jr: Yes

B: Oh yes, in Dan Bell's absence.

H.M.Jr: Well, he's Commissioner of Accounts and Deposits.

B: Yes - well, suppose I talk to him by phone this afternoon, a little.

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

B: That would be a good idea

H.M.Jr: Then when would you like to come in.

B: Oh, about nine o'clock, say

H.M.Jr: What's that

B: Nine or half past

H.M.Jr: About nine o'clock is all right.

B: All right, I'll be in at nine o'clock.

H.M.Jr: But tell Bartelt what you want.

B: Yes. All right, I'll talk to him.

H.M.Jr: And he could be working on it - getting me the figures on the expenditure from now until the 15th in place of Bell, who is away.

B: Yes

H.M.Jr: See

B: Yes. Well, now let me tell you in regard to the figures -

H.M.Jr: Now, I may be wrong, but - I'm only thinking in terms of cash out of the drawer

B: Yes, that's right, yes

H.M.Jr: See

B: But of course, you'll receive in a lot of funds on unemployment relief and Social Security old age.

H.M.Jr: Yes, yes

B: Which is available to retire debt in the hands of the public.

H.M.Jr: Yes, it doesn't decrease the total debt -

B: But, it seems to me that no matter how you figured it, you'd be retiring from half a billion to a billion dollars of debt, which is in the hands of the public this fiscal year.

H.M.Jr: Maybe.

B: So the problem was - which is the most effective debt to retire

H.M.Jr: Yes

- 6 -

- B: Now, looking at it from the point of view of the market and from the point of view of getting the new capital issues market going -
- H.M.Jr: Yes
- B: Which is the best thing in the world for this session.
- H.M.Jr: No question.
- B: The one thing that would stimulate that most, it seems to me, would be not to have any December financing, and to pay off the February notes without refunding them.
- H.M.Jr: That's right.
- B: Now there are two hundred and seventy seven million
- H.M.Jr: Yes
- B: Of February first notes
- H.M.Jr: Yes
- B: And if it were a choice, now I'd rather do that, right now, than reduce the amount of bills outstanding - I think that would be -
- H.M.Jr: I think under - on offhand first blush, I'd say yes.
- B: Yes
- H.M.Jr: When you say no December financing, you don't mean not even have a refunding.
- B: No, nothing at all.
- H.M.Jr: Nothing at all.
- B: Just nothing at all until December 15th.
- H.M.Jr: I see
- B: And if you were able to announce that, perhaps in connection with this budget review that you are planning when the President comes back.
- H.M.Jr: Yes

- 7 -

B: Then you can do the budget, and you're going to pay off the February's and there'll be no financing in December.

H.M.Jr: Yes.

B: Then people would believe what we've been telling them about the budget.

H.M.Jr: I see.

B: They don't believe it at all now.

H.M.Jr: I appreciate that.

B: They think it's going to be a great big deficit.

H.M.Jr: I appreciate that.

B: And that would be more convincing than any amount of talk.

H.M.Jr: Yes.

B: And it would improve this market for a new financing more than anything I can think of.

H.M.Jr: You mean if they thought the Treasury was out now the first of January

B: out until March

H.M.Jr: Except the Treasury bills.

B: Well, so that's the question I want to raise, if by going ahead with your bill program -

H.M.Jr: Well, I wouldn't want in any case- to let myself beyond December 31, but they thought - because there's some rumours around we're going in the market October.

B: Yes, yes. Well, that would be all right.

H.M.Jr: But if they knew we were out of the market for the rest of the year.

B: Yes

H.M.Jr: That ought to be good enough.

- 8 -

B: Well, I was thinking about these February's -

H.M.Jr: Well, I - I know, but we can handle those when they came.

B: No, but, if we're not going to give them any description right - to a new issue, you want to tell them well ahead of time.

H.M.Jr: I see.

B: At the moment, the rights have practically no value.

H.M.Jr: I see

B: So it wouldn't be unfair to the holders.

H.M.Jr: I see

B: If you wait until too late, then they have valuable rights -

H.M.Jr: I see

B: And somebody would accuse you of double crossing them.

H.M.Jr: I see.

B: But that's a problem of your estimate of course, from where you stand.

H.M.Jr: Well, I think you could talk to Bartelt.

B: All right I'll talk to him, and arrange to see him first thing in the morning.

H.M.Jr: You want him here at nine.

B: I think that's a good time.

H.M.Jr: Well would you tell him what you want.

B: Yes

H.M.Jr: Well, I'll tell you what to do, give me a minute to tell him that you want to talk to him, and he can be ready, and he should be at my office at nine and have those figures ready.

B: Very good, then I'll talk to him a little later.

H.M.Jr: Now, if you wait five minutes.

B: O. K.

H.M.Jr: And you tell him what you want.

B: Well - yes.

H.M.Jr: And I'll just tell him that - to get ready what you do want.

B: All right, I'll call him about four o'clock.

H.M.Jr: I - I think the sooner we tell the market what we're going to do now the better.

B: I agree

H.M.Jr: Yes

B: I think so. I think if we give them a program there's a chance here to do something dramatic that would give the thing a lift.

H.M.Jr: O. K.

B: Good.

H.M.Jr: Thank you.

B: Goodbye.

H.M.Jr: Goodbye.

September 29, 1937  
9:48 a.m.

H.M.Jr: Hello

Operator: Mr. Jones - Go ahead

H.M.Jr: Hello

Jones: Hello Henry.

H.M.Jr: Jesse, I'm just doing a little checking -

J: Just a minute - what

H.M.Jr: I was just checking up on our financing, and am I right that you talked to Taylor about the series K-1 $\frac{1}{2}$  per cent which could be called in December - if you decided to let them run.

J: Yes

H.M.Jr: Is that right

J: That I talked to Taylor about it.

H.M.Jr: Didn't you talk to Taylor.

J: Oh, yes.

H.M.Jr: And you decided not to call them in December.

J: We decided not to.

H.M.Jr: That's what I thought. Bartelt was asking me.

J: That's right.

H.M.Jr: Thank you very much.

J: Thanks.

## GROUP MEETING

September 29, 1937  
10:00 a.m.

Present: Mr. Magill  
Mr. Gaston  
Mr. Haas  
Mr. Lochhead  
Miss Roche  
Mr. Gibbons  
Mr. Thompson

H.M.Jr: The thing I've been through is trying to get Jones' and Mr. Ickes' figures to agree. Just can't make them agree. Got all their accountants running around here. Darndest thing you ever saw. Of course, each one doesn't want to tell the other fellow, you see. But I'm making them give a typewritten statement naming the projects that he's talking about - their projects and their commitments. Name them. I want to name them, so then they don't come along in six months and say, "We had a moral commitment of 50 million dollars." So I'm going to make them name the commitments.

Amongst them was that 45 million dollars for Pennsylvania. Supposed to do Pennsylvania 45 million. I don't think the State of Pennsylvania will ever take it up. But it's the darndest job.

(To Gibbons) What's that about, Baltimore?

Gibbons: Essary, of the Baltimore Sun, congratulated the Collector and told the Collector that he thought the Justice made a very favorable impression on the newspapermen, and everything went off without any hitch. So, thank God.

H.M.Jr: That's that.

Gibbons: We're out of that. I called the Collector up, by the way, and congratulated him on it.

H.M.Jr: Good.

Magill: I had quite a long talk with Mr. Vinson yesterday, of the - Chairman of the Sub-committee of Ways and Means on Taxes, and he's anxious to go to work fairly

-2-

soon. He is also anxious to give out a statement to the newspapers about once a week with respect to what he is thinking, and has some ideas that he propounded on that score. He said he'd get his full committee together, he thought, around the middle of November - first or the middle of November, depending on whether or not there will be a special session. So I told him he and I better get together in a week or two.

H.M.Jr: Did you write anything about it?

Magill: I'm going to.....

H.M.Jr: Fine.

Magill: ...write it up in full.

H.M.Jr: Anything else?

Magill: I think that's all.

H.M.Jr: Herbert?

Gaston: Byrd did not give out a prepared statement. Two or three of the newspapermen went in to see him and asked him if he had any comment to make on the economy things and the A.P. statements by the President and the Secretary, and the A.P. reporter who wrote this story said that he has in his story everything that Byrd said except that where this - this estimate of 700 million of revenue that might be obtained by taxing tax-exempt securities. He said that Byrd credited that estimate to Ashurst. But otherwise everything else was as Byrd said it.

H.M.Jr: What about the statement that the regular expenses were running much higher.

Gaston: Of course, that's it. The regular expenses are not running - that's the point.

H.M.Jr: Did you call up Barkley's office?

Gaston: I tried to get Barkley's office, but no one answered. I wondered whether, in view of the fact that this was not a volunteered statement, was not a written statement, it would be - Barkley would want to pay any attention

-3-

to it.

H.M.Jr: Well, how about me, tomorrow morning, today? The Treasury - should we do anything?

Gaston: Tomorrow morning I think there might be some questions about it, and that you might call their attention to the facts about that.

H.M.Jr: But I don't - that's the point, you see - I don't answer Senators or Congressmen.

Gaston: No, but you wouldn't be answering him if they asked you whether it was true.

H.M.Jr: Couldn't you show the boys downstairs? \*

Gaston: Yes, I can.

H.M.Jr: Why don't you show them?

Gaston: Of course, this statement, I believe, is true, that all the regular departments have increased appropriations, but it is not true that we are spending seven and a half billions for regular activities.

H.M.Jr: Exactly. That's the point. Would you mind correcting that?

Gaston: Not at all.

H.M.Jr: All right. Anything else, Herbert?

Gaston: I presume you noticed this Brookings man's statement about the Federal crime agencies, conflicts between crime agencies.

H.M.Jr: No.

Gaston: Dr. Arthur C. Millspaugh says that the agencies don't work together very well, that they indulge in feverish bursts of self-advertising. I wonder, if that fellow Dr. Millspaugh were any good, whether it might be worth while to get him in and have him examine the Treasury enforcement agencies from the inside and make recommendations.

-4-

H.M.Jr: Why don't you try to meet him and see what kind of fellow he is?

Gaston: Yes. I'll find out first whether any of our people know him. Mac may know him; Mac gets back tomorrow.

H.M.Jr: All right. Do you want to do that?

Gaston: Yes, I'll do that.

H.M.Jr: What else you got?

Gaston: Nothing, except the questions that I have marked here - Foreign Service - and some questions Miss Lonigan asked me in connection with this self-help organization. They're getting out some publicity. I thought I'd kind of cooperate with her.

H.M.Jr: Sure. Anything else?

Gaston: You don't object to having your name mentioned if it's done in the proper way.

H.M.Jr: No, I don't. I've spent enough time on it.

Gaston: Yes.

H.M.Jr: How did all these statements get out in today's paper hooking Eccles into all this stuff?

Gaston: They all resulted from Ardery's, or the A.P., lead yesterday in which he endeavored to get a fresh angle on your conference of Monday, and I think it was Ardery's own idea of bringing Eccles into it. And the others followed it.

H.M.Jr: At least it shows where the Federal Reserve stands anyway.

Gaston: Yes.

H.M.Jr: Anything else?

Gaston: No, nothing else.

H.M.Jr: George?

-5-

Haas: I have nothing this morning.

H.M.Jr: When you going to have that business survey?

Haas: I've got it and it will - I think the final typing of it is probably done now. I went over it. There were some holes, I thought, in it, so I checked them. I asked them to check some other items. But I think I'll have it this morning to.....

H.M.Jr: I wouldn't read it this morning anyway, but have it this afternoon.

Haas: Yes, sir.

H.M.Jr: And you and Seltzer coming to the 11 o'clock meeting?

Haas: Like very much to.

H.M.Jr: All right.

Haas: Did you get the report on the automobiles?

H.M.Jr: Yes.

I had quite a talk with Dr. Burgess. I didn't realize he was President of American Statistical Association. And he is very much worried about this thing, and he is the first man that I've talked to that realizes that we are not spending the bonus money and that we are spending a great deal less relief money, and that private interests have to spend more to make up the difference. And he feels that the capital market is the key to the situation, and he's comparing it to '23 and '24. And he doesn't agree with Goldenweiser. I had Goldenweiser in; Goldenweiser just thought everything was about all right.

Haas: He is concerned because of the rapid reduction in Government spending?

H.M.Jr: Yes.

Haas: There are reports of a couple boys over in the Federal Reserve Board prepared on that; that's one of the things that were holding up this report. And there's some points at which we disagree rather violently with them on it.

-6-

- H.M.Jr: Well, at least give me the benefit of what they think, see?
- Haas: Yes.
- H.M.Jr: Give me both sides.
- Haas: O.K.
- H.M.Jr: But the Goldenweiser - the Board's people - they're not disturbed much about anything.
- Haas: Well, that may be Goldenweiser, but these two boys that wrote this, and probably Currie, may have a different view.
- H.M.Jr: On the other hand, Burgess, who met with American Tel and Tel crowd Friday and his own crowd last night, is very much disturbed.
- Now, who feeds Roper all this stuff that he keeps coming out with, that everything is beautiful?
- Haas: I don't know. They have a staff - a small staff over there that follows the business situation, puts out publications. But the "beautiful" part is probably his own idea; I don't know. The Department of Commerce has always seen things "beautiful" for as long as I remember.
- Gibbons: Aren't their statistics always way behind? For instance, we give them a lot of figures - Customs to Commerce - and they don't compile them for six months.
- H.M.Jr: Well, George, when you have that stuff I want to go over it personally. Just let me know.
- Gaston: I suppose you noticed that Eugene Meyer gave his personal blessing to the action of the Federal Reserve Board the other day in relaxing the discount provisions. First page of the Post this morning.
- H.M.Jr: In his own name?
- Gaston: In his own name.
- H.M.Jr: That's the first time he's ever done that.

-7-

Gaston: Little box on page one - "Eugene Meyer." Of course, he does take credit for originating the idea himself.

H.M.Jr: He's been quiet for a long time. A few more statements from Eugene Meyer and they'll take this as the Federal Reserve slump.

Miss Roche?

Roche: I have the names of the Advisory Council of the National Institute of Health very carefully selected, and want your approval on it. Went over it with Mr. Gaston.

(H.M.Jr signs letter listing names)

Roche: Thanks very much.

Haas: That's what Alexander Sachs calls it - the Eccles recession, or something like that.

H.M.Jr: Did you show that list to Mr. Farley (jokingly)?

Roche: No.

H.M.Jr: I think you better.

Roche: Not really.

Gibbons: I wonder if it would be all right if she showed it to me.

H.M.Jr: That would be worse.

Roche: I had some qualms about one or two of them myself a few moments, but after all they're very great scientists.

H.M.Jr: Science rises above party politics.

Roche: President of Harvard. ....

H.M.Jr: Everything else all right?

Roche: Yes. We have had all our regional nurses in and all our new public health officers - conducting a school. I met with the crowd yesterday and things are moving very well, sir.

-8-

H.M.Jr: O.K.

Mr. Gibbons?

Gibbons: Nothing.

H.M.Jr: What are you going to worry about now that you've landed Mr. Black?

Roche: I'm going to worry him.

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

Gibbons: Nothing.

Thompson: Everything's clear.

Lochhead: Paris market still getting more nervous by the moment, but as I say, last day or two has been showing signs of appreciated condition by the inside.

H.M.Jr: The French people must be a very hardy nation. They've been getting "more nervous" for three years.

Gaston: Well, everything's normal over there; that's reassuring.

Gibbons: Imagine them compared with us - a franc down from 20 cents to three. God, that's - supposing our dollar dropped like that.

(Mrs Betts brings in charts)

H.M.Jr: Stocks are weak and Governments are steady.

Lochhead: They've got a stock settlement in Amsterdam tomorrow, so that there's going to be a lot of selling on that side. Probably ease their positions.

H.M.Jr: Well, I have nothing else.

MEETING WITH EXECUTIVE COMMITTEE OF  
FEDERAL RESERVE OPEN MARKET COMMITTEE

September 29, 1937  
11:00 a.m.

Present: Mr. Lochhead  
Mr. Haas  
Mr. Seltzer  
Mr. Harris  
Mr. Bell  
Mr. Harrison  
Mr. Burgess  
Mr. Sinclair  
Mr. Ransom  
Mr. Goldenweiser  
Mr. Piser  
Mr. McKee  
Mr. Bartelt  
Mr. Davis  
Mr. Williams

H.M.Jr: Mr. Bell is supposed to be away on a vacation, but he smelt smoke, so he came back for a half a day, which is very nice for me.

Bell: Well, as I .....

H.M.Jr: We always open the meeting by telling them the cash needs from now until the end of the year.

Bell: As I understand it, you wanted a program drawn up which would eliminate any cash financing in December. This program provides for 200 million dollars in new Treasury bills in October and 200 million in November. That would give us balances of 675 million, 841 million going out of October, and 936 million going out of November. And we would leave December with 641 million and then begin 200 million of June bills in January, and a hundred million of June bills in February. So that our balances going out of January would be 721 million and going out of February 736 million. The low point in this program would be 641 million going out of December, which would certainly be ample.

Ransom: What was that last figure, Dan?

Bell: 641 million going out of December.

H.M.Jr: Once more?

Bell: Yes. New Treasury bills, 200 million dollars in each of the months of October and November, for maturity in January and February.

-2-

Burgess: You mean in addition to the replacement of the maturing 50.

Bell: That's right, new Treasury bills.

Burgess: They'd be March bills.

H.M.Jr: You mean a hundred million a week.

Bell: No, 50 million a week in new bills.

H.M.Jr: What would you do with the other 50?

Bell: Roll them over.

Harrison: Then you'd be putting out a hundred million a week of 9-months bills.

Bell: No, sir, we'd be putting out 50 million a week of 9-months bills and 50 million a week of 90-day bills.

Harrison: Oh, that's what I didn't get.

Burgess: Wait a minute, your March tax bills are part of it, aren't they?

Bartelt: Yes, they are.

Bell: Oh, I see, we're going back to our schedule of - that's right; well, I haven't got the roll-over here.

H.M.Jr: Dan just dropped in a couple minutes ago; we've been talking about balancing the budget. We haven't....

Bell: The 200 million dollars of new bills in October and November would be 90-day bills, and your roll-over of the maturing bills would go into March to the extent of 400 million, is that right? Now, that could be switched the other way.

Burgess: But the point is you're selling 100 million a week, of which 50 would be rolling over and 50 new, and with half March bills and half 90-day bills.

H.M.Jr: This isn't the program that I've got in mind at all.

Bell: Well, I understand you wanted this program drawn up to see what it looked like.

-3-

H.M.Jr: True, but this isn't in the schedule you gave me before you left.

Bartelt: This is the same, with that one exception.

Bell: No, that's right, Mr. Secretary. But I understood you wanted this program drawn up so as to eliminate any financing in December.

H.M.Jr: No, that's what Dr. Burgess wants. This is set up after Burgess - this is after Burgess had a long talk last night with Eddie Bartelt. That's the Burgess plan.

(Hearty laughter)

Sinclair: Got his work in, you see.

Burgess: That's the plan you fellows started with.

H.M.Jr: This is the plan that Burgess gave birth to last night. Now give me the Morgenthau-Bell.

Bell: That's the one we talked about before.

H.M.Jr: Yes.

Bell: All right.

H.M.Jr: This is a photostat of what you gave me.

Bell: This other plan would contemplate starting on October 6 with the maturing 50 million dollars a week, rolling them into March for eight successive weeks; that would be 400 million dollars. And then on December 1 start the roll-over of 50 million dollars a week into 90-day bills. And then on January 5 we would start an additional issue of 50 million dollars a week for June. Those would go six weeks and represent new money. And then that would run along until we got to April 6 and we'd start 50 million dollars a week for September; that would also be new money.

Now, with that program we would have a balance, going out of September, of about 880; going out of October,

-4-

of about 640; and out of November, about 540. Then, when we come to December, we would have a new issue of 700 million dollars, of which 450 million would be used to pay off maturing Treasury bills, leaving us a balance of about 850 million dollars at the end of December. That's the program we talked about before I left.

H.M.Jr:

Well, there's two distinct ideas here which.... The only member of the Federal Reserve System I've talked to is Dr. Burgess, and I don't know whether the rest of the members of the Open Market Committee agree with him or not, but I would like to hear from them. Burgess, as I talked to him this morning - the idea that - as I understand, that he has, he'd like us to pick up enough money through the bill market between now and the 15th of December so we wouldn't have to do any financing in December. We here felt that we'd go along just with the 50 million a week, and then do whatever financing is necessary on the 15th of December.

And, quite frankly, I differ completely with Dr. Burgess. I mean if you - if we take another 50 million a week out of the market that we don't need at this time, I just can't get it through my head that that's going to help the capital market. But the purpose of these meetings is to exchange ideas, and I'd like to hear from anybody that's got anything to contribute. I mean I just can't see that if the Treasury at this time, between now and the 15th, goes in and every week takes out 50 million a week extra, how that's going to help the capital market. But if I'm - I'm open to argument and more than willing to listen. But that's the proposition, and that's much more important than whether it's 9-months or 6-months or tax bills or 90-day bills. I mean that is just a question - after we have decided what our factory production is going to be, we can decide on the styles afterwards.

Harrison: I think that's the real issue.

H.M.Jr: And I'm more than willing to listen.

Harrison: Isn't this the problem? Supposing, Mr. Secretary, that your objective in formulating your program is

-5-

to do whatever would be the least harmful to the capital market or, if you want, the most helpful to the capital market. In the one case, the program that you last mentioned, you take 50 millions less a week between now and December, but then in December you would have to take X hundred millions of new money. Would that be more helpful to the capital market than taking 50 million more each week in short-term bills, which tap a different field of credit entirely, between now and December, which would avoid the necessity in December of going in for a large amount of new money?

It seems to me that the program which looks forward to raising a large amount of new money in December might be more of a deterrent to the capital market, because it would anticipate that you'd be after capital funds in December instead of taking currently short bank money each week in the meantime.

H.M.Jr: Well, of course, if - we always talk very frankly here - we just barely made this move of putting 300 million dollars in gold in there, and now we come along and we're going to take 400 million dollars back.

Harrison: But you don't take it back....

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

Harrison: You don't take it any faster than you're going to use it.

H.M.Jr: We won't use it at all; we won't use it at all. Now, what's the sense of putting 300 million dollars in on one hand and taking 400 million dollars out that we don't need?

Harrison: You avoid taking it out of the capital market in December.

Burgess: It doesn't come out of the money market. You'd only take it out just as fast as you spend it.

-6-

Your balances don't go up especially.

H.M.Jr: It just doesn't make sense to me.

Harrison: I see your problem, and you can argue that it doesn't make sense. But, after all, if you take it currently each week and leave it on deposit, you haven't taken it out of the market.

H.M.Jr: You mean do it on book credit?

Harrison: If you're afraid of taking it out of the market.

H.M.Jr: Well, the other argument that I can't see is that if we take this way, that this is going to convince the people we're going to balance the budget, and if we take it the 15th they're not going to think we're going to balance the budget; and I think it's just the opposite. I mean if the Treasury suddenly announces it's going to be in the market for a hundred million a week, I think it will come as a great shock to the people.

Burgess: No, they expect it. You see, this is just exactly what you did in July and August.

H.M.Jr: But we needed the money.

Burgess: Just exactly the same program, and your balances were in the same position.

H.M.Jr: Well, but we had to, but we never - I at least don't think we have - built up our balances in order to pay off a maturity on the 15th of December.

And then, the other thing is, if we're talking now in terms of public reaction, aren't we - I mean that - now, my public debt again goes above 37 billion, and then for another two months they'll be harping at us - "37 billion dollar debt" - and I mean they keep using that figure over and over and over. It's below 37 now, isn't it?

Bell: (Nods yes)

H.M.Jr: And the thing - if this is a question of giving

-7-

people confidence, all I can say is the reaction it does to me. Now, I told Burgess, "I'll listen, but to me it does just the opposite. What the hell is the matter with the Treasury that they've got to go out and borrow an extra 50 million? Are expenses so much greater?" I mean there's a great difference between the very small group of bond houses and discount houses, and the great mass of institutions that hold Government securities.

I want to say this, too. The reaction I've got from the field - Upham is out traveling for me; he's an excellent reporter - is that they are completely confused on all these Federal Reserve moves. I mean he's started in New Orleans and he's working up, and he hasn't visited a bank yet that understands what the Federal Reserve has done. Not one.

And now suddenly the Treasury comes along and says, "We need another 50 million dollars a week extra." You're talking about balancing the budget. Well, if you're going to balance the budget, why do you need another 50 million a week?

Harrison: You have to borrow it in December anyway.

H.M.Jr: True, but I don't - and they don't expect it now.

Harrison: I think they expect it more this time; and certainly in New York I should think they would expect you to borrow currently rather than to borrow new money in December.

Burgess: I'm sure that's right. I'm sure that's what the market expects.

Ransom: Mr. Secretary, speaking in terms of possible public reaction, it seems to me we've got to consider it somewhat in the light of the action which the Federal Reserve System did recently take, regardless of whether banks understand it or not. I'm getting a little bit hopeless on the subject of having action always understood. But at least I think that that particular action was taken on the predicate that there would be no new financing.

-8-

- H.M.Jr: May I add they didn't understand what the 300 million dollars of gold was for any better. I mean we're both in the same boat. I don't want to be misunderstood.
- Ransom: I agree fully, but I do think that there might be a question of timing there to consider; whether it outweighs the other is certainly a subject for discussion.
- H.M.Jr: Well, now do you feel about this? I mean here's a clean-cut difference of opinion. What do you think?
- Ransom: My offhand feeling is that it would be wiser not to defer this borrowing until December, but to go ahead right straight through now and eliminate it. But I must say frankly that that is in large part the result of the fact that the Reserve System has announced a bill-buying program for December, which was to take care of a tight situation in the money market. Now, if the tightness in the money market is going to be perhaps accentuated by deferring this borrowing program until December, I think we've got to consider whether that action would be wholly misconstrued and not just simply misunderstood; whether it might be construed as having been done for the purpose of having that purchasing power available at the time the financing was done. I would like to hear, if I may, Dr. Burgess's view of it at some time during the discussion.
- H.M.Jr: You said something - I wonder if you meant what you said: that by deferring this action we'd be tightening the money market.
- Ransom: No, I didn't.
- H.M.Jr: I think that's what you said. Didn't he? That's what you said: by deferring this borrowing we'd be tightening the money market. I don't get that.
- Ransom: In December at the time in December when you would be borrowing, it seems to me that there might be a great pressure on a market on which we think there already will be pressure by reason of the shortness

-9-

of the reserve position, at which time we have announced we are ready to step in with a bill-buying program.

H.M.Jr: Now let's be terribly honest with each other, see? A bill-buying program. How much are you fellows influenced in advising me to put out a hundred million dollars worth of bills the next two months in order that the bills would be there for you to buy them if necessary?

Ransom: Well, I'm not influenced by that at all.

H.M.Jr: I mean just be.....

Ransom: Well, if they're not, why then perhaps we won't have to adopt this policy.

H.M.Jr: Let's all - because this is important - let's all be terribly honest with each other. Burgess was. I mean I'm not saying that you are not. I mean he said, "My heavens, we've only got 50 million dollars worth of maturities in January. What are we going to do if we've got to buy some bills? Where are they going to be?"

Burgess: I don't think that that is a major factor in my reasoning, but I do think it is fair to say that that is a factor and it is a legitimate factor. I think this is a joint program, that furnishing the ammunition in the market by which we can operate properly is a factor and is a proper factor.

H.M.Jr: Well, I think the other side of the thing, and as I say, you haven't made a dent yet. The fact that you haven't got the ammunition, I think, is bullish, and I think that to supply you with three or four hundred million dollars worth of stuff in order that it would be there in case you have to buy them - I just can't see it. I haven't asked anybody on my - we'll give everybody plenty of time. I just can't see it.

Burgess: The point is not to have stuff to buy, but to have stuff which will run off after the turn of the year, if that's part of the program. It looks just now as if it will be less than was thought, but that part of the program.....

-10-

- H.M.Jr: Now, one of the arguments you are using - as far as our playing ball with you is concerned, the object of that statement that the Federal Reserve made Sunday two weeks ago was in order to take care of the excess reserve situation between now and the end of the year, and I want to ask Dr. Goldenweiser if that isn't taken care of now.
- Golden.: The excess reserve situation, I should think, would be perfectly satisfactory no matter which of these programs you adopt.
- H.M.Jr: But - you do think so?
- Golden.: Yes.
- Burgess: You mean through the year?
- Golden.: Yes.
- Burgess: You mean to say we will not have to buy?
- Golden.: No, I didn't mean that exactly.
- Burgess: I think that's the question you got.
- Golden.: I didn't mean to give that impression. I mean with the 300 millions that have been put in and the readiness of the System to buy whatever is necessary, which may be a hundred or two hundred million dollars, if we're going to, the excess reserve situation is going to be satisfactory whichever program you adopt.
- H.M.Jr: In other words, I could then say, based on that statement, that as far as any moral obligation of the Treasury is concerned, we have fulfilled that moral obligation toward the Federal Reserve when we deposited the 300 million dollars worth of gold. I mean it isn't - I mean that obligation doesn't make us - we're not under obligation, in other words, to go beyond what we have done to make the joint action work. Do you see what I mean?
- Golden.: Yes, I see what you mean, Mr. Secretary. I think it is perfectly clear that the program that was announced,

-11-

as you say, two weeks ago can be carried out and be satisfactorily carried out whichever of these programs is adopted. I think that is quite clear.

The only question there is the question - the one Mr. Ransom raises of the public reaction: whether our purchases will then be interpreted as fixing the market for the December financing; and that is the question that you can discuss. But I think you'll agree with me, Mr. Ransom, that with either program of financing, the program that was announced two weeks ago can be carried out satisfactorily.

Ransom: Yes, I agree with that, doctor.

Burgess: I don't think this is a major point; I don't think it ought to be a major factor.

H.M.Jr: No, but I'm taking the different arguments that you're putting up and I want to see, if you don't mind again being very frank, as far as I'm concerned, whether they hold water.

Now, taking Dr. Goldenweiser's statement, I take it no one in the Federal Reserve System disagrees with him, and then there is no moral obligation on my part to adjust our financing in order that our end of the obligation of the announcement of two weeks ago should be made workable. In other words, we have done our part.

Harrison: I would like to make one supplemental remark, if not one modifying remark, about what Goldenweiser says. While there was no commitment on the part of the Treasury at all as to what they would be doing in this last quarter of the year.....

H.M.Jr: Was never discussed.

Harrison: No, I say there was no commitment at all. Nevertheless I in my own mind assumed that the bill program would probably go on about as it has in the last three quarters, because there was no reason to think then that it would be any different; and that if that would be done, it would be unlikely that the Treasury would ask for any new money in December.

-12-

That made a great difference in my approach to the Federal Reserve program, for this reason: that if in following the excess reserve program - let's forget the Treasury for a moment - reserves do get down to a point where the Federal has to buy bills, it will probably be in the last week of November and early in December; and if you're going to issue a new money issue in the middle of December, your announcement will come out just about the week that we will have bought bills in order to carry out our program about excess reserves. And it would be so patently construed, in the minds of a great many people, as a tie-up to buy bills just to float your issue, that I don't think you would like it, and I don't think that we would like it. It is the kind of thing that you have yourself opposed in the past, and it would be a very unfortunate coincidence. Therefore, I'm not so sure that we will have to buy any bills at all, frankly.

H.A.Jr: Well, that's the next question.

Harrison: I differ with those who think we have to.

H.A.Jr: I was going to ask you: on a percentage basis, what percentage of a chance do you think between now and the end of the year you will have to buy any bills?

Harrison: That depends on who is deciding.

H.A.Jr: I mean just the opinion of George Harrison.

Harrison: In my own opinion, I don't think it would be necessary, even under the announced policy of maintaining adequate excess reserves. Following your sterilization of 300 million, I don't believe that the money market situation would make it necessary for us to buy any bills. That is my own personal opinion. I do think, however, that probably a majority of the Open Market Committee might feel differently when the time comes as to the amount of excess reserves that ought to be in the market.

H.A.Jr: Well, I'll make anybody a sporting bet that they won't buy any bills no matter what happens.

-13-

- Golden.: I'd like to take you up on that bet, Mr. Secretary.
- McKee: I'll take some of that myself.
- H.A.Jr: All right.
- Harrison: I'll join you if you make your bet that there won't be any necessity to buy bills.
- H.A.Jr: No, I just say you won't. And when I'm talking, I'm talking about a 25-cent bet. I mean just have a bet.
- Sinclair: I won't make any bet. I haven't won any yet.
- H.A.Jr: What's that?
- Sinclair: I haven't won a bet yet, and I won't make any.
- H.A.Jr: I mean I'm not - talking just....
- Harrison: But I think this, Mr. Secretary: that if you do adopt this second program of new money, it would or should be very influential on the Open Market Committee in not buying any bills in December.
- H.A.Jr: Say that again.
- Harrison: I think if you follow the program of asking for new money in December - then I think that would be a very strong added argument against our buying bills in December for the purpose of increasing excess reserves.
- Ransom: I'd like to explore that, Mr. Secretary, a little if I may, by asking George just exactly why he thinks that would be true. I'm interested in that.
- Harrison: For the reason that I still believe it is to the best interests of the Reserve System and of the Treasury for us not to go into the market and increase our portfolio just at the time of a new issue. The Treasury has tried to avoid that in its own policy and I think it is just as wrong as it can be from our own standpoint.
- Ransom: That, Mr. Secretary, gets back to where I started. I did not perhaps make myself clear.

-14-

Harrison: The ordinary peak of demand for currency begins the last of November or Thanksgiving, really, and then for the first - then the next three weeks in December, or so - it would be running all through that period, if you're going to follow this program that we'd have to be buying bills, if you're going to follow it literally and maintain a high level of excess reserves. I'm not at all worried about some considerable decline in excess reserves over that seasonal period, where it is to be expected that funds will decrease.

Hanson: Might I say, Mr. Secretary, I think we are clear on two points: First, that the obligation of the Treasury in connection with the statement of two weeks ago has been fully discharged, and that the obligation of the system as to whether or not it buys bills is one contingent upon the situation in the excess reserve position at that time. I think those two points are perfectly clear, so I think perhaps they are not immediately related to the question which you asked in the beginning.

But there is a collateral relationship that I think it is very well that we explore.

H.M.Jr: Well, I think this. I think we have come into this meeting for the first time with two definite opinions arrived at through a misunderstanding. Now - I mean I didn't have the slightest idea that Dr. Burgess had this idea; he didn't have the slightest idea that I had my idea. And this is the first time we have ever come to a meeting that we didn't - we approached - got into a meeting, I unprepared as to what he thought, he unprepared as to what I thought. And what - I mean I'd like to hear more, but I certainly - due to that situation, and not having had a chance to explore this with my own people - I mean take what you call the Burgess idea and explore it here; and certainly you people didn't know how I felt. And I think under those circumstances I'd like to postpone any action for one or two weeks and give us a chance to approach this thing knowing what... Here's two ideas. Now, I'd like to ask you gentlemen whether if we postpone any action for two weeks, would that - or do it for one week, I don't care; I'll either say postpone it one week

-15-

or two weeks, either one, and....

Ransom: Might I ask what day one week would fall on?

Bell: October 6.

Ransom: The following week, the week of October 11, there's a meeting of the American Bankers Association that a good many of us would like to attend.

H.M.Jr: We'll have it a week from today.

Ransom: A week from today.

H.M.Jr: And that gives us a chance to talk it over with my crowd. Because both memorandums furnished me by Bell before he left and Haas since then - neither of these memoranda contain anything other than 50 million a week. So I mean we're entirely unprepared for this thing. I mean I've got a memorandum from Bell which he gave me before he left; the only difference was whether we should start selling the March tax bills next week or whether we should start on the 13th. That's the only difference between Bell and Haas. But in neither of them was there anything about a hundred million a week. So it shows we are completely unprepared.

Bell: I think everybody's assumed that the 300 million dollars in gold would take care of our cash requirements up to December. We have.

Harrison: I think that's the real danger of your program for new money in December, frankly: that, whether rightly or wrongly, that desterilization and figures that have been published in the press have made the great majority of people think that there would be no new financing in December. I think that's the impression of the market. I'm not saying that it is anybody's fault at all, but it's...

Bell: The press didn't say that.

Harrison: What's that?

Bell: The press didn't say that. The press indicated that there would be no bill financing until December.

-16-

Burgess: On no.

Harrison: Mr. Secretary, may I ask a question? You asked, and I think quite rightly, whether anybody thought that you had in any way failed to discharge your part of the cooperation.

H.M.Jr: I asked that question.

Harrison: I say you asked that question, and didn't we think that you had done your part when you desterilized the 300 millions of gold. Might I ask whether in your opinion you would think that we had failed to do our part if at any time during the balance of this year we decided we didn't want to buy any new bills at all? You were willing to bet a minute ago that it wouldn't be necessary to buy them.

H.M.Jr: No, I didn't say that. I didn't - I said I bet you wouldn't. I didn't say whether it would be necessary. No, I didn't.

Harrison: In other words, I don't regard that there is any obligation on us now, willy-nilly, to buy bills before the end of the year, and I should think if there were that obligation would be somewhat changed if you make a new issue for new money in December.

H.M.Jr: I can't answer that question directly, but I'll answer it the best I can. I think that circumstances have to decide whether you have or have not discharged your obligation in view of your statement of two weeks ago.

Harrison: But I do think - all I wanted you to feel...

H.M.Jr: Excuse me. I mean the money market - I couldn't say today whether on the 15th of November or the first of December the money market - where it would be; and I wouldn't want to say to you gentlemen that you have fulfilled your obligation today as of the 15th of December.

Harrison: No, I didn't mean that. All I - we'll put it this way. Wouldn't you agree that whatever obligation we

-17-

have is somewhat modified, or might be somewhat modified, by a later decision of the Treasury to ask for new money in December, because you wouldn't want us to do with our funds just prior to an issue what you wouldn't do with your own funds prior to an issue?

H.H.Jr: George, you're asking - if you don't mind, you're asking two questions at once. You're asking me, has the Federal Reserve discharged its obligation in view of its statement of two weeks ago, and I say that the money market has to answer that as between now and the end of the year. If you ask me, do I like to see the Federal Reserve go in with a heavy buying program just ahead of a Treasury issue, my answer to that is "No."

Harrison: That's what I wanted.

H.H.Jr: See? I mean I think there's two questions. Have I answered both of them?

Harrison: Yes, you have. And all I wanted to point out was that I agree with you about going in just prior to an issue; that, that being so, it might make it very difficult for us to put the money in the market to increase excess reserves at the time that I think many in the Open Market Committee thought it would be likely they'd have to put it in.

Sinclair: The only question I wanted to ask - I think supplemental to that is this. The circumstances in the money market which might influence the Federal Reserve System to operate its bill-buying program which they have stated the possibility of, might be substantially changed by a Treasury program on December 15. I assume that it would be notes or some shortbonds of some kind which might tap something which would affect the capital market, whereas the bill-buying - bill program between now and December might not do that - tap an entirely different field, the liquid market, the banks.

Beltser: Suppose a certificate were offered with announcement of the intention of displacing an equivalent amount of bills.

Sinclair: You mean in December?

-18-

Seltzer: Suppose that were used in December. Would that affect some of your reasoning? Mr. Harrison? Dr. Burgess?

Harrison: I don't know that I got your point, really.

Seltzer: Suppose in December our new financing operation was confined to a certificate issue, with the announced intention of employing such certificate issues to convert into certificates part of the outstanding bill volume. Would that change your feeling about new money operation in December? In essence, you see, it would be raising short-term money in December instead of stretching it over a period of eight weeks in advance.

Harrison: I think I would feel a little better about it. I don't know whether that would be - I'm not passing on whether that would be the wise thing to do, but I think it would answer a part of my argument against the new money issue in December.

H.M.Jr: We have yet to get an answer from the System as to what the banks would like in the way of certificates; whether they like it four times a year or twelve times a year; and the System was going to explore that field for us. Am I right?

Ransom: You are right.

H.M.Jr: And we haven't had any answer on that yet.

Ransom: Would you like that discussed this morning too?

H.M.Jr: If you have the answer.

Ransom: I don't know that we have the answer. I'm very sure that we haven't the answer. But at least we might start; the thing is, as I see it, a matter of money market policy, so that I would like to, with your permission, ask Dr. Burgess to state his views and then take it in that sequence of getting the evidence before us before anybody expresses an opinion.

H.M.Jr: All right.

-19-

- Burgess: Just on the question of certificates. Well, the market will take certificates in almost any reasonable amount. And perfectly glad to get them. I think the reception for your 1-1/4 year note this time and for your two-year note in June are the best indication of what the market would or would not do with a short-term certificate. They would take them. The June issue was a cash offering, and about half of that was taken in New York and about half outside. No question about their taking a certificate.
- H.M.Jr: Well, Randolph, do they want it quarterly or do they want it monthly or weekly?
- Burgess: Well, I think you wouldn't want to issue them weekly, because you've got to have the machinery set-up of allotments and instructions; it's a job for quarter dates.
- Harrison: I think so. And do away with the quarter date tax bills.
- Burgess: But you'll have some difficulty with your certificate now because all your tax dates are filled up to 1940. You've got maturing notes in every tax date to 1940. So that there doesn't seem to be any rush about starting certificates particularly, at least not until the point where you get your 90-day bills replacing your 9-months. But again, I think, Mr. Secretary, that is a problem of the particular design of the clothes and not a question of what clothes you want to wear.
- H.M.Jr: Don't want any clothes. What you people asked us is to give you a pair of undershirts and a pair of drawers in case you need them. What?
- Burgess: Mr. Secretary, may I say this, that it seems to me the crucial problem right before us now is the capital market; that we've got a very bad capital market right at a time when we need the best kind of a capital market. That is, you have come to a point where the support to business recovery from Government spending is tapering off, and quite properly so, and that should be replaced by private spending. Private spending is

-20-

dependent in part, as one of the elements of the capital market, on new issues. New issues have been increasing - that is, new issues for new money - over a period of months, until last summer they got up to more substantial amounts than they had been for a while, but still very much smaller amounts than before the depression, or very much smaller amounts than you were putting into the market through your Treasury financing. Now, just at that critical point, when your Government supply of funds was going down, as it should, and you are dependent on your new capital market, you have that new capital market cracked wide open and the whole machine for new capital issues is stalled, so that issuers are delaying their issues and the underwriting capacity is pretty well taken up. So I think it is a major factor in determining your own financing.

Now, I have no question in my mind whatever but that a December issue of fair size by the Treasury is much less good for that capital market than the current issues of Treasury bills.

H.A.Jr: Well, that's the whole question.

Burgess: That's really the whole question, it seems to me. Now, there is - at the moment there is a very large supply of short-term funds seeking employment. Reserves are high. There is no question about the Treasury bills being taken and taken easily at good rates. On the other hand, as you step up even to a little longer market, you begin to collide with your private capital market, where the difficulty lies. You collide psychologically as well as actually. If they knew there was going to be no new cash financing in December, it would have a stimulating effect on the market. That seems to me the greatest argument there is for deciding the question reasonably soon and getting that out of the way.

H.A.Jr: Well, if you don't mind my saying, the premises which you lay down on the capital market - I'm still unconvinced. I'm still unconvinced.

Burgess: And there is a seasonal factor too, you see. Well, I'm

-21-

watching it constantly; I'll give you all the evidence.

H.M.Jr: No, I believe the capital market is shot, but the fact that we get out bills, sell bills now, instead of an issue in December - that that would help them - that's not....

Harrison: That's the question of judgment.

Burgess: You see, the New York banks now have 400 million of excess reserves. When a market is snell-shocked, it shortens its maturities; it doesn't want to reach out. And the thing that you can dispose of without bothering very much, that they're eager for, is the snort stuff. You're trying to feed them the other.

And now the seasonal factor on the thing. The market has a tremendous amount of excess reserves at the moment - these 400 million dollars in New York - that's gradually going to be lapped up by the seasonal pull, so that the time when you will have the least funds will be in the week or two before Christmas, and your December financing would come at absolutely the worst time in the next three months, seasonally. It would come when the reserves are the smallest and when the strain is the greatest and when there is most probability of our having to go in and do an operation ourselves.

H.M.Jr: Still the same fact remains that our December financings have always been successful.

Burgess: Yes, but this is the first time you are doing it with small excess reserves.

H.M.Jr: And our September 15ths are going badly.

Burgess: Well, the only time the Secretary of the Treasury fell down very badly on them was in '31.

H.M.Jr: Repeat the year.

Burgess: '31.

H.M.Jr: No misunderstanding. I hope this Secretary will never do that; he never will.

-22-

- Harrison: But, Mr. Secretary, isn't it right that this is a question of judgment as to which of these two courses of action will be most helpful to the capital market? Now we have one impression and I think you have another impression. I'd like to take another week to study it, but I do believe that there is the difficulty that the longer you wait the more nearly you commit yourself to your course of action. Because what will we do with bills on October 6 under your program?
- H.M.Jr: Be another 9-months bill issue. I mean a week or....
- Burgess: But it's a good thing to get these March bills cleared up before December; December is the time when pressure is coming on this market, if at all.
- Bell: You can start the March bills October 6 if you want to; then the 13th you can announce your 90-day bills for cash.
- Burgess: I think .....
- H.M.Jr: Oh, I don't want to - I'd rather sit tight for another week. Another week can't hurt.
- Harrison: You don't lose your freedom of choice entirely by waiting another week.
- Burgess: Oh no, oh no.
- Ransom: I'd rather see you take that week to further explore it.
- H.M.Jr: Oh yes. I mean we have seldom had such a fundamental difference in an Open Market - mind you, Open Market - meeting.
- Golden.: How much would your public debt have to go up, the total public debt?
- Bell: About 300 million, if we had 300 million of new bills.
- Golden.: How far above 37 billion would that take it?
- Burgess: Well, it would carry you back to where you were.

-23-

- Bell: About 37.2.
- Golden.: From 36.9.
- Burgess: Carries you back where you were before September 15, doesn't it?
- Bell: Just about.
- Harrison: You'll go over again in December anyway, on the other program. I don't think it makes a bit of difference; you're going over one time or another.
- H.M.Jr: I'd like to take this week to study it. If anybody gets any ideas, I'd be more than pleased if they'd send them down here or call me on the telephone. But I haven't - this is something entirely new. I haven't had a chance to think it over and talk it over with my own people, because we weren't thinking along those lines. The first I knew Burgess was thinking this was yesterday afternoon at four o'clock.
- Harrison: We haven't been thinking along the other line at all. We were assuming that something like this would be the program; the only question was the maturity of the bills.
- H.M.Jr: I think it's well worth taking a week to think it over. Get out another 9-months issue.
- Ransom: Don't you think that same week might be taken to give further consideration to the question of the maturity of your bills in relation to the program? Those things seem to me now to be very closely tied together, and there isn't any positive answer that I think the System can give you on that. We can give you some evidence and can give you some expression of opinion, but after all it is, in my mind, very closely related to the fundamental question that is up this morning, and I wouldn't see any great advantage in exploring it at any great length today, until we explore the other further.
- H.M.Jr: Check.
- Harrison: I would like very much to wait a week, because I'm sure if you decide it today we'll get licked.

-24-

- H.M.Jr: No, no, I wouldn't decide it today.
- Harrison: What's that?
- H.M.Jr: I wouldn't decide it today.
- Harrison: As I say, I think it is much better to wait.
- H.M.Jr: I didn't want to decide when you people feel that strongly, and I think it would be a great mistake to decide. I wouldn't attempt to decide it. I don't even know how the Treasury staff feels - I mean I haven't had a chance - and I always discuss these things with them. I wouldn't decide today.
- Harrison: But it is an entirely new approach to us and I for one would like to have the chance to think it over. And you may be dead right about the capital market. At the moment I still feel that we are right.
- Ransom: Effect on the capital market is so important at the present time that I would like to see it thoroughly explored.
- H.M.Jr: Between now and next Wednesday I'm going to have a talk with Mr. Douglas and see what they think. I think that Federal Reserve and the Treasury - we assume too much of this burden; and I think there are some other agencies in town that should assume some of this, be a little helpful.
- Harrison: I think you're right.
- H.M.Jr: I think we assume too much. Talking about capital market - I mean I think we've got to have the S.E.C. in and see how they feel about it.
- Burgess: They've got some work to do.
- Harrison: Or undo.
- Burgess: There's a little test of that party right now.
- H.M.Jr: Certainly between now and next Wednesday I'm going to have a talk with S.E.C. and see how they feel.

-25-

Well, is it agreeable that we meet a week from today, the same time?

Harrison: What day of the month is that?

Ransom: That's the 6th.

Harrison: It's all right with me.

Burgess: It's nice weather down here. What?

H.M.Jr: Very nice.

Sinclair: Not as nice as Honolulu ~~\_\_\_\_\_~~

Harrison: I have a dinner engagement I can get out of.

Harris: Mr. Secretary, may I ask was there any thought of refunding the 2-5/8 notes maturing the first of February in December, or raising the money in December and paying them off in cash, or....

H.M.Jr: I think we ought to cross that next week. I think it's good to bring it up now. We can think about it. Also the suggestion of announcing there will be no rights for February.

Burgess: That was only in case you could pay them off.

H.M.Jr: Well, I think we've got to announce that pretty soon.

Harris: Only 277 million.

H.M.Jr: I think it would be nice if we could take care of it out of cash in February, not attempt to take it in December; have enough cash on hand, just pay it off, in February; not in December, but to meet it when it comes and pay it out of the cash drawer. But again, I'm open to argument. Anybody else?

Harrison: I move we adjourn.

H.M.Jr: Right now.



OK. H.M.P.

TREASURY DEPARTMENT

WASHINGTON

September 29, 1937

TO THE SECRETARY:

I conferred today with Governor Myers of the Farm Credit Administration regarding his proposed financing for November 1.

There are two issues of Federal Land Bank Bonds available for call on November 1, 1937, one a 4-1/4% obligation in the aggregate of \$44,109,620 and the other a 4% obligation in the aggregate of \$27,805,080, or a total of \$71,914,700, both of which are due November 1, 1957. If the call is made it has to be announced not later than October fifteen.

Governor Myers proposes to finance these called issues approximately as follows:

Utilizing part of the current cash balances of the Federal Land Banks . . . . .	\$ 15,000,000
Federal Land Banks to borrow privately from commercial banks on short-term paper, same as in the past . . . . .	15,000,000
To borrow from the Federal Farm Mortgage Corporation . . .	<u>42,000,000</u>
Total . . . . .	<u>\$ 72,000,000</u>

In order to place the Federal Farm Mortgage Corporation in funds, it is proposed to sell a short-term obligation, say two years, for the full amount required, these to be marketed in the usual manner through the Federal Reserve Banks. The exact maturity and rate will be fixed some time just before the offering, which will be between October fifteenth and thirty-first.

- 2 -

This will make an ideal arrangement for the Land Banks as they have no maturities of any consequence during the years 1939, 1940, 1941 or 1942, but they do expect some large repayments of principal which can be used to pay off the indebtedness created in this refunding to the commercial banks and to the Federal Farm Mortgage Corporation.

I recommend that you approve the proposal of Governor Myers, after which he will submit to you a formal letter asking for a formal approval of the issuance of securities of the Federal Farm Mortgage Corporation with the maturity and rate of interest agreed to by the Treasury.

If you will indicate hereon your approval, Mr. Bartelt will telephone Governor Myers that you have approved it and he can proceed with such arrangements as may be necessary.

*AWB*

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 29, 1937, 5 p.m.

NO.: 1358

FROM COCHRAN.

Pressure on franc continued heavy until in afternoon trading when there was reaction and market offered some sterling at 144.53 to 55. With the end of the month so close and money so tight a more widespread reaction would be expected if it were not for the very nervous atmosphere which still exists. Forward premiums on sterling were as high as 6 3/4 for 1 month and 12 1/2 for 3 months. Rentes down one franc or more and French shares depressed on a generally blue market.

This morning one Paris American Bank consulted the Bank of France as to whether certain facilities should be extended to importers of American materials in Northern France; the Bank of France stated that the stocks were already ample, and on this ground the Paris-American Bank was asked definitely to turn down the requests.

Market is gossiping of possible changes in the cabinet but has nothing definite. Some operators as well as some financial writers interpret Bank of France efforts

even

- 2 -

even though informal to limit forward dealings as really the first step in or at least toward exchange control.

I had lunch with Porters, the European financial adviser of Standard Oil. Porters had been in London very recently, and he said that in banking and business circles there the French financial and monetary situation was viewed very seriously. These circles do not see a clear way out for the French. My friend expressed extreme cynicism over the prospects of any results coming from the efforts of Paul Van Zeeland in the international economic sphere. At present he does not see many opportunities for the BIS, and he hopes that the BIS will not immediately fill Quesnay's post.

WILSON.

EA: LWW

September 30, 1937.  
9:03 a.m.

W.I.  
Myers: Hello

H.M.Jr: Hello, Bill

M: Hello, Henry

H.M.Jr: How are you?

M: I'm well, I wanted to see you, and I thought you'd been too busy.

H.M.Jr: Well, I've been moderately busy, but never too busy to see you.

M: Well, I didn't have real business until now, but I have wanted to see you.

H.M.Jr: Bill, Bell left this memorandum on your financing, you see.

M: Yes

H.M.Jr: And I'm not quite sure if I understand it.

M: Yes.

H.M.Jr: He says that if you call those two maturities, it amounts to approximately seventy two million.

M: That's right.

H.M.Jr: Now, you're going to take fifteen million out of Federal Land Bank cash balances.

M: Yes

H.M.Jr: And fifteen million -

M: Commercial Bank borrowing.

H.M.Jr: Yes - and then forty two from the Federal Mortgage - now, what I don't - are you going into the market for forty two million - two years - or seventy two million.

M: Forty million.

- 2 -

H.M.Jr: That wasn't clear in the memorandum.

M: In other words there are two steps, Henry - the land banks have their seventy two million.

H.M.Jr: Yes

M: And we want to call them and retire them and substitute stuff that they can pay off out of collections over the next three or four years.

H.M.Jr: Well, I think it makes sense.

M: And then, in order to get the money, the mortgage corporation will have to ~~sell~~ sell ~~forty~~ million approximately of two year notes -

H.M.Jr: Yes

M: And turn around and lend it to the land banks at a little higher rate which will give the land banks - give the mortgage corporation a little margin on it.

H.M.Jr: Well - I got a memorandum, and I've just written O.K. on it.

M: Fine, and we'll get the regular thing too.

H.M.Jr: I'll give this to Bartelt - I've left word as soon as he came in, he should come down.

M: Fine

H.M.Jr: And how much money can you give us to help balance the budget this year.

M: Well, I'll tell you - we have been trying to get along on as little as we could - are you going to do it this year.

H.M.Jr: Yes - you know darn well we're not.

M: I meant '39.

H.M.Jr: '39 - yes. This year - no

M: I got my ears padded down, trying to save forty million on interest notes.

H.M.Jr: Yes

- 3 -

M: But - well the outlook is good. Certainly they don't need as much relief in agriculture, and we're - going to get - we're getting - we're going to get very heavy payments this fall.

H.M.Jr: What will you do with them.

M: Oil - We're going to pay back ten million that the mortgage corporation owed to the Treasury.

H.M.Jr: How much do you owe us altogether. - Mortgage

M: Well - we owe relatively little.

H.M.Jr: Uh-huh

M: The capital that's put in is - that's just capital.

H.M.Jr: I see - you don't expect to get that back.

M: Well - never is a long time.

H.M.Jr: Well, sometime - I don't want to kid - sometime I want you down to take a look at your picture.

M: I'd like to.

H.M.Jr: And everybody else's

M: Yes

H.M.Jr: I'd like to do it next week.

M: All right.

H.M.Jr: All right, Bill.

M: Henry, you don't walk down. You're living up at the Carlton, I understand.

H.M.Jr: Yes - next week, I'll be up at the - probably move into our house, then I'll

M: Well, I've been going to call Mrs. Klotz and make a date with you when you get time.

H.M.Jr: Well next week I'll be walking, and I'll be glad to walk.

M: That's not till the first.

- 4 -

H.M.Jr: Well, not till next week.

M: Oh yes, that's

H.M.Jr: I mean I -

M: O.K. I'll get in touch with you the first of the week.

H.M.Jr: Righto.

M: That's right.

H.M.Jr: Thank you.

M: How's your apple crop

H.M.Jr: Oh, biggest we've ever had.

M: Prices not so good

H.M.Jr: Prices smallest we ever got.

M: Well, you know how the cotton farmers feel, you get just as much dollars and you'll have more fun.

H.M.Jr: Yes - says you economist.

M: Well -

H.M.Jr: Well Bill, I'm happy - I'm all right.

M: O. K.

## GROUP MEETING

September 30, 1937  
9:30 a.m.

Present: Mr. Magill  
Mr. Oliphant  
Mr. Gaston  
Mr. Hass  
Mr. Gibbons  
Mr. Lochhead  
Mr. Thompson

H.M.Jr: I read your memorandum on Vinson. I'd say his ideas are "flukey."

Magill: They are, very definitely. And, to me, that seemed the more hopeful.

H.M.Jr: Yes.

Magill: We'd be much worse off if he had some very definite convictions as to what he wanted to do.

H.M.Jr: I think I'm going to be free this afternoon to work with you, because I've gone about as far as I can on this budget business now. I'm going to put you down here for three o'clock.

Magill: Good.

H.M.Jr: Strictly in this room, I had half an hour's visit with Mr. Ickes yesterday and, much to my surprise, he is in entire sympathy with what we are trying to do here. That statement which was gotten out on September 20, saying that PWA would stop, was written by his office and was forced on the President. He is anxious to balance the budget, and he says he's sick and tired of being the whipping boy. I almost fainted. He said, as far as he's concerned, he isn't going to encourage any more spending.

So I've been around the circle with the exception of Wallace, who is out of town, and - but they are very, very interested and very encouraging. But I've seen them all except Wallace.

Magill: Well, now I'll take a billion off of the receipts that we're trying for.

H.M.Jr: It doesn't help much except from the standpoint of the next three years. I mean you can't do much on this

-2-

year, but if they stop making loans and grants now, why, we get the benefit in '39 and '40. That's what it amounts to. But most encouraging.

The other encouraging thing was that, in spite of I guess about as severe selling abroad as we have had, the market took it in its stride and absorbed it and gained yesterday, which Archie thinks was most significant: that we were able to take this very severe selling from Holland, absorb it, and end the day with a gain. I mean it was very severe.

Oliphant: That was in stocks or bonds?

Lochhead: Stocks and second-grade bonds. Don't carry much high-grade bonds. The Government bond market has carried itself right through anyway, without....

H.M.Jr: Herbert, can I say something to Wall Street Journal about - something about my saying the bond market was a bulwark against this drop? "When I said the Government bond market, I meant the Government bond market." And then I could say, "Well, all right, if yesterday was a test, my theory is borne out." Or would you simply say to the boys, "When I said the bond market, I had in mind the Government bond market," and let it go?

Gaston: Oh, it wouldn't.....

H.M.Jr: The boys don't like to be corrected.

Gaston: No, they don't.

H.M.Jr: It's unimportant.

Gaston: No, they....

H.M.Jr: As a matter of fact, the Ohio Edison yesterday - that money goes into new construction. One of the few issues they've had for expansion.

Lochhead: It wasn't all sold yesterday, but it moved very well, and they think they can term it a success.

H.M.Jr: Burgess is going to write me a letter once a week, George. He's been watching these issues very closely.

-3-

He's got Edie, or Edie, doing it - the fellow that used.....

Haas: Used to be with me. I don't know who's been doing it.

H.E.Jr: And he's going to give me a letter once a week. They know whether these issues go well.

As a matter of fact, again very confidentially, the Pure Oil issue was a hundred percent flop, and it's the first big issue which both was guaranteed by the underwriters and went completely back on the underwriters. Now, it's that kind of stuff - I mean often you wonder why does the Government bond market act sour. It has nothing to do with the big issues. How big was the Pure Oil issue?

Haas: I don't recall.

H.E.Jr: Well, it went completely sour, and the underwriters have got it. When they most likely turn around and blame us or S.E.C. for some rules and regulations; and they simply priced the thing wrong and timed it wrong. And they've got to look around - they blame me or Landis or Eccles because they timed the thing - sold wrong merchandise at the wrong time.

Haas: I talked to Randolph yesterday about this capital market to see what his ideas were. We're very close together, only he usually puts in different reasons; but we get the same conclusions. He never mentioned the increase in excess reserves; it seems that the S.E.C., or all those things... But he admits that this tightening up had some effect to force the issues out of the banks.

H.E.Jr: I mean the thing - I mean, to philosophize a minute, if we make a mistake it's front page news. I don't know who sold Pure Oil; do you suppose the Wall Street Journal or New York Times is going to ride the Pure Oil as a flop, and so on, and that these dealers did a bum job, and look what they did to the market, etc. They keep it a deep secret.

Oliphant: That's a private incentive.

-4-

- H.M.Jr: Deep secret. There's another one too, but Pure Oil was the worst one.
- Oliphant: Did Durning drop in to see you (Gibbons) yesterday? He was in my office. He spent three hours with Gay the day before.
- H.M.Jr: with who?
- Oliphant: With Gay.
- Gibbons: The one thing I heard was on the public utilities like gas companies and railroads - that their rates are fixed, ~~and what they are afraid of~~, why they can't float issues, ~~is that~~ labor costs and other costs will go up and the gross income is set.
- Oliphant: Well, the news is that that crowd is mystified. Gay and his crowd are all at sea, haven't any explanation.
- Gaston: Did you see the neat way in which Chester Davis kept Mr. Broderick's secret in the Post this morning? They said in the Post this morning that Broderick was going to resign and they asked Chester Davis about it and he said - this is Mr. Davis - "Mr. Broderick wanted to keep it a secret that his resignation is going in today and he is accepting the presidency of a New York bank, and it's going to be very embarrassing to him if you print it." So they quote him.
- Lochhead: New York Times carries the story, bank and all.
- Gibbons: He was out here yesterday talking to Kieley when we came in.
- H.M.Jr: He came in to say goodbye.
- Gaston: Frank Gardner, the A.P. man who used to be here, now writing financial news in New York, told me some figures that they were talking about in New York - rather interesting point of view. They figure that something like between three and a half and four billions of pump-priming money has been withdrawn in this fiscal year as compared with last fiscal year, and it adds up that way. There's about a billion and

-5-

a quarter bonus expenditure, and in Social Security funds there's over a billion; and then there is about a billion two decrease in recovery and relief.

- H.M.Jr: Yes, but that doesn't - the Social Security money isn't pump-priming money.
- Gaston: The point is that withdrawing it - it is withdrawing from consumption expenditures.
- H.M.Jr: Then you are in the field of withdrawals from capital markets.
- H.M.Jr: Net spending deficit.
- H.M.Jr: Actual cash deficit is what goes in. What's the difference?
- H.M.Jr: I don't recall the figures, but I think Herbert is pretty near right on that. And that Social Security does come into it, because your concept is your net spending deficit.
- Gaston: It would practically be all withdrawn from consumption expenditure.
- H.M.Jr: You give me a figure when I get back Tuesday.
- H.M.Jr: We're working on it now.
- Gaston: I'll give you that figure.
- Oliphant: That argues for bigger business investments.
- Gaston: It does, because I called his attention that our miscellaneous internal revenue, our excise taxes, are something like 13 percent right now above last year, in spite of that.
- H.M.Jr: They're beginning to get on to that. They hate to admit it, you see, because that argument is against the balanced budget.
- Gaston: Yes, yes.
- H.M.Jr: You see?

-6-

Gaston: Too abrupt tapering off.

H.M.Jr: That argument is against a balanced budget. But if you'd take that, George, and give me something Tuesday morning, if you please.

Haas: Yes, sir.

H.M.Jr: What else you know, Herbert?

Gaston: I think - oh, Emanuel Celler put out some kind of a statement last night saying that - taking note of this A.P. story that you were in favor of balancing the budget even if we had to increase taxes, and saying that he was vigorously opposed to any increase in taxes.

Magill: He's coming around to see me this morning, I suppose about that.

H.M.Jr: Well, if you see him, tell him he's all cock-eyed.

Magill: well, he is apparently trying to get in on the tax program. As I understand, he's bringing Mark Graves with him, and somebody else. I presume what he wants to talk about is either state-federal coordination or else repeal of capital gains. Those are the two things he's been trying to swing onto.

H.M.Jr: George?

Gibbons: I think he better be repealing capital gains.

H.M.Jr: George?

Haas: I finally got that up to you at the hotel last night, but the most important section - like for you to read it all, but the most important section is the end section there.

H.M.Jr: I read it. It's only about half the story.

Haas: Well, on that end.

H.M.Jr: Yes.

Haas: We're writing....

-7-

H.M.Jr: It doesn't belong in there.

Haas: Huh?

H.M.Jr: It doesn't belong in this memorandum.

Haas: I don't think you can discuss the business situation without putting up some consideration of the capital market.

H.M.Jr: but you only did half the job on that.

Haas: Well, I think that's one of the - either the heart or the kidney of it. We haven't got it all there.

H.M.Jr: Well, all right, that would come into what Gaston says on this whole Federal spending - I mean come into that.

Haas: Did I say - I don't know whether I did - that we were writing a more full memorandum?

H.M.Jr: Yes.

Haas: Yes. You're right, then. That's all.

Thompson: Nothing.

H.M.Jr: You all clear?

Thompson: (Nods yes)

Gibbons: (Nods nothing)

H.M.Jr: Tell the boys verbally I'm pleased the way they handled Black yesterday, will you?

Gibbons: Yes. I called the Collector....

H.M.Jr: All right.

Gibbons: ....and congratulated him on the way the thing was done.

Gaston: Black didn't let them use the sound-track on their news reels. He wouldn't talk for the news reel cameras.

-8-

Gibbons: He said he'd make a statement, apparently over the radio.

Gaston: Silent films.

Gibbons: I told you that Fred Essary, of the Baltimore Sun, congratulated the Collector too on the way he handled it.

Gaston: Want to read the tail end of Russell Porter's story, the last two paragraphs - swell little anecdote in the New York Times on page three, at the very bottom of the story, about what the Customs inspector said.

Oliphant: Very jolly for the Times.

H.M.Jr: "Major I. W. Truxtun, Collector of Customs, and Mrs. Truxtun....."

Gaston: No, about the Customs inspector who examined the baggage, pulled the cartoon out of his pocket.

H.M.Jr: "The reporter thought at first that the inspector was an ardent New Dealer indignant at an affront to judicial dignity. But the inspector quickly corrected this impression. 'That's a hell of a way to draw a customs inspector,' was his complaint. 'You never saw a customs man that looked like that. Why, it's just a caricature.'"

All right.

George, you want to stay a minute?

Oliphant: Got clearance from the Comptroller General on that.

H.M.Jr: Really? Well, I'm seeing your friend at 11:30, Herman. Will you be in at 11:30? Collins.

Oliphant: Is it 11:30 or 11:15?

(Gibbons, Lochnead, Thompson leave)

H.M.Jr: Just asking you fellows to stay here a second. George, on this business thing that you've given me, see - between now and Wednesday. This thing - I just

-9-

am glad; you see, what happened yesterday is very interesting - in this Open Market Committee.

Have Archie come back, because he's all "het up" over this thing.

These babies come in here and they say, "Why, you've got to raise additional money between now and December 15 in order to help the capital market, and then pay off your stuff. We want you to borrow 50 million dollars extra a week - 50 million extra a week. And then when the 15th of December comes, you pay off your maturities and that will be wonderful, and that's going to help the capital market." Well, I said, "To me, as I sit here, I just think entirely opposite."

So suddenly I say, "We're talking about balancing the budget and we go in to borrow 50 million dollars a week extra. For what?" And they say it's worse than they thought it was. "And back it goes over 37 billion."

So we argued along, and finally they said, "Well, of course, the Federal Reserve has only got 50 million dollars coming due in January. Supposing we have to buy some bills and there is no ammunition. We can't buy anything."

(Lochhead returns)

Haas: "Without putting the rates up."

H.M.Jr: "Without putting the rates up."

And they said, "Furthermore, if there is going to be any tightness we'd have to buy our bills around December, just ahead of your financing, and you know, Mr. Secretary, you're always opposed to our buying just ahead of the financing in order to give it a false look."

So I said, "Well, listen, I'll bet anybody in this room that, no matter what we do....." - oh, first I said to Goldenweiser, "Now, listen, Goldenweiser, the way the situation looks, do you think it's all right as far as you can tell?"

"Well," he said, "as far as I can tell it looks all right, and we may have to do a little buying. As far as I can tell, it looks all right, as far as excess reserves."

-10-

I said, "Well, I'll bet anybody in this room that, no matter how it looks, you won't buy anything."

So McKee got mad - "Yes we will, yes we will."

So I said, "Oh, you won't buy anything, whether you need to create excess reserves or not."

"Well, the most important thing now is the capital market, and if they knew you were out on the 15th of December, that would be the most encouraging thing. And you've got to borrow a hundred million a week now instead of 50."

Gaston:

Keep it secret.

H.W. Jr:

So I said, "What you really want me to do is to go out and create enough paper so that around the first of December you can buy some of our stuff."

"Well, that isn't just the way....."

So Archie, who has a way of putting his finger on things - he said, did it ever occur to them that they could start buying now if they wanted to.

Now, just in order to get this question of the capital markets, you see, I'm going to quarters where I've got confidence - this is very much in the family - and I'm going to ask Parker Gilbert to get together with Morgan-Stanley, make a little survey. I'm going to see them Monday; want to say to them, "I'd like you to tell me what difference, if any" - I'll put it fairly - "whether the Treasury - you're an old Treasury man - whether we borrow each week 50 million dollars extra, or whether we wait until the 15th of December, does that have any effect on Morgan-Stanley in deciding on their issues? I'd like to know if it makes any difference to Morgan-Stanley as to what they'll do between now and the 15th of December." And then I say, "While you're at it, I'll be perfectly willing to have you tell me anything that you think the Federal Government might do to encourage it."

But just that particular issue - because, believe me, as far as the Federal Reserve is concerned, they still

-11-

jump when Morgan-Stanley talks. I mean there's no - that's the cream; they've got the best issue business. I'd just like to ask them.

George Harrison was a little canny, though, wasn't he?

Lochhead: He tried to maneuver you into saying - remember, using one word?

H.M.Jr: George said, "You wouldn't want us to buy around December."

I said, "Oh no."

Then they tried to twist it around that we still had an obligation on that joint statement of two weeks ago. So I said, "Well, we fulfilled our obligation."

They said, "Do you think we fulfilled ours?"

I said, "No, I don't." I said, "Money rates will decide that." I said, "I don't think you have fulfilled that; how do I know?"

"Don't you want us to buy - we'll have to buy around December, and we won't have anything to buy. You're not borrowing enough."

I mean really - am I exaggerating?

Lochhead: No.

H.M.Jr: What?

Haas: No.

H.M.Jr: Am I exaggerating?

Haas: No.

H.M.Jr: It was the funniest show I ever saw. All I could do was to keep from laughing.

Haas: There's one thing that Harrison tried to put on you - was that their action was an obligation to the Treasury market, and you cut him right off on that by switching it the other way.

-12-

H.M.Jr: You see, for some reason or other their maturities in their portfolio for the next three months are low, and they are going to have stuff riding off. By God, they might even have to buy a three or four year obligation. If worst comes to worst, they might have to buy a three or four year obligation. They haven't learned anything and they are no different, and these boys down here just aren't smart enough and that New York crowd just continues to put it all over them. And I don't think it is conceited to say that they don't put it over me.

But I don't think I'm going to - say, I don't know anybody I'd rather have the opinion of than Parker Gilbert and his crowd, to say whether it does or doesn't. If he says, "Yes, it does make a difference," gives me an intelligent reason, I'd be influenced.

Emas: You're in a swell position of cooperating with them there.

H.M.Jr: I'm going to ask them. They have always been very high-class in their dealings with us. I think they are a high-class crowd. I'd like to know. And after all, what Morgan-Stanley does is the bellwether on the writing, isn't it? I mean they've got out the only issue now that's gone over - this Ohio Edison. But I'd just be curious - of course, I'm not going to tell Burgess - if he said, "Way, Mr. Morgenthau, it doesn't make the slightest bit of difference whether you borrow now or borrow new money on the 15th; it's all the same."

If I go to the well and take it out two months before I need it, to me it just doesn't make sense. And then we've got to sit here for two months and have them calling hell out of us that the debt is over 37 billion.

Oliphant: And the rates.....

H.M.Jr: Pardon me?

Oliphant: And you'd harden rates pro tanto.

H.M.Jr: And to say this money that we take is in no way in conflict with other capital issues - we take it now,

-13-

it's not in conflict, but on the 15th of December it is.

Oliphant: Did Archie ask them any reason....

H.M.Jr: What?

Oliphant: Did Archie ask them any reason why they hadn't thought of starting to buy earlier?

Lochhead: I was afraid to mention it in that way, because it was very apparent that it's never entered their head. They're just firm. They don't want.....

Haas: I think they've been very consistent, the New York crowd.

Lochhead: Of course they've been consistent.

Haas: Want higher rates.

Lochhead: Higher short-term rates, certainly.

Haas: Right clever.

H.M.Jr: As near as I can tell, I think the 300 million will see them through. I mean it looks to me as though there is enough excess reserves now. It's well over a billion, and....

Haas: Well, it depends on the distribution of it.

H.M.Jr: Well, we control that here.

Haas: Can to some extent.

H.M.Jr: Oh yes, just change deposits. I mean that's - we completely control the distribution of reserves by just changing deposits.

But I thought you fellows would be amused by this.

George, I think that you ought to give these gentlemen a copy of that business thing that you've got. I really think they ought to have it - in the room here, nobody else. But I think they ought to have that for

-14-

background.

Haas: All right, I'll give each a copy.

H.M.Jr: But I thought you'd be amused at that little gossip.

Magill: Very much, very much.

H.M.Jr: It's just - I mean there's nothing sinister about it.

Oliphant: No, but it's unfortunate that this whole set-up down here is continuously outsmarted by them.

H.M.Jr: There is nothing serious, but these people - I don't know.....

Say, Herman, I wish you'd have somebody make in your office a study of this whole Trans-America business, see? I've been wanting to tell you that a long, long time. Here's a holding company, a chain of banks. I think it's called Trans-America.

Oliphant: That's right.

H.M.Jr: And here's a thing dealt in, not even listed on the New York stock exchange, not listed on the curb, not even listed on the San Francisco stock exchange. And personally - I mean this is just my personal opinion - I think it's one of the dangerous things in the whole banking business. And I don't like his friends.

Oliphant: Well, you remember that liquor picture we got once.

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

Oliphant: Yes, the liquor organization, liquor industry.

H.M.Jr: Yes.

Oliphant: We're going to get this the same way. Is that what you want?

H.M.Jr: Well, I - no, I just - no, I know the set-up, know how it goes down, but....

Oliphant: You don't know all the Board of Directors - interlocking directors.

-15-

- H.M.Jr: Oh no, no. I want the thing, and then what I've got in mind is the thought that - the possibility of introducing just a little innocuous piece of legislation making it impossible to have a holding company in banks. See? That would be one step. And the next step - some day we'll hit this chain banking thing. But I think it's a very dangerous thing to permit a holding company in banks.
- Oliphant: There's a lot of background and sentiment in favor of doing something about the whole thing.
- H.M.Jr: Pardon me?
- Oliphant: There's a lot of sentiment in town here and on the Hill against the holding company in banks.

September 30, 1937.  
10:05 a.m.

H.M.Jr: Hello

Operator: Mr. Gilbert

H.M.Jr: Thank you

O: Go ahead

H.M.Jr: Hello

Gilbert: Hello, Mr. Secretary.

H.M.Jr: Hello, how are you.

G: Pretty well thank you.

H.M.Jr: Good - are you at your office.

G: No, I'm up town at the moment.

H.M.Jr: Oh, where you can talk.

G: Yes, quite all right.

H.M.Jr: Good. - I'd like you to think over this situation, I'd like to get your advice Monday.

G: Yes

H.M.Jr: Between now and the 15th of December we have to arrange certain amount of money for the Treasury. As far as we can tell we don't need any money but we have a four hundred and fifty million dollars coming due on the 15th of December - bills which we could pay off and then we would have to raise money at that time. Now there's two schools of thought, one is that we should begin to raise that money now, through bills you see - or certificates, and - so that we'd have to have no financing on the 15th of December. The other school is that we go along just the way we are, turning over each week the fifty million which comes due and then have our financing on the 15th. Now the argument, the reason I'm calling you is this. The argument that I've given, and if I pick up the money now and each week fifty million extra and don't do it on the 15th, but that will help the capital market, see.

- 2 -

No I don't know the Morgan Stanley crowd, but you do, and I wish you'd talk it over with some of your associates and let me know if, in their opinion, it would have any effect on their getting out any new issues, you see, or whether it would.

G: I hardly doubt it would just now, - other things -

H.M.Jr: Pardon me

G: I say, I doubt if it really makes much difference right now owing to the fact that the two issues are not likely to have them for other reasons.

H.M.Jr: Well - I'm just - this argument has been put up to me - I - I don't like - I don't know whether you want to know what I think or not, or whether -

G: You'd better reserve your opinion.

H.M.Jr: Better reserve - but I mean that it was put up to me so strongly by the Federal Reserve crowd, and that - I just thought I'd talk to somebody who makes his living out of it.

G: They - they think you ought to -

H.M.Jr: They think I ought to pick up the extra fifty million each week.

G: As you go along.

H.M.Jr: As I go along.

G: Making it a hundred instead of fifty.

H.M.Jr: Right.

G: Yes

H.M.Jr: My inclination is not to draw on the money market for money which I don't need now - have no use for - and wait until the 15th of December.

G: Well

H.M.Jr: I mean - I have no use for the money now.

- 3 -

G: Pretty good reason for not borrowing it.

H.M.Jr: Well -

G: It's worth thinking over.

H.M.Jr: But then the effect - I would be very glad to have you tell me - this is proposition A - what in your opinion are the factors which influence houses and concerns who have to do with the Waesche movement, why they are or are not getting them out, you see.

G: I'll be glad to try to do that.

H.M.Jr: For your own information I expect to be in New York with my family on Monday, see.

G: Oh, yes.

H.M.Jr: I thought I'd get in touch with you, we're staying at the Savoy Plaza. I thought if you could drop in there, maybe Monday afternoon, we could have a talk.

G: That would be perfect, I'd like to do that. I'd like to talk to you about several things.

H.M.Jr: And if you want to bring anybody along from Morgan Stanley, that's entirely up to you, or whether you'd rather see me alone.

G: All right.

H.M.Jr: I mean - that's up to you, and I'll phone your office Monday, and - some time Monday afternoon. Would it make much difference

G: Any time Monday afternoon would be perfect.

H.M.Jr: Well, that'll be the time, and then anything else that you have on your mind, but this particular thing, - it just doesn't make sense - I never borrow money that I don't need, because I think money is cheap - - why don't you borrow a lot of money now, it's cheap.

G: Yes

H.M.Jr: Well, I never know when money is cheap or when it's dear, and only borrow when I need it.

G: Well, I think that's a very sound principle.

- 4 -

H.M.Jr: And I've done that now since I've been here.

G: Yes.

H.M.Jr: But, if in this case, if by borrowing the money now and not having an issue, the 15th of December would really have any influence, why then I'd like to know.

G: Well, I think - I'll go over that very carefully, and I think I can give you - anyway our opinion.

H.M.Jr: Righto.

G: Very clearly on Monday.

H.M.Jr: Well, then it gives you time to talk it over, doesn't it.

G: Oh, that's perfect.

H.M.Jr: Fine.

G: I'd love to see you anyway and that'll work very well.

H.M.Jr: All right.

G: You'll ring me up.

H.M.Jr: I'll - I'll get in touch with your office Monday morning and it will be some time Monday afternoon, always dependent on something unforeseen coming up, but my present plans are to spend Monday with the family in New York, I mean I've got a little shopping to do, I've got to buy a suit this winter and a pair of shoes, - things like that.

G: Well, anytime it suits you Monday afternoon will suit me.

H.M.Jr: Thank you. Goodbye

G: Goodbye.

September 30, 1937

11:15 a. m.

Present:

The Secretary  
Mr. Altmeyer  
Dr. Haas

HM, Jr: This gives us a chance to discuss the thing. What the President told me that you had in mind, which I think is excellent (the reason I have Haas here is he has been on it for a couple of months) is, as I understand it, to have a confidential committee which you would like to have working with you looking towards the future for opposition people like Senator Vandenberg.

Mr. Altmeyer: Yes.

HM, Jr: If you will philosophy and expound, I will be more than glad to sit back.

Mr. Altmeyer: Of course you know the talk about the reserve. Nobody knows what they are talking about when they talk. They use the word "pay as you go" and think they have said something, but on the other hand there is a lot of support -- getting a lot of support for the so-called "pay as you go plan". I don't think any of us are supposed to pay as you go if people are ready to take the consequences and make other provision so that we don't get into a situation where 15 or 20 years hence we are in a predicament.

I think from the standpoint of the Treasury you have two worries: you want a system that your books will show you what liabilities are accumulating on you and will show you a true situation, and, secondly, you want to have an alternative tax suggestion so that revenue will be coming in if they are going to touch the payroll tax. We could operate, as you know, on the reserve system -- either way -- if we had certain things.

Now, I think that from a practical standpoint and from a social standpoint, too, that it is unwise to postpone payment of monthly benefits until 1942 because these

-2-

small lump sum payments that are being made will not satisfy the people that something really tangible is coming out of this payroll tax. This last year you had 6 months to run and it ran, as I recall, about \$250,000,000 collections. This year it is going to run, probably, around \$600,000,000 collections. We will be paying out in benefits, oh, probably, a couple millions dollars at the most, because they are not filing. We estimated 350,000 claims filed and I think we have had, down to date, maybe 20 or 25,000 filed since the first of the year.

Well, if it is socially desirable and also desirable from a practical standpoint to start benefits sooner, then the question would arise: How shall we start benefits sooner and how shall we adjust the amounts to be paid in the early years? And we have several alternative suggestions as regards that.

The two main types are these: if you start benefits sooner, of course the amounts will be small unless you allowed some kind of unearned benefit even in addition to the age unearned benefit element that is in the present law for these people reporting in the first few years, otherwise you would not have accomplished anything from a practical or social standpoint because benefits would be so small you would be derided for having started. There are two ways you can do it: either change your percentage credit for the first \$2,000 or \$3,000 -- it's now  $\frac{1}{2}$  of 1%. You could increase that to, say, 1%. For a man who has only earned \$2,000, he could get \$20.00 a month pension. That would stay in your picture for all time to come, increasing the present set-up for a man to get a job during the last five years of his lifetime so he can build up a pension right, which will be a very terrible problem. Now, the other way is sort of a sliding bonus -- shouldn't call it bonus; that would be the last word on earth to call it. Say you today pay on a certain amount plus the present scale, but as each quarter goes by people reporting in successive quarters would get a little bit less and this addition, so that in the course of years that would just pass away as their earned benefits increased.

Well, those are the two main alternatives so far as starting benefit payments sooner. It would run into sizable sums starting benefits sooner. You might have as many annuitants as 200,000 or 300,000 by 1941 and you

-3-

might be paying out as much as \$300,000 a year and those are terrific sums, but over a period of time if you use the sliding bonus that does not amount to much as compared with the \$47,000,000,000 reserve which we calculated will be accumulated by 1980. It does amount to sizable sums on an absolute basis, but not on a relative basis considering the period between now and some period in the future like 1980. That's so much for starting benefit payments sooner.

I think there are a number of things that I mentioned in the memorandum to the President that we ought to give consideration to ~~to~~ -

I have just been mentioning (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." The next point "(b) Provide an extra allowance for wife of old age benefit recipient." In Great Britain, for example, they pay double if there are two aged 65 years living together; instead of giving \$11.00 they get \$11.00 apiece or \$22.00 altogether. That is just a point to consider in lieu of any increase in basic allowances to any individual. There is complaint that basic allowances are too small for a man to live on. Instead of increasing those basic allowances you might meet the problem by allowing extra amounts in case the man's wife was alive, and it would not cost near as much, of course.

(c) "Provide benefits for surviving widows and orphans, regardless of age of deceased," -- what they call "survivors' benefits in most of the European insurance claims. They run together -- old age, invalidity and survivors. That sort of provision would cut into our present expenditures considerably for what we call "mothers' pensions" in the States. It would cut into that segment of the relief problem to the extent we allowed this type of benefits to widows and orphans. Very little for the widow, but a certain amount for the first child and a certain amount for successive children. You would cut into the relief payments that we are making for mothers' pensions.

(d) "Provide benefits for permanent total disability." That is, if a man reached the age of 40 or 45 or 50 permanently totally disabled, he could start drawing

-4-

benefits that he would otherwise have drawn if he retired at 65. That's so much for the old age insurance.

Those are suggestions that I made of phases that I thought we ought to study.

HM, Jr.: Study.

Mr. Altmeyer: Yes. On unemployment insurance I suggested we ought to consider the possibility of extending unemployment insurance system to include compensation, for example, due to temporary disability. The old age insurance will take care of permanent-total disability people. The unemployment would take care of the temporarily disabled people.

(Mr. Magill came in at this point.) The Secretary said to him: I explained it was my fault that you could not be present. I will talk to Mr. Altmeyer for this half hour and then he has this memorandum which he gave to the President, which I will give to you and we can all read it over the week-end and next week we will all get together if that is agreeable to him.

Mr. Altmeyer: I am going to be out of town for a month. I have speaking engagements all over the country and I will do them all next month.

HM, Jr.: Well, when you come back. But there is nothing in addition to this memorandum?

Mr. Altmeyer: No. What you might do is ask Mr. Haas to do some thinking about costs.

Dr. Haas: That's right.

HM, Jr.: Now, you would like him to work with your people?

Mr. Altmeyer: Yes. Two people I have over there. I am not using up my whole research staff because I want to keep it close to home. Don't want people to get the idea we are starting out on a new scheme. Falk and Williamson are carrying it over there. Those two people have been doing some work.

-5-

HM, Jr: We could get started, using this memorandum as a basis. Haas could work along on the cost. What else could we do while you are away?

Mr. Altmeyer: You are most interested in costs -- the whole economic implication.

Mr. Haas: How it fits into the whole fiscal program and, again, if you need more money, the whole tax question is opened up.

HM, Jr: You want to keep this very quiet?

Mr. Altmeyer: Oh, absolutely!

HM, Jr: We don't want any more disturbances just now! It really gets down to Magill, Haas and myself working with your people while you are gone and we ought to have something by the time you get back. When are you leaving.

Mr. Altmeyer: Sunday afternoon or Monday morning.

HM, Jr: (to Mr. Haas) Put the month of October on it.

Mr. Haas: It's a very big job. We will have something.

HM, Jr: Early in November -- the first ten days of November.

Mr. Haas: All right.

HM, Jr: Isn't that about all we can do today?

Mr. Magill: What is the proposal?

HM, Jr: There is his memorandum to the President and I will have copies made and send you one.

Mr. Magill: Sorry to rush out this way.

HM, Jr: It's entirely my fault. Isn't that about the whole picture?

-6-

Mr. Altmeyer: Yes, I think it is. It runs into a lot of money. The substance, the gist of it is this: as far as we have gone -- we haven't gone very far on this thing -- as far as figuring the cost is concerned, you can get an old age, survivors' and invalidity insurance system along the lines I have just mentioned and get it into operation, say, January 1, 1939 or January 1, 1940. You would not have to attach present payroll tax rates. The step-ups would remain the same, but you would have to continue the step-up for 1949 because it will cost more money. The present type is 3% or a 6% total. You could not get all this for a 6% total. You would have to build it up to, I think, 8% and even then eventually the Government would have to come in with a subsidy, a sizable subsidy, probably 1/3 of the total, and that would run into money say for the next 15 or 20 years. In other words, your present payroll tax and that sort of thing takes care of the thing. After you get past that point, you have an ever-increasing Government subsidy until you reach a maturity of the system 45 years from now. Then you level off. Now, the question is how far we should go in this direction recognizing that as we do we probably are also abandoning, to a certain extent, the reserve system, the self-sufficiency basis of this thing and running into an eventual Government subsidy. Whether that's wise or not, how far can we go on that sort of program.

HM, Jr: I have what you have in your mind and it's tremendously important and if they even thought we were thinking about it the impact would be terrible. We can keep it quiet.

Mr. Altmeyer: We can keep it quiet too. I have just been ruminating it in my mind.

HM, Jr: I appreciate your coming over.

Mr. Altmeyer: Thank you very much for letting me come over.

oOo-oOo

September 11, 1937.

Memorandum for the President

From Mr. Altmeyer

Subjects: 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 committee 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 this 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 alluded 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 burden 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 reworked 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 markups, 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 ~~injury~~

- 3 -

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.

MEMORANDUM OF THE DAY'S ACTIVITIES

September 30, 1937

To: The Secretary  
From: Mr. Magill

1. Congressman Celler, Morris Tremaine of New York and two associates and Mr. L. H. Parker spent an hour with me today on the subject of the tax on capital gains and the undistributed profits tax. Mr. Celler urged that the undistributed profits tax was unduly burdensome on small companies and that the tax on capital gains was preventing business transactions, particularly sales of securities. Mr. Tremaine, after a long speech, made specific proposals as follows: increase the income tax on the lower brackets; modify the undistributed profits tax so as to permit the accumulation of earnings needed for growth; tax capital gains and losses in a separate schedule, using a flat rate of tax; apply some form of tax to corporations which do not have net income. I gave no indication to these men of my own views or the Treasury's views with respect to these proposals or others; and consequently, I do not at all understand Congressman Celler's statement to the press that I had indicated that the Treasury was studying the possibility of moderating the undistributed profits tax on small businesses and of increasing the income tax rates on middle sized incomes. Celler advocated these two changes, but I expressed no opinion.

2. Settlement of the Bahamas insurance cases:

At my request Mr. Oliphant and Commissioner Helvering discussed the settlement of the five cases which were presented to the Joint Committee involving fake insurance policies in Bahamas companies. Mr. Leming, who has been in charge of the cases, indicated that his conclusion was that there was not enough evidence to form a basis for criminal prosecution but that the fraud penalty should be asserted against each of the individuals in proceedings before the Board of Tax Appeals. Mr. Oliphant agreed with this point of view and directed that the Penal Division complete its recommendations so that the work on the cases will go forward in the usual course. Work has been held up during the past month due to the fact that the files are in the hands of Mr. Parker's staff, at the request of Senator LaFollette, who has asked for an analysis of the cases.

September 30, 1937

To: The Secretary

From: Mr. Magill

Subject: Conference with Congressman Celler, Morris S. Tremaine, Controller of the State of New York, Mr. Carl Whitney of the New York Bar, Mr. Jones, President of the Akron Belting Company, Akron, Ohio, and Mr. L. E. Parker.

Mr. Celler had arranged the conference. He opened the discussion by reading letters from two New York corporations to the effect that the undistributed profits tax prevented the small and middle-size corporations from building up a sufficient surplus to compete successfully with the larger corporations. One of the corporations had had a series of deficits followed by a net income of between three and four thousand dollars. The letter pointed out the desirability of retention of the earnings which it was asserted the present law prevented. I pointed out to Mr. Celler that the present law was more favorable to a corporation with earnings of this size than the prior law.

Mr. Tremaine then made a long speech, the gist of which was that he was strongly in favor of the President and his policies but that he believed business was being stifled by the present taxes. The illustrations which he gave indicated that his main complaint had to do with the surtax rates in the upper brackets rather than with the tax on capital gains. When he concluded his remarks I asked him specifically what he recommended to cure the situation. His first proposal was to broaden the income tax base. I asked him how much he would lower the exemptions and he said that he thought the single exemption should not be more than a thousand dollars. I pointed out that that was the amount of the exemption at present. Mr. Celler then interposed to the effect that it would be politically undesirable to lower the exemptions but he thought the top surtax rates should be reduced and the surtax rates in the middle brackets might be increased. Secondly, both Celler and Tremaine want capital gains taxed in a separate schedule at a flat 12 1/2 percent rate. They do not seriously advocate the repeal of the tax. Thirdly, they suggest a reduction in the rates of the undistributed profits tax, and Celler suggests some special provision for carrying over net losses to subsequent years. Finally, Mr. Tremaine would like to see some form of tax on corporations that have no net income. His memorandum in his own handwriting is attached hereto.

I gave the men no indication of the Treasury's own point of view but simply listened to them and took notes. There is no basis for the statement which Celler and Tremaine subsequently gave the reporters to the effect that I had indicated that the Treasury "plans" an increase in the rates in the middle brackets and a moderation of the undistributed profits tax on smaller companies.

*Raw*

September 30, 1937.  
2:18 p.m.

Operator: Go ahead

H.M.Jr: Hello  
Gordon

Rentschler: Hello there, how are you

H.M.Jr: I'm all right, how are you.

R: Very good.

H.M.Jr: I wish you'd be thinking over something very confidentially for me.

R: Be glad to do it.

H.M.Jr: And I'd like to get an answer from you maybe Monday or Tuesday.

R: Find

H.M.Jr: In considering our financing from now until the 15th of December, there are two schools of thought, one school is recommending that we pick up each week the additional fifty million dollars so that when we come to the 15th of December we may not need any money, see.

R: I see.

H.M.Jr: The other school says no, just go along the way you are, just fifty million a week, roll over and then on the 15th of December pay off your maturing bills and borrow whatever you need.

R: Borrow on a longer time basis.

H.M.Jr: Well, whatever the market will take, you see.

R: Yes.

H.M.Jr: Now, one of the arguments that they are using on this thing with me is the situation which I am not familiar with, and they say, now if you take this extra fifty million a week now, they know you're not going to have any financing on the 15th, that will be the most reassuring thing you can do to the capital market.

R: Yes.

H.M.Jr: Well, I just wondered if that's so.

- 2 -

- R: I'm not so sure, I'd like to think about that pretty carefully before I answer it.
- H.M.Jr: Well, I didn't - I wouldn't want an answer off the bat, but they're telling me if I take a hundred million a week now in bills or tax, you know, bills, something in the bill form you see, an extra fifty, so - with the hopes that I sail through December 15th without any refunding or refinancing, they say that will be most reassuring.
- R: Yes, it's better to have an issue then.
- H.M.Jr: Yes, now frankly I can't see it.
- R: No -
- H.M.Jr: But, therefore, I'd like to have some - talk to some fellow who makes his money by that, see.
- R: Yes, now I'll - you let us think that over, and I'll give you a ring on that Monday or Tuesday.
- H.M.Jr: Yes - I may be in New York Monday, I'm not sure yet.
- R: All right, fine. If you are, I'll come up wherever you are.
- H.M.Jr: Well, I'll be at the Savoy Plaza.
- R: Yes, fine. We can get together up there then.
- H.M.Jr: But I'll let you know, but you might sort of keep Monday afternoon, sort of not too tied up.
- R: Yes, I'll be glad to arrange it that way.
- H.M.Jr: I'm just going to - shopping.
- R: Yes, well that will be fine.
- H.M.Jr: But, - you get the picture.
- R: Yes, indeed I do.
- H.M.Jr: And you might be thinking about this whole question, - I mean this is so important to the capital market, - well let's consider that and then what is the matter with the capital market. What's keeping people from going in.

- 3 -

H.M.Jr: See, we wanted your opinion as to real reasons, see.

R: Quite right, that's all right - we'll run that through our mind. We will be ready to talk to you.

H.M.Jr: If you'd kind of be careful - I'd just leave -

R: I'll be very careful not to mention either that you were up here.

H.M.Jr: Yes, - and also, but - I mean you can ask questions in a way that -

R: Oh yes, indeed, I'll be very careful, so there'll be no discussions.

H.M.Jr: Yes, but you get the point.

R: Oh yes, indeed I do.

H.M.Jr: And if it wasn't that these people were so insistent that I'm wrong - I wouldn't be asking advice

R: That's right.

H.M.Jr: And - I mean - if I'm wrong, I'm open to argument.

R: Very good. Yes, let's think that over and take a look at the whole situation. Now of course you've got this February maturity coming along too.

H.M.Jr: Well, yes, but that is - we could handle it either then or take enough money in December.

R: Take enough in December.

H.M.Jr: Yes.

R: Which of course would be just in accordance with the four annual debts.

H.M.Jr: That's right.

R: Which would be better.

H.M.Jr: Which the people are -

R: That would be a logical thing.

H.M.Jr: Yes

R: And then you won't have to bother with the others until March, which is a long ways off.

- 4 -

H.M.Jr: That's right.

R: We might be able to get a lot of things cleaned up between now and March and won't cause any difficulty.

H.M.Jr: That's right.

R: Well, all right, I'll be very glad to do this, and then we'll sit down some time Monday afternoon at your convenience.

H.M.Jr: That's right.

R: How else are you?

H.M.Jr: Oh, I'm fine.

R: Lot of fellows still coming in with nervousness.

H.M.Jr: I won't let them come in.

R: Well, we've got all kinds of nervous indigestion fellows around these days.

H.M.Jr: Well, I've been trying to saw wood down here.

R: Oh by all means, and -

H.M.Jr: I - I read everything that comes along but I'd rather take it in print than have it given to me with a lot of nervous fervor.

R: Oh, yes, and then of course, they don't - do any cross questioning then.

H.M.Jr: That's right.

R: That wouldn't do any good.

H.M.Jr: No. - Well, you think this over for me.

R: Indeed I will.

H.M.Jr: Thank you.

R: Fine. It'll be awfully nice to see you.

H.M.Jr: Thank you.

R: Bye. Bye.

H.M.Jr: Goodbye.

September 20, 1937

My dear Mr. Mallet:

Thank you for your very courteous letter of September 27th.

I would appreciate your informing Sir John Simon that I consider Sir Frederick Phillips' visit distinctly worth while and I hope that officials of the British Treasury will again visit us in the not too distant future.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. V. A. L. Mallet,  
Counselor of Embassy,  
The British Embassy,  
Washington, D. C.

BRITISH EMBASSY,  
WASHINGTON, D.C.

September 27th, 1937

PERSONAL AND  
CONFIDENTIAL

My dear Mr. Secretary,

I have received a telegram from the Chancellor of the Exchequer asking me to convey to you an expression of his thanks to you for having kept so closely in touch with him with regard to the French situation. It has been a great satisfaction to Sir John Simon to feel that your views and his own have so closely coincided.

May I add, on behalf of Sir Frederick Phillips, Mr. Trentham and myself a special word of thanks for your courtesy in giving up so much of your valuable time last week and for the princely hospitality with which you honoured us on that delightful visit to Mount Vernon.

Believe me,  
My dear Mr. Secretary,  
Yours very sincerely,

*Victor Mallet*

The Honourable  
Henry Morgenthau, Jr.,  
United States Treasury,  
Washington, D.C.

FEDERAL RESERVE BANK  
OF NEW YORK

*W. F. ...*  
216

OFFICE CORRESPONDENCE

DATE September 30, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Lacks

WITH BANK OF ENGLAND.

Mr. Bolton called me at 12:10 for the purpose of keeping me in touch with affairs in Europe. According to their view the French situation is nearing a crisis tomorrow or Saturday. The flight of French capital has been on a tremendous scale during the last two days and still continues. The movement is directly into sterling, today's figure being about £4,000,000. I pointed out that what he told me was contrary to market reports received here, which spoke of the pressure against the French franc being very much smaller today. Bolton simply replied that that showed the value of market reports and explained that the reason for this divergence most probably was a recent change in technique on the part of the French, as a result of which the Bank of France furnished a good deal of sterling to the buyers direct instead of operating through banks in the market. According to their information, he continued, the market in Paris was terribly disturbed with a panicky scramble for international securities which today had spread into French industrial securities. Some people in Paris seemed to be convinced that by Monday we would have a rate of 175 francs to the pound. There seemed to be no doubt that there was a complete split in the Chautemps setup, with the prospect of the popular front breaking down and giving way to a new government of the moderate centre and the parties of the right, that is a kind of government of national union. If this came off, it would most certainly mean a break between the radical socialists and Blum's socialist party. Such a new combination would be a difficult problem because, at best, it would command only a small majority in the Chamber. At any rate, as far as he understood,

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 30, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM: L. W. Knocks

WITH BANK OF ENGLAND.

- 2 -

some such plan was under contemplation to be put through before October 10, the day of the cantonal elections. In his personal opinion, some decision would have to be made before this weekend. In the meantime, the market was just toppling into sterling.

Bolton then referred to our conversation last Monday about Japanese funds in London. He had no further definite information, he stated, but as far as they had been able to discover, it now seemed to them that the Japanese were rather low in funds in London. The Japanese banks were reported to be continually endeavoring to borrow sterling against any form of security, offering high rates for deposits, etc. But so far all their requests had been turned down out of hand. He admitted that what he was telling me now was somewhat different from what he had said last Monday.

Bolton then asked "Just as a matter of curiosity" whether anything was happening in silver, that is whether there was any change in the silver policy. I told him that I knew of nothing, that as far as the price for domestic silver was concerned, the Secretary had recently stated that he had three and a half months to deal with this problem. As far as non-domestic silver was concerned, all I knew was that the mandate given the Secretary of the Treasury in 1934 to buy silver, continued in force. What would become of the London silver agreement when it expired at the end of this year, I did not know but, judging by discussions in the daily press, it seemed to me that nobody was any longer much interested in this problem. Bolton mentioned that they had had rumors in London from India and Shanghai to the effect that our domestic price of

OFFICE CORRESPONDENCE

DATE September 23, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knaka

WITH BANK OF ENGLAND.

- 3 -

silver was going to be raised. I replied that I had not even heard such rumors. Bolton then referred to the 50,000,000 ounces of silver on the way from Hongkong to London, which were sent there for safe custody, the capacity of the Hongkong market in this respect having been completely exhausted because the banks in Hongkong had had to take in many valuables of all sorts from Chinese residents. I wondered, I said, whether these shipments did not have more significance than just seeking a place for safe custody for the silver. Bolton replied that they had an eye on that too but had been assured by the Chinese that there was no intention to throw that silver on the market. He promised he would let me know if he heard anything further.

I asked whether he had heard anything about further gold shipments from Japan and he repeated that, as he had previously said on Monday, it was their understanding that the one shipment had been an experimental one, had proven to be very expensive and that, therefore, the Japanese had no intention to ship any more to London. I mentioned that we here had not been advised of any further shipments to San Francisco.

In conclusion, Bolton said that probably he would ring me up again tomorrow because he was certain the French situation was very near breaking point.

LWK:KNC

MBo

GRAY

Paris

Dated September 30, 1937

Rec'd 12:28 p.m.

Secretary of State,  
Washington.

RUSH.

1364, September 30, 4 p.m.

SECTION ONE FROM COCHRAN

French control has been under terrific pressure today giving sterling at 144.59 to 53. Rente up and big turn over in French shares on rapidly rising market. Bank of France statement as of September 23 showed no significant changes and no new advances to the state; coverage 51.61 versus 51.81. Gold much in demand at London with British control supplying it.

Above activity in Paris market results from increasing fear of early crisis in the franc accentuated by following rumors among others current today:

One. That Governor Fournier has recommended immediate stabilization of franc on gold with Bourse to be closed for one week.

Two. That new basis for franc will be 175 to the pound.

Three. That tripartite agreement will be revised the franc going down because of social charges, the dollar declining with gold because of Wall Street

(END SECTION ONE).

PR:CSB

WILSON

PARTIAL PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 1364  
of September 30, 1937, from Paris

crash and raw materials slump, and the pound allowed  
to depreciate because of British armament costs;

Four.

That Bonnet will head a reshuffled Popular Front  
Government or

Five. That a consolidated government under Daladier  
will succeed the Popular Front Government.

I telephoned Rueff at the Ministry of Finance at  
four o'clock this afternoon. Rueff said that he could  
not confirm any of the current rumors on the Bourse,  
including the rumor that a Cabinet change is imminent.  
This afternoon he said there was to be an ordinary meeting  
of the Finance Committee of the Chamber, which was for  
the purpose of discussing the 1938 budget plan. However  
it was not certain that it would even be attended by  
Bonnet. I was asked for my night telephone number.

Tannery, former Governor of Bank of France, has  
been chosen President of the Banque de l'Union Parisienne.

END OF MESSAGE.

WILSON.

EA;LWW

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 30, 1937, 7 p.m.

NO.: 1367

RUSH

FROM COCHRAN.

I learned at six o'clock that in today's very bad trading the French control yielded approximately 4,000,000 pounds of foreign exchange. Ample funds are still at command of control, but because of the political situation the control is unable to make any sort of a maneuver. Therefore the control cannot do anything but give foreign exchange at the present rate. The person who gave me this information had no word as to what is to happen and he does not expect anything to happen before the Saturday morning Cabinet meeting. Consequently Friday promises to be most unpleasant for the French control.

WILSON.

EA: LWW