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GROUP MEETING

October 1, 1937
9:30 a.m.

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

Lochhead: On that gold shipment, all that gold comes on Japanese boats.

H.M.Jr: I know. Have to think of a better excuse.

Oliphant: Where does title pass?

Lochhead: Where does title pass?

Oliphant: Yes.

Lochhead: Well, of course.....

Oliphant: It may be a violation of the Johnson Act.

H.M.Jr: No.

Oliphant: Well....

H.M.Jr: How would the Johnson Act work with the Japanese? They don't owe us anything.

Oliphant: They don't owe us anything?

H.M.Jr: We went all over this. Mr. Oliphant gave me an opinion on this when I returned.

Oliphant: I just wondered if there was any default.

H.M.Jr: I refer you to Mr. Oliphant's opinion.

Oliphant: I wondered if there was any default.

H.M.Jr: You said it was a matter of judgment.

Oliphant: Well, that's on the international law point.

H.M.Jr: There is not - they don't owe us any money.

Olyphent: Nothing in default?

Lochhead: Nothing in default.

H.M.Jr: You (Magill) got a beautiful story out of Mr. Tremaine.

Magill: I was just talking with Herbert Gaston about what would be the best way to handle things the next time the Comptroller of the State of New York comes along. And give out the correct story first. It's the same old stuff. The boys come in and advocate proposals and then I say nothing and then they get up and say I received it sympathetically and the Treasury is making studies along these lines.

Gaston: They put it a little stronger than that.

Gibbons: Didn't suggest a law firm with you in it, or anything like that, did he?

Magill: No, the quid pro quo was.....

H.M.Jr: weren't the newspapermen standing outside to see him?

Gaston: Oh yes, two of them talked to

H.M.Jr: And then our denial wasn't very strong.

Gaston: Well, they kind of put us in a spot. We didn't like to make a flat dispute with these men, say they did not

H.M.Jr: I did yesterday morning in answer to Celler. They asked me - Celler quoted me the night before as saying I wanted to increase taxes, and I came out with a flat denial.

Gaston: Notice what Carlton Shively of the New York Sun did with that?

H.M.Jr: No.

Gaston: He said that your statement - that this letter to Harrison referred to taxes of last year, left you a free hand for this - gave you an absolutely free

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hand as to legislation in the next session, and indicated that there were going to be increases in taxes in the next session.

H.M.Jr: Well, Carlton Shively will take anything.

But - well, I think that if another delegation comes down there ought to be some preparation made as to how you're going to handle this thing. Otherwise - I mean something that has to be handled.

Magill: I think so.

Gaston: I think just the moment they come out of Roswell's office the next time, we better say that Mr. Magill listened to their suggestions and gave no opinion on them.

H.M.Jr: Well, you know what I used to do when I had Harrison and Doughton here on that railroad retirement. I had the newspapermen right on hand. I said, "Now, would you care to say anything to the newspapermen outside?"

"Yes."

"Who's going to talk, Harrison?"

"Well, all right."

"Let's have the newspapermen in."

You (Magill) were in on that. And they came in here and talked to them in front of me and I heard what they said, and then if there's anything wrong, why, I correct them right there. But in the first place they were very careful not to say anything I didn't check with. But I saw Harrison with the newspapermen, the newspapermen with Harrison. I think that's the best way. There was never any question who said which or what.

And I think if Magill is going to see these delegations and newspapermen are waiting, Magill should send for you (Gaston), invite these men into his office. And if he says something out of the way, you say, "Oh wait, I didn't say that. Wait, gentlemen, let's get this

straight. You don't forget, Mr. Tremaine, that you didn't even know what the single man exemption was. Now, you better know your facts before you talk."

He didn't know; he didn't even know.

Now, what do you think, Ros?

Magill: I think that's right.

H.M.Jr: Because I want you to see these people, but I don't want that kind of publicity.

Magill: No, you can't have it.

H.M.Jr: It will undermine you on the Hill.

Magill: That's clear.

H.M.Jr: But that - now, with Harrison and Doughton, who are two as important "prima donnas" as come down here, that railroad retirement thing, with 50 million dollars in the "kitty," we worked it beautifully every time they came into my office.

Gaston: If they are of sufficient importance, yes. Mr. Magill will have a good many visitors that won't be, probably.

H.M.Jr: Well, if you can tell Kieley that if he sees newspapermen hanging around waiting for visitors to come out of Magill's office, to please notify Magill and you.

Gaston: Yes.

H.M.Jr: And then before they leave it gives you a chance to decide what you're going to do. I think you'll find that that would - then you could decide whether it's important enough; it gives you a chance. But this kind of stuff doesn't do any of us any good.

Magill: No, this is - as soon as I saw the stuff yesterday on the ticker, I called up Herbert to see what we should do about it, because the statements as they

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came out on the ticker were simply false. Well, the question we had was the one you were just speaking about: whether it would be advisable to contradict Celler, who had given out a statement. I think the best way, obviously, to obviate it is the way you say.

- Gaston: So far as the Committee is concerned, we have a statement for the record that Magill did not express an opinion.
- H.M.Jr: Don't let's dwell on it any more. Let's try it the way I've tried it, which has been successful up to now. Let's see if it works with you. Because it is most important that you do see these people. It is also most important that they don't use the Treasury as a springboard for a gubernatorial candidate. You (Gibbons) saw Celler came out for Tremaine?
- Gibbons: I saw the article in the Times this morning. Propaganda.
- H.M.Jr: You say "goddamda"?
- Gibbons: I say propaganda definitely laid down against us.
- H.M.Jr: All right, O.K.
- Magill: One thing that Celler made a point of with Miss Humphries - what he purported to be coming to discuss was he and Parker coming alone to discuss the coordination of state and Federal revenues. And Tremaine - I mean Celler was going to bring Mark Graves. Then they come in with an entirely different line.
- Gaston: Who was - was that Parker there?
- Magill: Parker was there, yes.
- H.M.Jr: Well, I don't want to overemphasize, but I do - I mean we've been so fortunate in our public relations, and I think the way when something like this happens - that the thing to do is to try to fix it so it won't happen again. All right?
- Magill: (Nods yes)

H.M.Jr: Anything else?

Magill: No, I've just got - I've got a memorandum of the conference here for you and also for myself. I'll give it to you.

H.M.Jr: Good-looking tie you got downstairs.

Magill: Yours is a different color; I like the blue.

H.M.Jr: Mr. Oliphant?

Oliphant: I'm leaving at six tonight.

H.M.Jr: What do you hear? Hear any....

Oliphant: Nothing. It's nothing.

H.M.Jr: Would you drop in here at 11? And George, would you drop in here at 11? Bailey, Budget, is coming in here at 11. At 11 o'clock.

Oliphant: We're signing up right after 10 o'clock, and I'm going to go over there.

H.M.Jr: Go to see that through.

Want to know where to buy ties reasonably? See Herman Oliphant. He saved us \$150,000. And the first time since NRA that we have tracked....

Oliphant: ...tie bids.

Gaston: We all get the benefit of those prices, do we, Herman?

H.M.Jr: Everybody in the Treasury. Also, we buy 160 different kinds of tires. When they asked why on the two-ton truck we didn't say, "Use the same kind of tire," I thought they'd almost die.

Oliphant: Never thought of that, did they?

H.M.Jr: It's too practical. 160 different kinds of tires for the Government.

Gibbons: 160!

H.M.Jr: 160 different kinds.

Gibbons: Didn't know they made that many.

H.M.Jr: And some of them that only one company does make - the specifications drawn so that only one company could make it.

That was a nice job.

Oliphant: Incidentally, I have ruled out - I said from now on we would not approve from the legal side any specifications that would permit only one company, and if the department insisted, it would have to buy its own tires.

Gibbons: You know that George Atwell that told me - I of course didn't pay any attention to it - on that underpinning job they wrote the specifications so that only one concern could lay the foundations for a building. Now, I talked to Reynolds and all these fellows, and....

H.M.Jr: well, that was on the Tri-borough Bridge.

Gibbons: No, it was on Federal buildings - this is going down where there is water and muck and putting underpinning. Said there was only one concern to do it; there were three or four.

Oliphant: That's all.

H.M.Jr: Herbert?

Gaston: Do you want to see the release on this tire thing?

H.M.Jr: No, you fellows handle it; you've done all right so far.

Gaston: I don't know whether you noticed or not a story that was in the Herald this morning; it quotes the London Financial Times as saying: "It has been suggested that an important currency statement might be made over the weekend, and might be simultaneously announced from Washington." I had several calls about that last night.

H.M.Jr: Which Times?

Gaston: This is a dispatch from London quoting today's issue of the Financial Times of London.

H.M.Jr: They're most likely just as accurate as Cecil Dickson.

Gaston: I of course told them I knew nothing about it. I don't know whether you noticed that or not.

H.M.Jr: Mrs. Morgenthau says, must it be known when she and Joan come to the hotel at the Carlton, and when she and Joan move?

Gaston: Have to talk to the hotel publicity agent about that.

H.M.Jr: Is that what it is?

Gaston: Sure.

H.M.Jr: She got some nice flowers out of it anyway. Where does this come from?

Gaston: Merry-Go-Round, Morning Herald.

H.M.Jr: Show that to Miss Roche. Anything else, Herbert?

Gaston: No. I noticed Mr. LaGuardia says he isn't going to pay the Treasury Department five million dollars.

H.M.Jr: For what?

Gaston: For the proposed downtown post office site, under the arrangement with the prior administration.

H.M.Jr: Is he under contract?

Gaston: I think he is.

H.M.Jr: Well....

Oliphant: Want me to look at it?

Gaston: I don't know, LaGuardia is writing a letter to you about it.

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H.M.Jr: George?

Haas: I have nothing this morning. Did you notice the announcement of your speaking engagement?

H.M.Jr: No.

Haas: I'll bring it down. I'm a member of that Academy and I got it.

H.M.Jr: Oh.

Gaston: I communicated with both Columbia and National on that, and they are to carry on further negotiations with Miss Warner.

H.M.Jr: Miss Roche?

Roche: Nothing, I think, sir.

Gibbons: Senator Lundeen says he will not confirm the appointment up at St. Paul of Mr. Reynolds. Sent a telegram to his secretary that he was going to Hawaii, and the secretary came down to see me; but the President had already signed the appointment.

H.M.Jr: Well, that is entirely in the hands of the President and Mr. Farley.

Gibbons: Well, but I thought....

H.M.Jr: I mean you know what Mr. Farley told me, that this means more to him than anything else he ever asked me since he'd been here.

Gibbons: I called up Jim and he said Lundeen was to blame for this furore in the National Committee up there.

H.M.Jr: I think I ought to explain to you - I didn't want to, but Mr. Farley calls me up and says, "This means more to me politically than anything I have ever asked you. I've got to have it. I've worked on it."

I said, "Is it that important, Jim?"

He said, "Yes."

I said, "All right."

I mean if Farley says it's that important - I think a

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person has to evaluate these things. It's a question of how much I'm going to burn myself up on appointing a nonentity, which, when Farley says he's asking - I decided it wasn't worth having a row about.

Gibbons: Lundeen says that fellow campaigned against the Administration in the last campaign.

H.M.Jr: Listen, I don't just give a hoot. Now, if that's the - let him sleep with this fellow.

Gibbons: This is just gossip. I thought you might like to know. We have nothing to do.

H.M.Jr: I mean if it is that important to Mr. Farley, who's - I don't know that he's ever talked like that before, that the thing was so important.

Gibbons: Well, in view of that statement and this man coming in and saying that this fellow made speeches against the Administration.....

H.M.Jr: I'd refer them all to Farley.

Gibbons: It's very laughable, but that's politics.

H.M.Jr: All right. I mean I'm just this way: if the fellow was a crook, Mr. Roosevelt couldn't get me to appoint him, and he wouldn't ask me to appoint him. And I'm not going to burn myself up over these things. These people say it's a matter of life and death; all right, they can have it. I've got too many things which are important.

Gibbons: Oh sure, it's just.....

H.M.Jr: And then if they make a mistake and the fellow's a crook, we'll fire him the way we did his predecessor.

Roche: (words not understandable)

H.M.Jr: But this is Farley, Miss Roche, saying that this is the most important request he's made of me since I've been sitting in this chair. What? Now, what would you do under those circumstances?

Gibbons: She says not to give your.....

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Roche: Your friends are with you anyway; you can take a chance with them. Give your enemies a juicy tidbit. When you'll get them to come along.

Gibbons: Oh, you did the right thing.

Roche: Absolutely.

Gibbons: Just gossip now; I thought you'd like to have me tell you and somebody else tell you later on.

H.M.Jr: Sure, I thank you.

Gibbons: You couldn't do anything if you wanted to.

H.M.Jr: And incidentally, on that thing, I got a letter from Jefty O'Connor here through Gaston, who showed it to me - it seemed that the Governor of Minnesota made a speech in which he read O'Connor, Eccles, and myself out of the Party.

Gibbons: Yes, I saw that.

H.M.Jr: And O'Connor came to the defense of himself and myself; he doesn't know Eccles.

Oliphant: That's a letter from O'Connor.

H.M.Jr: O'Connor.

Oliphant: That's right.

H.M.Jr: You're (Lochhead) going to be available over the weekend, aren't you?

Lochhead: Yes, I'll be in town.

Thompson: Mr. McReynolds is in town. I haven't heard from him.

H.M.Jr: All right.

Thompson: I understand he's going to be in the office after a while. Everything is in good shape.

H.M.Jr: My own plans are, I'm going up to the farm tonight; I'll be in New York Monday, doing a little shopping

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and seeing two important gentlemen that I want to get some information from and see whether I'm right or the Federal Reserve is right. I want to get it from the people that have to make a living out of it. I think I'm right.

Lochhead: Don't you think the Federal has to make a living?

Oliphant: They earn a salary.

H.M.Jr: They make a living out of the service charges they get out of the Treasury.

Haas: And their open market portfolio.

H.M.Jr: The place just scintillates.

Gibbons: Harry Durning was down here and spoke about Broderick getting this job. He said, "Fifty thousand a year to the president of a savings bank - that's a very clear sign of a clear shift in the world."

I said, "Why, Harry?"

He said, "Well, you just deposit the money and all he has to do is to look for a place to invest it." And he said, "You can't go wrong, because the law won't let you."

H.M.Jr: And look how wrong those savings banks are.

But incidentally, it's nice to know that Broderick went out of here feeling most kindly disposed to the Treasury, and wanted me to know that any time he could do anything for the Treasury, to call on him. And I didn't - I never knew how he felt. But he came in here to say goodbye and it's nice to know that you have a few friends scattered around the country.

You notice his boy, George, has started that thing of the three college newspapers having a forum once a year.

Haas: Yes, he told me that last year. I met him up there too. He's a bright youngster.

H.M.Jr: All right.

October 1, 1937
10:29 a.m.

H.M.Jr: Hello

Operator: Mr. Tom Smith

H.M.Jr: Thank you

Operator: Go ahead.

H.M.Jr: Hello

S: Hello, Good morning Henry

H.M.Jr: How are you

S: Fine -

H.M.Jr: Good

S: Good
/To hear your voice

H.M.Jr: Tom -

S: Yes

H.M.Jr: I'd like you to think over something I'm going to put up to you and then I'd like the answer Tuesday afternoon. This is kind of confidential.

S: Yes

H.M.Jr: There's a difference of opinion between the Federal crowd and myself as to whether we should continue offering fifty million dollars worth of bills each week, between now and the 15th of December and then raise whatever we need on the 15th, or whether we should begin to offer a hundred million dollars now and build up those balances so that we won't have to do any financing on the quarter on the 15th, you see.

S: That is not on October 15th

H.M.Jr: No, no, December 15th.

S: December 15th - now let me see if I understand it.

H.M.Jr: Take your time.

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S: You're now issuing fifty -

H.M.Jr: Fifty million - we have fifty million a week coming due, and each week we offer another fifty to just take the place of that.

S: That's right

H.M.Jr: And we can continue most likely on that basis until the 15th of December without asking for any new money.

S: I understand

H.M.Jr: And then on the 15th, pay off the four hundred and fifty million dollarsworth of tax bills and ask for whatever we find we need at that time, see

S: Yes

H.M.Jr: Have a regular financing at that time. We may or may not need new money, I don't know.

S: If you issue the hundred million, you wouldn't do that.

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

S: Well, I'll - I have some ideas on that subject, but I'd like to take the rest of maturities and crystalize them, and I'll call you -

H.M.Jr: I'll call you Tuesday afternoon.

S: That's - your afternoon.

H.M.Jr: Yes, Tuesday afternoon.

S: What time will that be here

H.M.Jr: Well, I'll find out, I'll call up your office and find out what time you can talk.

S: You'll call me - I'm leaving here Tuesday - I have an engagement, Tuesday is carnival night in St. Louis and we leave down town about three o'clock, that's five o'clock your time - it'll be four o'clock your time - it'll be before that, won't it.

H.M.Jr: Well, put in a call when you're ready to talk and reverse the charges, how's that

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S: That'll do.

H.M.Jr: Put in a call and reverse the charges.

S: I'll do that. How are you Henry.

H.M.Jr: Well, I'm fine. What is your horseback opinion on that.

S: Well, I - mine is that, that I wouldn't do it, I'd issue the securities.

H.M.Jr: When

S: On December 15th.

H.M.Jr: Uh-huh. I'M not asking -

S: Issue the bills.

H.M.Jr: What's that

S: That I would only issue the -enough bills to retire the fifty million each week

H.M.Jr: Yes

S: And then I'd put out an issue of notes or bonds on December 15th.

H.M.Jr: In other words, not take in an extra fifty million of new money now.

S: That's right

H.M.Jr: Each week

S: I'll tell you the reason

H.M.Jr: Yes

S: You're paying a little higher rate of interest than you have been paying, but still you're getting your money at a fairly satisfactory rate.

H.M.Jr: That's right

S: And - in spite of all these present rumours and American Bar Association meetings and everything like that, the people will consume the necessary amount of bonds

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and if you do the financing now, you get it out of the way

H.M.Jr: Yes

S: And I always believe in doing things when they come up without postponing them to the future.

H.M.Jr: Yes

S: Well, that's - that's my horseback opinion.

H.M.Jr: Wait a minute, I don't think I understand you. Are you in favor of our continuing, just taking - turning over - what we call roll over the fifty-million each week.

S: That's right

H.M.Jr: Or you think we ought to go out and start on the extra fifty million or a total of a hundred million each.

S: No, just take in fifty million a week.

H.M.Jr: I see.

S: And that means you'd have to issue bonds in December.

H.M.Jr: Bonds or notes

S: That's right

H.M.Jr: That's right

S: Well, I'll call you Tuesday and - early in the afternoon.

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

S: Tell me - I hear a good deal about your son at - up at the Academy there -

H.M.Jr: Robert

S: Going to College

H.M.Jr: He went to Amherst

S: Well, that's what I understood - Tom, my son, knows young Lehmann very well -

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H.M.Jr: Oh, does he.

S: And - they were in the same house at Williams last year.

H.M.Jr: Oh, I see

S: And in that way he heard of your son and what he had been doing at -

H.M.Jr: Yes

S: Where was he, in -

H.M.Jr: At Deerfield

S: Deerfield, yes

H.M.Jr: Well, he isn't a bad boy

S: Must be a pretty good kid, I guess his mother's responsible for that.

H.M.Jr: Entirely

S: Well, Henry, I'm glad to hear your voice and I'll call you Tuesday.

H.M.Jr: And you know - when you ask, you're asking for yourself, not for me, you know.

S: I'm not going to ask very many people - I understand, I don't - anybody says anything about Washington - why I don't know anything that's going on at all.

H.M.Jr: Well, you and I both.

S: I know less than anybody in the world.

H.M.Jr: You and I both.

S: All right.

H.M.Jr: All right.

S: Goodbye, Henry

H.M.Jr: Goodbye. Thank you.

October 1, 1937.
10:37 a.m.

Jeff.
Coolidge: Good morning Henry

H.M.Jr: How are you

C: Fine

H.M.Jr: Jeff, I want to put up a Treasury proposition to you which I wish you would think about, and talk over with whoever you think you can confidentially.

C: Yes

H.M.Jr: But do it on your own, and then give me the benefit of your advice, will you

C: You bet

H.M.Jr: There are two schools of thought down here, one is that I should continue from now until the 15th of December, simply rolling over the fifty million dollars worth of bills which are coming due each week.

C: Yes

H.M.Jr: We think we can do that without asking for any additional money, and then have a financing on the 15th of December, and ask for whatever we need. The other school of thought is that we should ask for the additional fifty million or a total of a hundred million and build up our balances so that we will not have to have any financing on the 15th of December, see.

C: Yes

H.M.Jr: Do I make myself plain

C: Perfectly

H.M.Jr: Now, there are the two schools and that's really why we couldn't come together with the open market last week, and I postponed it a week, you see.

C: Yes

H.M.Jr: But, there's these two distinct schools of thought and I'd like to know what you and some of the people that -

C: Well, I think I can tell you Henry.

H.M.Jr: Goahead.

C: I - can I assume, offhand, that you will not need more money than you take in over a period.

H.M.Jr: Well, you can assume that, from now until the 15th of December.

C: I suppose the Baby Bonds and the Social Security taxes, that you would probably take in as much as went out.

H.M.Jr: I'm not quite sure, Jeff

C: Yes

H.M.Jr: I might have to ask for a little extra money in December -

C: Yes

H.M.Jr: I might have to ask for - oh maybe one or two -

C: Then my hunch would be this -

H.M.Jr: Yes

C: I wouldn't worry about - a little extra money

H.M.Jr: Yes

C: I would sell the bills into March or June if necessary, as you have in the past.

H.M.Jr: Yes

C: And see what goes out.

H.M.Jr: Yes

C: Then I would convert the note issues whenever the market was good for it.

H.M.Jr: Uh-huh.

C: Ahead of time, if necessary.

H.M.Jr: Yes. But now - the point is would you advise me to continue selling fifty million a week now or would you raise that to a hundred.

- 3 -

- C: I wouldn't raise it till you needed the cash. I don't know when that will be.
- H.M.Jr: Well, I won't need the cash until the middle of December. I can get along perfectly from now until the middle of December.
- C: Then I wouldn't sell any bills until the middle of December, and then I'd sell some into June.
- H.M.Jr: Well, of course as to whether - well, that's the point. Now of course we may stop selling nine months now and begin selling bills into the 15th of March.
- C: Yes
- H.M.Jr: But that would only be fifty million a week to replace the nine months which are coming due.
- C: Yes
- H.M.Jr: Do I make myself clear.
- C: Yes
- H.M.Jr: But that isn't the point - I mean the point that they are recommending to me, the Federal Reserve, they want me to sell a hundred million a week now.
- C: Well I - I wouldn't do it if I didn't need the cash.
- H.M.Jr: Well I don't need it. I have no use for it.
- C: Yes. I think you'll get a nice - I think you'll get a nice bond market and if you do suppose December
- H.M.Jr: Yes
- C: Then you can also - have December
- H.M.Jr: Yes
- C: For the February and March notes, ahead of time.
- H.M.Jr: That's true.
- C: Take advantage of any good bond market that comes along.

- 4 -

H.M.Jr: That's right.

C: And it would be just as well to clean up those short maturities, as it is to raise cash, in my opinion.

H.M.Jr: Well, if I followed what they were recommending, I would simply build up my balances in order to pay off the bills which are coming due on the 15th of December, instead of having a regular refunding at that time.

C: Well, I - I personally, Henry, the way you're fixed - would not ask sales for cash. I'd choose my own time on the bond market.

H.M.Jr: Yes

C: And offer refunding for maturing notes

H.M.Jr: I see - well

C: And wouldn't raise any unnecessary money to do the bills except for that.

H.M.Jr: Well, that's the way I feel.

C: And then you can pick the bond market any time you want to. You can wait until March if you want to.

H.M.Jr: But, you remember, when you were down here, Eugene Black used to say, now you've got a good bone market, go out and get an extra five hundred million and I never would do it, and of course at that time, succeeding financing we borrowed at lower interest rate and it proved to be smart not to do it.

C: Yes

H.M.Jr: And I've never tried to borrow money when I don't need it - just because it looks cheap.

C: I don't see any need to, and neither do - I think in the bill market you ought to raise it fifty million a week and you might need to do it a little ahead of when you need it.

H.M.Jr: Yes, but I - I can get along beautifully from now until the 15th of December.

C: Yes.

- 5 -

H.M.Jr: See

C: Well, then - then I'd let the thing lie quiet, and I suspect you have a good bond market, and I suspect that in December or January it would pick up some of these maturing notes into a nice bond.

H.M.Jr: Well, that's what I hope, and it may be right - what I am thinking about, I mean I don't have to make up my mind until next week, I most likely - I'm thinking about stopping the nine months, and substituting a March tax bill.

C: Yes

H.M.Jr: You see

C: Yes

H.M.Jr: What do you think of that?

C: Well I like the bills Henry because I think that when you sell - oh - you mean selling certificates.

H.M.Jr: No, no, just sell the bill through the 15th of March, now, instead of a nine month.

C: Oh, instead of the nine month.

H.M.Jr: Yes - just to take care of that situation - what we've been doing right along.

C: Well, I think you need some bills in March, but I should think the time to sell those would be when you needed a little cash to take up the December.

H.M.Jr: I see

C: I think it's sort of too bad not to have the regular bill maturities.

H.M.Jr: You like the nine month.

C: I like the nine month.

H.M.Jr: You wouldn't change that.

C: And then I'd like a few extra, when you need cash ahead of tax days.

- 6 -

H.M.Jr: I see. In other words your recommendation is just to continue as we are.

C: That would be mine.

H.M.Jr: We continue the nine months.

C: That would be - that would be my suggestion.

H.M.Jr: And then if we need a little extra money, pick it up by selling an additional -

C: By selling into March

H.M.Jr: What we needed

C: Yes

H.M.Jr: And keep that in reserve - I mean keep that borrowing power in reserve

C: And you should borrow some before the tax date not to have money come in too quick.

H.M.Jr: Yes - well, I understand - you understand my - in other words - everybody that I've talked to outside of the System tell me not to go start selling a hundred million dollars worth of bills now.

C: I wouldn't do it Henry, if you don't need the money.

H.M.Jr: I have no use for it.

C: You can get bills under the tax date any time you want it, at a low rate.

H.M.Jr: Am I not right, Jeff, if we started that now that people will immediately say - Oh my, there's something wrong -

C: Yes

H.M.Jr: The deficit is going to be much worse

C: What - I think they would, because

H.M.Jr: Wouldn't it scare people if we started to borrow fifty million extra now.

C: I think it would. It would some of them anyway.

- 7 -

- H.M.Jr: They're not expecting it, are they?
- C: Well, I think they expect - they expect pretty soon, probably, but not right away.
- H.M.Jr: Well, let me put it this way, the longer I put it off, the better it looks
- C: That would be my hunch.
- H.M.Jr: I mean, it looks - the longer we can go without borrowing new money, doesn't it give the public an impression that -
- C: Yes - I should say suppose you need two hundred and fifty million or three hundred million by the 15th of December -
- H.M.Jr: Yes
- C: Then I'd start six weeks before that, so they'd come in at the last moment.
- H.M.Jr: Yes
- C: Six times five would be three hundred.
- H.M.Jr: Yes, but, we - I don't - what I was thinking of doing, is running right along, and then, we have four hundred and fifty million coming due in December, and maybe get out another four or five year note - in December, or a short bond or something.
- C: Well, you'd end up about the same I think, Henry, but what I was thinking of was keeping the bills as they now have been going -
- H.M.Jr: Yes
- C: And using the notes and bonds for converting -
- H.M.Jr: Yes
- C: The maturing notes -
- H.M.Jr: Yes - and if I need any extra cash, -
- C: The bills will take care of this, I - my hunch is that I'd look to the Treasury figure to - won't need any more bills than your past peak around December 15th -

- 8 -

H.M.Jr: Yes.

C: And you're merely raising money again that - on bills that you paid off previously.

H.M.Jr: Yes - well if you change your mind, and have any new thoughts, give me a ring about Tuesday, will you.

C: I surely will.

H.M.Jr: Do that

C: Did you read my little memoranda -

H.M.Jr: I'm taking it up to the farm to read it up there.

C: Yes

H.M.Jr: I'm very behind on all my reading -

C: Well-

H.M.Jr: But I got it to take it up to the farm.

C: Good luck to you.

H.M.Jr: Thank you.

October 2, 1937

Over the telephone from the Farm today, HM, Jr asked Dr. Feis to communicate with our Embassies in Rome and Berlin and request them to endeavor to ascertain whether or not there had been any gold received in those countries from Japan during the last few months. This inquiry was made because of the fact that published statistics did not indicate such flow, but there was a possibility that Japan might pay for purchases in those countries by shipments of gold which were not reported officially.

October 1, 1937
9:30 a.m.

Cordell
Hall:

Hello

H.M.Jr:

Hello Cordell.

H:

What's going on Henry.

H.M.Jr:

Well, I just want to say this, it may have been brought to your attention, it looks as though today and tomorrow are going to be a little bit worse than usual in France.

H:

Oh does it.

H.M.Jr:

Financially

H:

Yes.

H.M.Jr:

And they're having a Cabinet meeting tomorrow, they tell me.

H:

Yes

H.M.Jr:

And we think that today is going to be particularly bad.

H:

Yes

H.M.Jr:

And I just thought I'd bring that to your attention.

H:

Yes, I'm glad, I - I don't know what Bullitt knows about it but nothing like what Cochran would know. He's supposed to be back here this morning, I think

H.M.Jr:

Who, Bullitt

H:

Yes

H.M.Jr:

Well, if he has anything I'd be glad to get it.

H:

Yes, I'll tell him. If he shows up this morning, I'll tell him.

H.M.Jr:

Well, this is a combination of what I get from the English and Cochran.

H:

Oh, I see.

H.M.Jr:

And the other thing, the new information that we have is that - also from England - that the Japanese are

- 2 -

pretty hard pressed to raise money now in London.

H: Yes, I see.

H.M.Jr: And that is contrary to what the Bank of England told us a week ago.

H: Yes

H.M.Jr: See

H: Well, they may get harder pressed in London and here too.

H.M.Jr: Well, I wish you'd be thinking over, I mean I could very quietly here, tell our banks not to loan ~~Japanese~~ Japanese gold in transit, see

H: Yes

H.M.Jr: I could just pass out the word.

H: Yes.

H.M.Jr: But I'd only do it if the British would also do it.

H: Yes, I'd let them do it.

H.M.Jr: I'd only do it if they'd do it.

H: Yes.

H.M.Jr: That we considered it an unnecessary risk to our shipping, or some -

H: Yes, exactly.

H.M.Jr: Some excuse like that.

H: Well, we can talk over those things when - to get all angles to that.

H.M.Jr: But I just thought I'd give you that

H: Yes, sir.

H.M.Jr: I'm not recommending it.

H: I know, it's very interesting, and I - we talked about it here too.

- 3 -

H.M.Jr: All right.

H: Thank you

The Secretary

Herman Oliphant

You may be interested in this by-product of our study of the P.M.A. revolving fund, which came to me from Bernstein.

Lekes has in cash in the Treasury about \$246,000,000. He and the President have legal power to release this to you from Lekes' account. But if they do that, how about money for Lekes to cover his administrative expenses and commitments?

This is the answer: 1. Have Jones give Lekes a commitment to buy AT NOT from him, as he needs funds, (a) the securities he now has, (b) those that he'll get during 1958, and (c) those that he'll get during 1959, Y.E., about \$129,000,000, \$146,000,000 and \$22,000,000; total \$300,000,000.

2. If this is done, Lekes can at once release to you from \$7,000,000 to \$180,000,000, depending on whether \$500,000,000 or \$250,000,000 is set aside for grants.

3. In addition to the foregoing, the budgetary picture for 1958 will be improved to the extent that Jones sells to the public during 1958 securities which he already has or hereafter acquires from Lekes.

MO:bo 10-1-57

Attachment -- Possible studies that might be made of governmental corporations and credit agencies, with a view to reducing the Gov't's investment in such corps and thereby improving the budgetary picture.

OCT 11 1957

MBo

GRAY

Paris

Dated October 1, 1937

Rec'd 2:24 p.m.

Secretary of State,
Washington.

1372, October 1, 5 p.m. (SECTION ONE)

FROM COCHRAN

French control has been yielding sterling all day at 144.52. Pressure steady but lighter than yesterday. French rents and shares continue to gain. With premium on gold in London Belgium shipping gold there instead of to United States. London bankers making frequent inquiries in Paris concerning outlook for Belgium since they observe many short sales of belgas against gold. Turn over in gold at London today exceptionally large with renewed hoarding.

French francs for Monday and Tuesday very scarce. Market is still filled with gossip of possible monetary and political changes it being realized that the franc will either soon have to be let go lower or exchange control be inaugurated or a new government set up. Various conferences of political leaders held last night and today with Cabinet meeting.

WPD:

WILSON

RP

GRAY

Paris

Dated October 1, 1937

Rec'd 2:58 p. m.

Secretary of State
Washington.

1372, October 1, 5 p. m. (SECTION TWO).
at Rambouillet Saturday forenoon expected to witness
important discussions and decisions on monetary policy.
Tendency among observers here to tie up Washington con-
versations with local French situation and to anticipate
some change in dollar and sterling if franc goes lower.
Brunet, French Undersecretary of Finance has been speaking
at Geneva in behalf of measures against migratory capital.

Following excerpts are from Lombard Street article
in today's FINANCIAL NEWS on critical week-end for French
franc".

"It is indeed difficult to conceive any solution
other than restrictions or depreciation. No alternative
scheme need be expected to be forthcoming from the Washington
conversations. In fact it seems that almost for the first
time in modern financial history the official explanation
of the Washington visit of Sir Frederick Philips may turn
out to be true in that the whole talk so far as actual

foreign

RB -2- No. 1372, October 1, 5 p.m. SECTION TWO from Paris

foreign exchange is concerned may only amount to an informal exchange of views for the sake of strengthening personal contact between the two treasuries."

"It seems there can be no question of any

WILSON

CSB

RB

GRAY

Paris

Dated October 1, 1937

Rec'd 2:47 p. m.

Secretary of State
Washington.

1372, October 1, 5 p. m. (SECTION THREE).

assistance either in the form of credits by the British and United States or through the decision that the two exchange equalization accounts should hold francs instead of converting them into gold. Nor is President Roosevelt likely to adopt any drastic anti hot money measures in existing circumstances when Wall Street in any case has the jitters. The most that France may expect is the renewal of the London credit when it falls due and this would assist her in a negative sense only, in that her difficulties would not be further aggravated through the loss of gold involved in a repayment of the credit (***)".

"Evidently the stage has not yet been reached when the political parties in France, alarmed by the situation, can decide to forget their differences for a while and to collaborate in order to find a solution as they did in 1926. From that point of view alone it would be better to allow the franc to take its course since a sharp fall might provide

just

RB -2- No.1372, October 1, 5 p. m. SECTION THREE from Paris

just the shock that is needed for creating the right atmosphere for the advent of a government of National Union."

On the same subject FINANCIAL TIMES today said

WILSON

CSB

MBo

GRAY

Paris

Dated October 1, 1937

Rec'd 2:36 p.m.

Secretary of State,
Washington.

1372, October 1, 5 p.m. (SECTION FOUR)

in part: "Should the Socialist proposal for the establishment of exchange control show any signs of being accepted, then the resignation of Bonnet will follow automatically. In usually well informed London circles last night it was suggested that Bonnet is maneuvering for position. Indeed the view is held that he aims at the premiership with a free hand to form his Cabinet which would be completely devoid of Left representation. Failure to achieve this object would be followed by vacation of his post as Finance Minister."

Under city notes LONDON TIMES today says in part:
"Gold hoarding has lately revived. This is mainly due to the desire of French investors to protect their capital against loss through currency depreciation. It has been suggested in some quarters that the imposition of exchange control is the only effective alternative which the Government can adopt to protect the franc. But the imposition
of

MBO 2- No. 1372, October 1, from Paris.

of exchange control would be a violation of the Tripartite Monetary Agreement and certainly would do nothing towards solving France's problem. It is useless to put the whole blame on the speculator for the plight of the franc. The speculators in fact performed a very useful service for providing facilities to traders and others to protect themselves against the risk of depreciation in French currency. In any case the operations of the speculator are a consequence and not a cause of the troubles of French finance. France has enjoyed in the past year the sympathetic help and cooperation of other countries in her efforts to overcome her financial difficulties but the future of the French franc like that of every other currency depends primarily upon the soundness of Government policy. This alone can inspire the necessary confidence." (END MESSAGE)

WILSON

MPD:

13713343

RECEIVED
OCT 1 1933

MBo

GRAY

Paris

Dated October 1, 1937

Rec'd 12:52 p.m.

Secretary of State,
Washington.

1370, October 1, 4 p.m. (SECTION ONE)

FROM COCHRAN

Government's budgetary project for 1938 was delivered to the Chamber Finance Committee yesterday for examination and report to the Chamber on November 16 when that body is expected to reassemble.

The ordinary budget was presented as follows:
revenue fifty three thousand seven hundred eighty one million francs and appropriations fifty-two thousand one hundred seventy nine million francs thus showing surplus on paper of about one billion six hundred millions.

Ordinary budget is accompanied by special or extraordinary budget totaling fourteen billion five hundred million francs which must be provided for by loan issues or other forms of borrowing. In addition Treasury must borrow about two billion five hundred million francs for the pension fund. Furthermore a total of about nine billion francs must be found for the Departments and communes, railways

MBO 2- No. 1370, October 1, from Paris.

railways Algeria and the Colonies as explained in the
Embassy's despatch number 1075 of September 27.

WILSON

RR:CSB

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EMBASSY DEPARTMENT
STATE DEPARTMENT
WASHINGTON, D. C.

MBo

GRAY

Paris

Dated October 1, 1937

Rec'd 2:09 p.m.

Secretary of State,
Washington.

1570, October 1, 4 p.m. (SECTION TWO)

If price increases or other unforeseen complications do not upset present calculations, outlays not covered by budgetary revenue during 1938 will total about 26 billion francs, three billions of which are to be raised by the Credit National. Estimated surplus of the ordinary budget has already been almost entirely earmarked for increases in the pay of government personnel to meet high cost of living. Bonnet points out that from 1932 to 1936 the Treasury has borrowed 107 billion francs or an average of 21 billions yearly.

It appears from his memorandum accompanying budget plan the Minister of Finance has based his estimates on favorable political and economic developments in France next year and in this respect it is evident that he himself intends to insist upon adaptation of social policy to economic requirements and to orthodox financial principles.

An

MBo 2- 1370, October 1, from Paris.

An official communique was published in today's press following brief preliminary examination of budgetary project yesterday by the Chamber Finance Committee. It indicated that the general reporter particularly stressed that the balance of the budget depended upon an improvement in the economic situation and that to bring this about labor must heed the call of the government to get to work. Has added that economic recovery also depended on the return of French capital to domestic circulation.
(END MESSAGE)

WILSON

CSB:

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OCT 1 1934
U.S. DEPARTMENT OF STATE
WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 1, 1937, 8 p.m.

NO.: 1375 RUSH

FROM COCHRAN.

Total of foreign exchange yielded by French control approximated four million pounds for the day, due to rush for sterling in trading after official Paris market closed. Throughout the day consultations have been going on at the Bank and in the Government. Exchange control is opposed by the present Government; the alternatives left are early decline of franc or changes in the Government itself.

Through discounting with banks bonds subscribed to in cash for October 5 operation, the Minister of Finance has been able to raise some funds for immediate technical needs. It remains to be seen whether in the circumstances a political crisis will be precipitated at the Cabinet meeting tomorrow. Confidential information has come to me that it is quite probable that on Saturday morning the franc may be allowed to slip on the London market until the rate of 150 tried out. However my technical friends elicited little faith that such a level could long be held without a political change.

WILSON.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 1, 1937, 9 p.m.

NO.: 1376

CONFIDENTIAL.

During the past few days there has been an abundance of sensational rumors regarding the imminence of a political crisis, that the Finance Minister Bonnet would resign, that there would be a fall of the Chautemps Government, that Bonnet or Daladier would head a new government, and so on. However, the best available information is to the effect that there is little likelihood of a Cabinet crisis before the week October 10 - 17, when the cantonal elections will be held.

There is no doubt however that the bad financial situation has caused a feeling of great uneasiness and concern - contributing factors being the recent drop in the value of the franc, the continued flow of capital from France, and the belief that the Government does not have the power to keep the franc from moving further downward because it is pledged not to institute exchange control.

There is general recognition of the fact that Bonnet, supported by Chautemps, has shown courage and energy in his effort to bring about a return of confidence through
orthodox

- 2 -

orthodox measures. It is also generally recognized that Bonnet's efforts have failed, and that with the decline in the value of the franc, confidence regarding the finances of the country has declined. The people of France are realizing that the fundamental trouble with the country is that it is not producing enough, and that it will not be possible to increase production so as to take up the higher costs unless modifications are made in legislation such as the forty hour week. A continuing source of misgiving also is the fact that the Government must depend for support on the Communist Party.

It is no doubt true that the seriousness of the financial situation is not realized by the country as a whole. Laborers are now receiving higher wages and prices have not yet gone up high enough to meet those higher wages; also, farmers are receiving higher prices for their crops and cattle. Some politically prominent people, I understand, think that the country as a whole should be told of the bad financial situation so they may realize the seriousness of it - this to be done by the resignation of the Government giving the reasons for the condition. Of course it cannot be said whether such a step will be decided upon but as indicated above, the best opinion available is that at least until the cantonal elections are over there will be no change in the Government.

Should there be a change, it would seem that either
Daladier or

- 3 -

Daladier or Bonnet would head it, or possibly Chautemps might form another government. Should a new government be headed by any of these three Radical Socialist leaders, it is likely that they would discard the Socialists and Communists, take in the Center, and count upon the advantage the Right would give them. The Popular Front would consequently come to an end.

END MESSAGE.

WILSON.

RECEIVED
MAY 8 1944
INTERNATIONAL BUREAU
OF THE
COMMUNIST PARTY OF THE UNITED STATES

EA: LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris
DATE: October 2, 1 p.m. 1937.
NO.: 1378

RUSH.

FROM (omission - Cochran?).

STRICTLY CONFIDENTIAL.

This morning I was told by Rueff that conferences yesterday had apparently resulted in agreement to cabinet members for decisions to be taken at today's meeting at Rambouillet, but that they must wait for the outcome of the meeting itself for definite assurance on this point since there may be heated arguments on such questions as the forty hour week.

In London this morning the franc was allowed to sag, as mentioned in my telegram of October 1, 8 p.m., No. 1375. Small amount of sterling was bought and sold by French control, but the control was even on balance at twelve noon, at which time the pound was 151.0 to one half.

In strictest confidence I am informed that tactics for Monday will involve effort to bring rate to 150 or even 149 and keep it at that point.

END SECTION ONE.

WILSON.

EA: LWW

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 1378
of October 2, 1937, from Paris

This morning the policy which the control followed was definitely dictated to the technicians ~~from~~ by their superiors. The following were given as reasons: It was anticipated that next Monday and Tuesday there will be a technical favorable reaction of the franc market. However it was not believed that the political patchup being sought today could possibly be impressive enough to give the market much lasting confidence. Therefore it was preferred that today the franc be allowed to slide rather than two or three days after a new plan may be worked out at the Rambouillet meeting. It would have been most undesirable to have/^{had} such a decline after the meeting and still before the elections.

The informal arrangement made is unique in that as yet the French public is not very much disturbed. Big holders are responsible for most of the franc flight. Some of these large holders are intimately familiar with governmental financial leaders and the actual problems facing them.

It is my understanding that the Swiss have been selling dollars heavily today in London and that this forenoon they have been the largest takers of the gold bought on that market for hoarding purposes.

WILSON.

EA: LWW

JR

GRAY

Paris

Dated October 2, 1937

Rec'd 10:54 a.m.

Secretary of State,
Washington.

RUSH.

1378, October 2, 1 p.m. (SECTION THREE).

An article in today's ECONOMIST on the tripartite agreement concludes:

"At the moment indeed it is impossible to say how far the franc's crise de confiance is due to political and how far to economic factors -- or indeed where the former end and the latter begin. As we go to press the position of the Chautemps Government seems increasingly precarious. Unofficial reports from Paris suggest that Monsieur Bonnet may resign if a Cabinet Council, to be held on Saturday, October 2nd, rejects his proposals -- which it is rumored will include some revision of the 40 hour week. In that case the Socialist members are credited with the intention of proposing some form of exchange control. And where will the tripartite agreement be then? The answer is that the agreement -- dupartite, tripartite or multipartite -- ought to be maintained as a monetary basis for the liberation and revival of internal trade and finance, which is fundamental to recovery. Discussion at

Washington

JR -2- #1378, October 2, 1 p.m. (SECTION THREE) from Paris.

Washington and elsewhere can serve at least the useful purpose of maintaining close and constant contact between the leading financial centers". (END MESSAGE).

WILSON

CSB

RECEIVED
OCT 2 1944
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France.

DATE: October 2, 1937, 4 p.m.

NO.: 1379

FROM COCHRAN

Council of Ministers met at Rambouillet at 10:30 this morning. Press reports that Ministers agreed unanimously on a program of recovery as set forth in a communique issued after the meeting stating that:

One. Government opposes exchange control and desires to remain loyal to monetary freedom and policy as expressed in tripartite agreement.

Two. Government favors policy of international peace.

Three. Council approves Chautemps' ideas for increasing production.

Four. Government urges need for social discipline and appeals to capital and labor to arbitrate rather than to resort to illegal measures.

Five. Government pledges action against foreign agitators in French territory.

Six. Government affirms above policy will be carried out irrespective of coming elections.

It is not likely that the above pious expressions and weak generalities indicative of political (omission) will have much influence towards inspiring confidence in the

French

- 20

French franc. I still hold the opinion I have had for some time past - i.e., under the present government the financial and monetary situation cannot recover. It remains to be seen how far the break in the franc which began today can go without the government breaking.

I had a conversation with Rueff just now; the communique gave him no cause to be optimistic. Rueff told me that Bonnet had gone directly to Perigueux for the week end after he left Rambouillet.

WILSON.

EA:LWW

Copy of letter sent to all Loan Agencies.

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
 CHAIRMAN OF THE BOARD

October 2, 1937.

Dear Mr. _____:

For more than a year it has appeared that banks and other lending institutions could supply the credit needs of the country very well, and while it is perhaps not advisable for the RFC to stop lending altogether, it can very properly confine its lending to extraordinary situations.

Accordingly you should only accept applications where it can be clearly shown that a useful economic purpose would be served by the loan, and that the applicant cannot obtain the credit elsewhere. In other words, that a real emergency exists.

Banking laws have been liberalized to the point that a bank may make almost any loan that the RFC can make, and our record of collections has demonstrated that many so-called non-conforming loans or loans on slow but sound assets are as good and as collectible as many that fit the technical yardstick.

As your activities decrease, you will continue to reduce your force as we are working under a very strict budget. However, you must service your loans and keep well posted about them.

Sincerely yours,

(signed) Jesse H. Jones

Chairman

Mr. _____,
 Manager, Loan Agency,
 Reconstruction Finance Corporation.

Copy of letter sent to all Loan Agencies

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

November 13, 1937.

PERSONAL AND CONFIDENTIAL

Dear Mr. _____:

With further reference to our letter of October 2nd restricting new applications, and to comply with the President's budget summation released on October 18th as it affects the RFC, you are advised that the lending activities of this Corporation will be further curtailed as follows:

Applications that were under consideration or in the course of preparation on or before October 18th, should be completed and sent in as usual, notwithstanding that the formal application has not been actually filed. In a few instances it may be necessary to consider new or additional applications to protect loans already disbursed.

You may continue to take applications for loans the proceeds of which are to be used in paying depositors of closed banks. Renewals or extensions will be handled in the usual way.

Should it develop that any bank in your territory needs additional capital through the sale of preferred stock or capital debentures, or should any other situation arise that in your opinion constitutes an emergency, you should communicate the facts to this office.

Sincerely yours,

(Signed) Jesse H. Jones

Chairman

Mr. _____,
Manager, Loan Agency,
Reconstruction Finance Corporation.

FEDERAL RESERVE BANK
OF NEW YORK

M. Lockhead
54

OFFICE CORRESPONDENCE

DATE October 4, 1927.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knake

BANK OF ENGLAND.

Mr. Bolton called me at 11:17 today. He was rather surprised, he said, that it should have been possible in France to arrive at a compromise such as was agreed upon last Saturday. From all their previous information they had been led to believe it would be impossible for Chautemps to carry Blum along and keep the Popular Front together. Now, he gathered, the French Government hoped to carry on for about a month, until the Chamber meets late in October or early in November. The market in the meantime was taking profit on its short position with the result that for the first time in six weeks the Bank of France was able to take in a little sterling. This profit taking, Bolton thought, was about the only hope of support for the franc. Once that was out of the way, something like the old situation was likely to arise again. As far as he could see, Paris was paying very little attention to the cabinet's statement of last Saturday. In London the feeling seemed to be that of hope for a better future based on a general sympathy for France. The great temporary gain was that the question of any big political upset had been put off for some time. This, however, did not mean that there was any more confidence in the franc today. He expected a relatively quiet time until the results of the cantonal elections were known about the middle of next week or the week thereafter.

Bolton then referred to the gold market. I inquired whether there was anything to the rumor that the Swiss had been buyers of gold in London. Bolton replied that he had not been able to find out but

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 4, 1947.

CONFIDENTIAL FILE

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knocks

BANK OF ENGLAND.

- 2 -

was going to make a test by offering the B. I. S. gold against dollars and we would be able to see what happened by following the entries on the B. I. S. account. He had no information of the Swiss monetary authorities having turned buyers, but then, they never really opened up to anybody. If there was Swiss buying in the London market, in all probability it was for account of Swiss syndicates, the same that, a few months ago, had been anxious sellers. At any rate, the demand for gold continued very nearly as two weeks ago and they, that is the British Stabilization Fund, had given the market something like £1,000,000 a day, which, however, only offset a little of what they had to take in from Cariguel.

Bolton then asked me whether we would be interested in selling some of the gold we had in London on a dollar basis. If so, he thought he could handle it carefully through different channels. Such sales would have nothing to do with the fixing as he would do it outside the market so as to avoid comment. Needless to say, he would try to get the best price possible, which he thought might be \$34.79 or \$34.80. I replied that I had planned to discuss this very problem with him but had been somewhat hesitant as to the approach, not knowing how they might react. Bolton stated that they, in London, regarded this matter entirely from a business point of view, feeling that if the market wanted gold, very well, good luck to them; let them have it. If we decided to give him an order, he might sound people like the Dutch, but as far as the Swiss monetary authorities were concerned, he would

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 4, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knake

BANK OF ENGLAND.

- 3 -

prefer to wait and see if they approached him. I told Bolton that I would, at the first opportunity, discuss this matter with Washington but was quite hopeful that his suggestion would prove very welcome. Meanwhile, I was sure that it was not a question of price but merely of reducing the very substantial amount of gold now held abroad. I hoped to be in a position to communicate with him further in this matter in a day or two. Bolton inquired whether, in case we decided to sell some gold in London, we would cancel our instructions for shipment of \$10,000,000 worth on the President Roosevelt. I replied that I rather expected Washington to prefer that that shipment come forward irrespective of possible sales in the London market.

LWK:KMC

RECEIVED
OCT 10 1937
FEDERAL RESERVE BANK
OF NEW YORK

JR

GRAY

Paris

Dated October 4, 1937

Rec'd 3:10 p.m.

Secretary of State,
Washington.

1381, October 4, 4 p.m. (SECTION ONE).

FROM COCHRAN.

Following the sharp drop in the franc on Saturday and the ministerial declaration, French control today had opportunity to acquire a fair amount of sterling at 150.25 to ten and a (?) dollars. Forward franc improved slightly. Neither the spot nor future franc held its best quotation of the day and toward evening traders had impression that repatriation of capital inspired by above mentioned factors was approaching completion. Rentes were down about one franc. With present premium on gold at London, Belgium continues to lose gold to that center.

Paris exchange trading was not heavy since most people are waiting to see the trend of the market after Saturday's statement and the political speeches thereon have been generally analyzed. Impression on the market this afternoon was that today's recovery in French exchange would be short.

WILSON

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 1381 of
October 4, 1937, from Paris.

The communique was a disappointment to the Paris-American bankers with whom I have talked. They think that before any lasting turn for the better can come conditions must get worse.

This morning I had a telephone conversation with President Tripp of the Netherlands Bank. Tripp said that the French statement was a disappointment to the Dutch, that they did not believe it would inspire confidence in the franc, and that they believed a rapid deterioration would now follow. He said only a change in the French Government could bring about a change in the situation. We talked about the reversal in policy of the Swiss bankers who are now buying in London the gold they sold for dollars a few months ago, and Trip philosophically remarked that these situations usually solve themselves given time to do so.

WILSON.

EA:LWW

LMS

GRAY

Paris

Dated October 4, 1937

Rec'd 4:43 p. m.

Secretary of State,
Washington.

1381, October 4, 4 p. m. (SECTION THREE)

French financial press found nothing new in the Government's communique and now awaits acts, particularly any developments which may indicate whether labor will yield very far on the forty-hour week.

Paris correspondent of the LONDON TIMES concludes his article today as follows: "As for the national government, so freely prophesied by those who desire it, the situation has not yet reached a sufficient degree of gravity to induce the majority of the electors to change the decision which brought the Front Populaire to power. Much may depend on the fate of the franc during the next WEEK or two though if there were a general impression that the national currency had been the victim of political maneuvering those held responsible for it might reap a harvest very different from the one they had expected."

Lombard Street Editor of the FINANCIAL NEWS today said in part.

"A large part of the statement issued by the French

Government

LMS 2-No. 1381, October 4, 4 p. m., Sec. 3, from Paris.

Government is a mere repetition of the old contention that there is no justification for a depreciation of the franc (how familiar that sounds!); that the budget is balanced (apart from the 'extraordinary' expenditure of course); and that there is no question of imposing exchange restrictions (even though some restrictions already exist in fact if not in law). All this kind of talk is apt to cause a very unfavorable impression and would undoubtedly lead to an accentuation of the selling

WILSON

NPL:RGC

LMS

GRAY

Paris

Dated October 4, 1937

Rec'd 5:17 p. m.

Secretary of State,
Washington.

1381, October 4, 4 p. m. (SECTION FOUR)

pressure on the franc but for the bull points given by the official statement, bull points which might possibly outweigh the bear points. One of bull points is that the government has succeeded in preserving at least the outward appearance of unity. During the last week or two there have been rumors of intrigues within the Cabinet, one of whose members was believed to be playing a deep game of his own".

FINANCIAL TIMES terms Saturday's declaration an anticlimax and under money market notes remarks: "It cannot be said that the plan evolved by the French Cabinet contains much to inspire confidence and to strike a note of optimism."

JOURNAL OFFICIAL today announces that Rueff has been made a "state councilor". This gives him a status to which he could return if he were to join the B I S staff.

At meeting in Helsinki Scandinavian Central Bank

Governors

LMS 2-No. 1381, October 4, 4 p. m., Sec. 4, from Paris.

Governors are reported to have affirmed their adherence to sterling.

(END OF MESSAGE)

WILSON

RGC:NPL

RECEIVED

OCT 5 1927

TREASURY DEPARTMENT

Office of the Secretary

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 4, 1937, 5 p.m.

NO.: 1382

One of the leaders of the Socialist Party said in conversation today that as to the political situation the life of the present government depended largely upon the franc's course. Should the communique of last Saturday restore confidence to some extent, and should the franc remain at approximately the present level, then the government might continue in office for some time to come. However if on the other hand the franc should drop further the government probably would be forced out. It was not unlikely that in such case a new government would be headed by Chautemps or Sarraut with the participation of the Moderates, with the Socialists supporting the government but not participating.

This contact said that there was a strong popular demand for exchange control. The ^{"little fellow"} ~~small holders~~ believed that the banks and the wealthy classes were speculating against the franc and working against the interests of the country some for reasons of personal profit, others to create a political situation which they hoped would bring into power a national union government. Blum, he said, had no technical grounds for objecting to exchange control but

was

- 2 -

was against it on grounds of international policy in that the end of the tripartite monetary agreement would come if exchange control were established. Blum used this line of argument as the basis for obtaining the approval of the Socialist ministers to the governmental declaration against exchange control. My informant told me that the Socialist Party was "practically unanimous" in wanting power to go back to Blum. The ~~other day~~ at a Socialist meeting in Paris Blum had been greeted by cries demanding the resignation of the Chautemps Government and the establishment of a Government headed by Blum. However it was said Blum himself did not think that any such action would be wise at the present time. Blum was cooperating loyally with Chautemps in the efforts to deal with the problems the present government is now facing.

This contact said that the Communists who have heretofore declined participation in government were "demanding" participation in the government now. These Communists would like to form once for all a sort of national union government with Herriot as the head. According to my informant this attitude was dictated by Moscow where it was felt that the international situation was critical, and that the best interests of Russia would

be

- 3 -

be served by a strong government in France with Communist participation. There was no particular willingness on the part of Herriot to serve, however, since he hoped a year and a half hence to be elected President of France, and Communist support would be embarrassing.

My informant said that with regard to the approaching cantonal elections, there would undoubtedly be considerable gains by the Communists and the Socialists. However, he said the importance of this should not be exaggerated, since six years ago when the general councilors and councilors of arrondissements were elected, the Socialist and Communist Parties did not have the strength which they now have. For example at the cantonal elections in 1931 only six Communists were elected. It was interesting to note, he said, that in the senatorial by-elections held yesterday in two departments the Moderates had supported the Radical Socialist candidate against the Socialist, instead of putting up a candidate of their own. He believed that in the cantonal elections these tactics would be followed but that nevertheless the Radicals would fail.

END MESSAGE.

EA:LWW

WILSON

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 5, 1937, 4 p.m.

NO.: 1390 RUSH

FROM COCHRAN.

Yesterday the French control gained seven hundred and (omission) million francs of foreign exchange through short covering operations. A little sterling was yielded by control this morning at 150.25 with the opening of the banks, but the control was soon able to buy at 149.98. I talked with my contact at 10:30 a.m., and this was the situation at that time.

Market contact told me at 3:30 p.m. that when official market opened trend turned and sterling was bid and control began giving through Lazard at 150.90 and later directly at 150.75. Observers thought the control had by 3:30 p.m. lost much more foreign exchange than it gained yesterday. Favorable market reaction appears thus to have been even shorter lived than pessimists anticipated. Bourse atmosphere is therefore quite pessimistic with no one apparently wanting to hold francs. One official attributed part of today's rush for sterling to fact that those holders of 1934 treasury bonds who opted payment in cash received their francs today and evidently began converting them into pounds.

I

- 2 -

I have received the report but cannot yet confirm that National Bank of Switzerland is selling dollars in London today. Bankers say Swiss investors are worried over American tax threat and are repatriating some capital. I hope to see Bachmann at B I S meeting in Basel this week-end.

There has been inclination on the part of some newspapers to consider 150 the level where the franc might logically be held against sterling. But experience of today indicates that in the face of the political situation even this rate may be untenable.

WILSON.

RECEIVED

OCT 6 1937

TREASURY DEPARTMENT
OFFICE OF THE ASSISTANT
SECRETARY FOR ECONOMIC AFFAIRS

EA:LNW

October 5, 1937.

In connection with my letter to the President of October 5, copy of which is attached herewith, I think the chances of my winning are two out of three but I am not going to sit here another year unless we have a balanced budget.

October 5, 1937

My dear Mr. President:

This morning's newspapers indicate that you are thinking of calling a special session of Congress for the middle of November. Before you definitely decide upon this course, I am very anxious to have an opportunity to discuss it with you at some length.

During your trip out West I have been working very hard on the whole Budget situation and I know you will be interested in having the information I have collected with the assistance of the Bureau of the Budget.

The regular activities of the Government, this year, will cost approximately \$5,400,000,000. You put down a tentative figure for next year of \$5,000,000,000. This year Public Works of all descriptions will cost approximately \$686,000,000. Next year if Congress does not appropriate another dollar, we are obligated to spend \$695,000,000. This does not include any amount to cover the balance of \$190,000,000 of the appropriation for good roads made by the Secretary of Agriculture to the States in December, 1936, for which Congress did not provide the necessary funds. Inasmuch as this is a moral obligation it would be necessary to add to the \$695,000,000 for Public Works an additional estimated expenditure of \$170,000,000 or a total of \$865,000,000 for the next fiscal year.

This year we will spend out of the Treasury for Unemployment Relief and C. C. C. approximately \$1,665,000,000. If we should ask for \$1,000,000,000 for Relief and \$300,000,000 for C. C. C. the total for these two purposes for 1938 - 1939 would be \$1,200,000,000.

Agricultural Adjustment, this year, will cost approximately \$475,000,000 and next year, because of the cotton commitment, may be as much as \$65,000,000 more, or a total of \$540,000,000.

Social Security and miscellaneous items come to another \$978,000,000 for this year. Other items, including \$200,000,000

-2-

for Debt Retirement, bring the total expenditure for this year up to \$7,445,000,000.

You will see from the above figures that not allowing for any new appropriations for Public Works and including only the statutory sinking fund item for Debt Retirement (\$585,000,000) we are obligated to spend, next year, a total of approximately \$7,375,000,000. The best revenue estimate we have at this time, provided that the tax rates stay as they are, would be that the 1938 - 1939 receipts will be approximately \$7,100,000,000. In other words, on the basis of present commitments and today's expectation of revenue for the fiscal year 1938 - 1939 we are likely to fall \$275,000,000 short of a true Budget balance, including sinking fund requirements.

I believe that you and I are equally determined to balance the Budget for 1938 - 1939, including a reasonable amount for Debt Retirement. In order to accomplish this, it seems to me extremely important that before you obligate yourself to spend anything at all in addition to the commitments already made for 1938 - 1939, you give Mr. Bell and me an opportunity to go into this situation with you fully and examine it yourself with the utmost care.

I am,

Faithfully yours,

The President,

Hyde Park, New York.

GROUP MEETING

October 5, 1937
9:35 a.m.

Present: Mr. Magill
Mr. Gaston
Mr. Haas
Mr. Bell
Mr. McReynolds
Mr. Lochhead

H.M.Jr: Jesse isn't coming till later, so I thought I'd start in at 10 with that special letter that I was going to do with you. (Bell). Would you be ready at 10?

Bell: Well, I'm ready as much as I will be.

H.M.Jr: I mean I can draft the letter, get it down, then go over it a couple times. We can put in approximate figures, then have you put in actual figures.

Bell: Probably a couple days before we can get the figures.

H.M.Jr: Well, the letter's going in the pouch Thursday.

Bell: Is that when you want it?

H.M.Jr: Yes. If you listen to my dictating, then we'll see - I mean you get what I have in mind.

Bell: Yes, sir.

H.M.Jr: Well, you old sourbelly, how are you?

McR: I feel just fine.

H.M.Jr: What? I had to look around to see if there were any women around. What?

McR: I'm feeling fine. I was under home rule all the time I was away.

H.M.Jr: Home brew? Didn't he say home brew?

Magill: I think he did, but it was a slip.

McR: Home rule all the way. I didn't do anything but rest while I was gone.

H.M.Jr: Good.

-2-

- McR: Played one game of golf.
- H.M.Jr: Well, I heard of you in northern Florida, and I heard you came back by boat.
- Magill: Mac is making a lot of trouble for me on taxes. He's endorsed Professor Henderson of Yale - his plan to reduce proof of whiskey from 90 to 45.
- H.M.Jr: Has Henderson got that again? Who was it the other day said - Jake Viner said he wanted to know, did Sir Frederick Phillips put his whiskey in his water or his water in his whiskey.
- McR: You wouldn't have to bother with White Rock or anything of that kind.
- Bell: The water already is there.
- Magill: Keep the same tax and increase the dilution; it's better for everybody.
- H.M.Jr: I see. May be something to it.
- Bell: Run ginger ale people out of business.
- Magill: He's going to take that up next.
- H.M.Jr: I would like, if possible, Mr. Magill and Mr. McReynolds, to have a little demonstration on the part of Harold Graves of - I don't care, something or other that we can demonstrate, some kind of a simplification; I'd like to have something to throw out as to what we're doing, something in the way of proving the administrative simplification - take something or other.
- Magill: What he's doing is a very important job on Social Security taxes.
- McR: Ran into some difficulty in that respect.
- H.M.Jr: Well then, that - well, you know, I've kept you informed as to what....
- Magill: Altmeyer.

-3-

- H.M.Jr: Yes. That has nothing to do with this machinery.
- Magill: This is the machinery he's working on.
- H.M.Jr: Oh, so he's on that.
- McR: He told me yesterday - came in first thing and said that he checked, of course, with Magill all the way, but they ran into that situation of bad congestion and not a proper - they weren't on top of the job, it was snowing them under, and it was just something that somebody had to do something about.
- H.M.Jr: Our end?
- McR: Yes. Well, Social Security is involved, of course. They want to keep these monthly returns, and it's....
- Magill: Well, the question as I get it from him is this: In the first place, the volume of returns is so great that we've got to keep current; if we don't, we're ruined.
- H.M.Jr: And we're not?
- Magill: We're not. We're getting behind. Graves said it's obvious our appropriation is not large enough to do the job that the Social Security Board wants. So it's a question of whether we can cut down to stay within our appropriation and still do enough for our own purposes, and then perhaps for Social Security.
- MGR: Social Security regulations provide for an information return every three months and the payment of the tax with an individual return every month. And Graves is proposing that we make that a quarterly payment instead of monthly, and semi-annual information return. He said we can get by on that basis. But Altmeyer doesn't want to extend it that far.
- H.M.Jr: Well, Harold knows when he's ready to talk to me, and I'm available.
- McR: Yes.
- Gaston: We have already put out a press release announcing that we are dropping this one quarter return this year. We could have coupled that with Harold Graves' work.

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- McR: That's just for this one six months, but they haven't consented to the continuation of that semi-annual information return, nor have they consented to the quarterly tax return.
- H.M.Jr: Well, I again say I'm available.
Mr. Bell?
- Bell: I have a couple things. The Federal Intermediate Credit Banks have a maturity of about 49 million dollars on October 15. They have available about 15 million dollars in cash, and they want to finance the balance, 34 million dollars, through the issuance of 9-months securities in the amount of \$19,450,000 at the rate of about .007, as compared with .01 the last time they did it; 4-months, \$12,350,000, rate .0045.
- H.M.Jr: Say that again.
- Bell: 4-months, \$12,350,000, at about a basis of .0045, compared with .0065 last time. And 3-months of \$2,500,000, rate of about .0040 net, which is a private offering. And that's about the way they usually have done those things.
- H.M.Jr: Well, are they offering that?
- Bell: They want to offer it this morning for October 15.
- H.M.Jr: Well, you just tell those babies that they better wait until tonight, to see how that Bethlehem thing goes, because everybody - I mean I've got a lot of information that they are terribly nervous about this Bethlehem issue; and he should not make up his mind until tonight.
- Bell: Uh-huh.
- H.M.Jr: Roughly - you see, they offered September 8th - the Bethlehem Steel offered their stockholders 46 million dollars worth of securities, and the stockholders took two. Now, they're reoffering them today at 3 $\frac{1}{2}$ % - 15-year note. Now, they better wait and see how this thing goes.

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Bell: This is largely - practically all a refunding.

H.M.Jr: I know.

Bell: And done through Dunn.

H.M.Jr: Dunn.

Bell: Dunn, yes.

H.M.Jr: But I still say if this thing cracks up today...

Bell: May have an adverse effect.

H.M.Jr: Oh, no question of it.

Bell: But otherwise we have no objection.

H.M.Jr: If this thing goes well, he might even want to refigure it. I mean they're all just watching this thing today. I mean if it goes well, they haven't turned the corner, but they have gotten by the first milestone, see?

Bell: Otherwise we have no objection.

H.M.Jr: Otherwise no objection.

Bell: We don't have to approve it, but one of those things....

H.M.Jr: But tell Bill for me not to do anything about that until five o'clock tonight, release it tomorrow morning. Tell him he may find himself in the position Pure Oil is in. I got plenty yesterday.

Haas: Steel report was quite bad yesterday.

H.M.Jr: I know it was.

But tell Bill to sit tight until he hears tonight that that thing either has or hasn't gone.

Bell: Uh-huh, all right.

H.M.Jr: O.K.

-6-

- Bell: The other thing, I'd like to know from someone when we are going to get this back railroad tax. You keep putting it forward every month. Is there something being done in Internal Revenue to give an extension? It was due in June, wasn't it?
- Magill: Let me find out.
- H.M.Jr: You report tomorrow morning.
- Magill: Yes.
- Bell: I know when we had our conferences they said, "Just when the bill goes through, we'll pay you this 60 million dollars."
- Gaston: They told me over in Revenue they expected it to come in the first week in October.
- Bell: They had it in October; now it's shoved forward to December, for some reason or other.
- H.M.Jr: Will you (Magill) have a report on that tomorrow morning?
- Magill: I will.
- H.M.Jr: While I'm on this thing - one reason I left certain people out, I want to be able to talk freely - I haven't got the exact figures, but there is enough stuff like Pure Oil and - what's the other one that backed up - well, just completely wiped out the profit of these syndicates for the last two years. Their entire capital is impaired, with the exception of Morgan-Stanley. Morgan-Stanley is the only one that hasn't got a commitment of any kind; the only commitment they've got is bonds of the New York Fair; everything else is cash. And we are back to where these people - now for the first time there's an estimate of between 60 and 70 million dollars that these underwriting houses have got, and there's been enough that have gone sour that they have underwritten that their entire capital, if they don't sell them, is impaired. But all their profit for two years is wiped out. Now, if Bethlehem Steel goes all right today, tomorrow comes Central New York, which is - I don't know what, 40 million, something like that; Schoellkopf crowd, they have a financing tomorrow, and if that goes all right, then

-7-

next week they're going to put on Consolidated Gas, 50 million. And the advice I asked and which I quote - as far as the Treasury was concerned, they said, as far as any action that we take, it is very unimportant as far as the capital market is concerned; but they can't see any reason why at this time we should go into the market and dip out 50 million dollars a week that we don't need, and that any such talk that that would help the capital market is just childish - just childish; they say they never heard of such an argument. And I've talked to some smart fellows the last couple days. I mean this idea of taking 50 million.

And then they heard - they said, "We hear that they're trying to make you say that you won't do anything from now until the 15th of March. Don't you do any such thing." You'd be surprised where I got this advice from, too. "Don't you say any such thing. You never have said any such thing. You never have borrowed any money when you don't need it, and don't do it now." They said, "Any idea that you go in and take an extra 50 million dollars a week now, then you don't need it the 15th of December - it just piles it all up onto March. You do the way you've done all along. Just go along the way you are. And as far as the Treasury is concerned, that's the least of our worries."

So that's what I'm going to do, see? So you two (Haas and Bell) get busy separately and give it to me tomorrow morning. My thought is, it's just a question whether we should offer one more 9-months. What I don't want to do - let's say we're going to borrow 450 million into March - I don't want that thing to fall so there's going to be 450 just come on the 15th of December - I mean so that in the middle of financing we have to offer a 90-day bill. I'd like to have it so - figure we're going to take between four and five hundred million dollars into the 15th of March - I'd like to start that so it would get us through Christmas, and we could start the 90-day stuff about the first of January, see? I mean if we want to stop the tax bills - I mean I'm willing to stop the 9-months, but I don't want to start selling a tax bill into March so we're going to sell between four and five hundred million dollars. I want it so it will end after Christmas. Then we can start the

-8-

90-day stuff, say, on the first of January, or something - figure something else, I don't know.

Bell: You don't want to start the 90-day bills prior to December financing.

H.M.Jr: I'd like to have it so I could or couldn't.

Bell: You can on December 1.

H.M.Jr: Well, we can discuss it right now; it only takes a minute.

Bell: You can start on October 13 for your first tax bill into March.

H.M.Jr: You people don't mind my doing this now.

I've got some friends up in New York who give me some honest advice.

If you start on the 13th - is that what you suggest?

Bell: Yes, sir.

H.M.Jr: Tax bills. That's 1, 2, 3,

Bell: In October.

H.M.Jr: ... 4, 5, 6, 7, 8, through December - would be 400 million.

Bell: That's right. That's enough.

H.M.Jr: That's enough.

Bell: Yes, sir. Now, on the 8th of December you would issue a 90-day bill.

H.M.Jr: I see. I see. That sounds pretty good.

And incidentally, George, these same people said that we ought to completely refigure our revenue; that the fourth quarter, they say, is going to be very bad. Now, I don't know how bad you figured it.

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- Haas: Well, we'd probably shock them, because we had....
- H.M.Jr: Well, I'd like to go over it, because they say the fourth quarter is going to be terrible.
- Haas: We ran it down so the index would get down to 106, and it is now - the last figure is 116.
- H.M.Jr: Well, the point they say - and this doesn't show up in statistics - is that the public utility company that last year spent 20 million dollars on improvements, the year before spent 20 million dollars, they just had their executive committee meeting. "How much will we spend next year? Zero." They say that's going on all over America. The Boards of Directors - they're not going to spend one dollar for next year until they know where they're at.
- Bell: Any reason for it - not spending?
- H.M.Jr: Uncertainty.
- Bell: Uncertainty.
- H.M.Jr: Uncertainty.
- Haas: I think it would be a smart idea to get some people - you know, we had these groups from these departments, different groups; well, they're not much good, but I think we can get a group outside which might be very helpful to review just what we've got - I mean after you might look it over yourself and see what you think of it.
- H.M.Jr: Well, I want to look at it. But I want to tell you - I mean they say - now certainly there's no place that you can get companies to tell you what their budget for '38 is. No company is going to tell you that, are they?
- Haas: (Nods no)
- H.M.Jr: Until they get out their annual report and all that kind of stuff.
- Haas: They don't know yet. The automobile companies have tentative plans.

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H.M.Jr: No, I'm not thinking of automobiles.

Haas: The other ones, it's early; they don't have to commit themselves so early.

H.M.Jr: That's the point. But here we have, let's say, a public utility company, a couple of them, and they say, "How much do we spend? Well, we won't spend anything." General Electric says, "Gee!" Westinghouse says, "Gee" - it just begins to roll - "if they're not going to get the orders, we better slow up."

Haas: The snowball can also turn very quickly on that sort of thing. It goes down very quickly, but their ideas can change very quickly under certain conditions. But I agree with you. I think you ought to go over this.

H.M.Jr: Well, what's making them do it is their mental state.

Haas: Yes, that's right. And the stock market has got a lot to do with their mental state.

H.M.Jr: Sure.

Haas: Well, I think it's always difficult when a thing like this starts to know what the extent of it is going to be. My guess would be that it wouldn't be that bad or anywhere near it.

Bell: Lot of people feel that way about it.

H.M.Jr: Yes, that's the thing. It's a mental condition. And certainly that fellow Roper sounding off all the time doesn't help any.

Haas: Is there going to be a budget summation issued?

H.M.Jr: I'm going to insist on it.

Bell: You are?

H.M.Jr: Yes, I want to get over any doubts, so there's one less doubt. I mean they're estimating as high as a billion dollar deficit - I don't mean the people I saw, but the one this one man had seen. There's one man had it pretty close; he said 500 million; he

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estimated 500 million. Now, another fellow - I mean you read the paper. Why not get it out? What's the use of all this? Why not let them know? What they don't know worries them much more than what they do know. Huh?

Magill: Yes.

H.M.Jr: You know what the old saying is in Wall Street, that they never sell after bad news is out, or never sell stocks after bad news is out. Is that right?

Haas: If we're going to issue that, then I think we ought to review the whole thing again.

H.M.Jr: I'm going to insist on it. I think the American public is entitled to it. I'm going to insist on it.

Haas: This break occurred after we made these estimates. However, we were.....

H.M.Jr: Well, George, you've talked before - get me up a list of people you'd like to have review it and I'll go over it with you.

Haas: Fine.

H.M.Jr: Yes. Well, we've stabilized the Government bond market. Now, if we can break this jam on refunding and clean up their old stuff - that's what worries them so much, because these - all these houses are loaded up with stuff like Pure Oil which they can't dispose of. Now, they're going to try to sell their Bethlehem Steel today, which they're loaded with, and if they can do that, they will most likely try to sell their Pure Oil. And they say tomorrow a new issue comes out - the Central New York, which is the New York power crowd. Then, if that goes, a week after 80 million dollars Consolidated Gas.

And I want to tell you something. The big boy around this town has just got to be a little careful. But certainly from the President's speech - I mean don't worry about the budget, and so forth. Have you (Bell) seen what he said?

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Bell: The budget reference was parenthetical. He said in a parenthetical phrase that he hoped the budget would be balanced, and then went on to promise all kinds of dams; they don't go together very well.

H.M.Jr: Well, look at this morning's Tribune.
Anybody got anything cheerful, lovely, happy?

Gaston: Like to have a press conference today? That would be cheerful.

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

Gaston: They'd ask you about budget, financing, and the French franc.

H.M.Jr: Oh, let it go until Thursday.

Gaston: Let it go till Thursday, all right.
Like to have some nice pictures taken for a new picture magazine by a \$300-a-day photograph expert?

H.M.Jr: Not today.

Gaston: Not today.

H.M.Jr: What have you got, George?

Haas: This table you asked for - the receipt side.

H.M.Jr: What else?

Haas: Nothing.

H.M.Jr: I'll find out when Mr. Jones is coming in, so Dan and I can go to work.
(To Kieley) Do you know when Mr. Jones is coming?

Kieley: 11:30.

H.M.Jr: All right.
That's all. I'd like Gaston and Bell to stay, if you would, please.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 4, 1937

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Report on "The North China Problem",
by Dr. Shuhai Hsu.

This book is a survey of Japanese incursions into North China since 1931 and is based entirely on newspaper sources. It contains nothing original nor previously unknown.

The one phase of the subject described in the book of possibly special interest at this time is the reaction of the foreign powers in 1934 and 1935 to the Japanese moves into North China.

On April 17, 1934, Japan stated:

" . . . Japan will oppose any attempt of China to avail itself of the influence of some other country with the idea of repelling Japan as this would jeopardize the peace in East Asia . . . Japan expects foreign nations . . . to realize that the undertaking of joint operations, in regard to China, even if they be in regard to technical or financial assistance, must eventually attain political significance for China. . . . Japan, therefore, must object to such undertakings as a matter of principle . . ."

(1) China's reaction.

China replied on April 19, 1934, as follows: " . . . No state has a right to claim the exclusive responsibility for maintaining international peace in any designated part of the world".

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The relation of Great Britain and the United States to the Japanese reaction to Great Britain's declaration to Japan:

Secretary Morgenthau - 2 -

(2) Great Britain.

On April 30, Sir John Simon made a statement in the House of Commons in which he reasserted Britain's adherence to the Nine Power Pact, but at the same time held that the Japanese statement was not intended to infringe upon the common rights of the other powers in China or upon China's own rights. Mr. Hirota's conversations with His Majesty's Ambassador to Tokio had confirmed his interpretations.

(3) United States.

On May 1, 1934, Mr. Cordell Hull issued a statement with respect to the Japanese declaration in which he said among other things: "In the opinion of the American people and the American Government, no nation can, without the assent of other nations concerned, rightfully endeavor to make conclusive its will in situations in which are involved the rights, obligations and legitimate interests of their sovereign states."

(4) France.

On May 3, 1934, the French Government issued a communication in which it reasserted its adherence to the Washington Pact and declared that the principles and procedure laid down by the Pact contained "the only equitable and satisfactory solution of Chinese affairs".

(5) Italy.

The English "Times" of June 2 quoted a semi-official statement from the Italian press to the effect that Italy "feels the necessity of saying with frankness as is befitting to a strong people that a policy of monopolizing China would be dangerous. . . . Japan, therefore, must have realized that the world would not tolerate the 'Pax Nipponica' and should not be alarmed if China proceeds to organize her army, fleet and air forces for defensive purposes."

Secretary Morgenthau - 3 -

Reaction of Great Britain and United States to the promotion of autonomy movements in North China by the Japanese:

(1) Great Britain.

On December 5, 1935, at the height of the Japanese attempt to separate North China from the rest of China, Sir Samuel Hoare made a speech in the House of Commons in which he mentioned that Great Britain sent Sir Frederick Leith-Ross to the Far East on a mission of investigation. Recent currency changes in China had nothing to do with his presence there. He also said that the British Ambassador at Tokio had made inquiries about the autonomy movement of the Japanese Government. The Japanese Government had replied that the autonomy movement was purely a Chinese movement which it was watching closely in view of its interests in North China, that any idea that Japan was planning any military intervention was entirely unfounded. He concluded by describing the situation as obscure and trusted that the conversation between the Chinese and Japanese Governments would result in an amicable settlement of any existing difficulties.

(2) United States.

On December 7, 1935, Mr. Cordell Hull issued the following statement: "There is going on in and with regard to North China, a political struggle which is unusual in character and which may have serious effects . . . the fact stands out that an effort is being made and is being resisted to bring about a substantial change in the condition of several of China's northern provinces . . . The unusual developments in any part of China are rightfully or necessarily the concern of not only the Government and the people of China, but all of the powers having interests in China. The United States is one of those powers."

(Copy of this memo is filed in Nicholson folder in Confid. files - attached to LD 8/9/37 to Mr. Nicholson ack. book)

Draft I

(FIRST DRAFT)

October 5, 1937

My dear Mr. President:

This morning's newspapers credit you with saying that you are thinking of calling a special session of Congress for the middle of November. Before you definitely decide upon this course, I am very anxious to have an opportunity to discuss it with you at some length. [I want particularly to talk to you about crop control and its effect on the 1938-1939 budget and where it fits into our plan of National economy.]

During your trip out West I have been working very hard on the whole budget ^{situation} figure and I ^{know} think you will be interested in having ~~the benefit of~~ the information I have collected with the assistance of the Bureau of the Budget.

The regular Departments, this year, will spend approximately \$3,241,000,000. You put down a tentative figure for next year of \$3,000,000,000. This year Public Works of all descriptions will cost approximately \$886,000,000. Next year if Congress does not appropriate another dollar, we are obligated to

-2-

spend \$695,000,000. This does not include an appropriation for \$190,000,000 for good roads which the Secretary of Agriculture allocated to the States December, 1936, but Congress failed to provide him with the necessary funds. Inasmuch as this is a moral obligation, it would be necessary to add to the \$695,000,000 another \$190,000,000, or a total of \$885,000,000. This year we will spend out of the Treasury for Unemployment Relief and C.C.C. approximately \$1,665,000,000. If we should ask for \$1,000,000,000 for Relief and \$200,000,000 for C.C.C. it would mean \$1,200,000,000 for those two purposes. Agricultural Adjustment this year will cost approximately \$553,000,000 and I am not going to put down any figure for next year until we have had our discussion. Social Security and miscellaneous items come to another \$913,000,000 for this year, or a total of \$7,180,000,000. Other items, including \$200,000,000 for Debt Retirement, brings the total expenditure for this year up to \$7,445,000,000.

You will see from the above figures that not allowing for any new appropriations for Public Works and without allowing one new dollar for Crop Control

-3-

and not allowing one dollar for Debt Retirement, we are obligated to spend, next year, a total of \$6,000,000,000. The best estimate we have at this time, provided that the tax rates stay as they are, would be that ~~we would take in for the year 1938-1939~~ *would be* approximately \$7,000,000,000.

I believe that you and I are equally determined not only to balance the Budget for 1938-1939, but also to retire a reasonable amount of the Public Debt. In order to accomplish this, ^{objectives} I wish to take this opportunity to point out to you that before you obligated yourself to spend one ^{additional} extra dollar for 1938-1939 that it is ^{extremely} most important that Mr. Bell and I have an opportunity to go into this situation ^{at the earliest moment} with you and examine it with the utmost care.

I am,

faithfully
~~Respectfully~~ yours,

Draft II

SECOND DRAFT

October 5, 1937

My dear Mr. President:

This morning's newspapers credit you with giving indications that you are thinking of calling a special session of Congress for the middle of November. Before you definitely decide upon this course, I am very anxious to have an opportunity to discuss it with you at some length. ~~I want particularly to talk to you about crop control and its effect on the 1938-1939 budget and where it fits into our economy plans.~~

During your trip out West I have been working very hard on the whole budget situation and I know you will be interested in having the information I have collected with the assistance of the Bureau of the Budget.

The regular activities of the Government, this year, will cost approximately \$5,400,000,000. You put down a tentative figure for next year of \$5,000,000,000. This year Public Works of all descriptions will cost approximately \$886,000,000. Next year if Congress does not appropriate another dollar, we are obligated to spend \$695,000,000. This does not include any amount to cover the balance of \$190,000,000 of the apportionment for good roads made by the Secretary of Agriculture to the States in December, 1936, for which Congress did not provide the necessary funds. Inasmuch as

- 2 -

this is a moral obligation it would be necessary to add to the \$695,000,000 for Public Works an additional estimated expenditure of \$170,000,000, or a total of \$865,000,000 for the next fiscal year.

This year we will spend out of the Treasury for Unemployment Relief and C. C. C. approximately \$1,665,000,000. If we should ask for \$1,000,000,000 for Relief and \$200,000,000 for C. C. C. the total for those two purposes for 1938-1939 would be \$1,200,000,000.

Agricultural Adjustment this year will cost approximately \$475,000,000 and next year, because of the cotton commitment, may be as much as *or a total of 540,000,000.* \$65,000,000 more, # Social Security and miscellaneous items come to another \$978,000,000 for this year. Other items, including \$200,000,000 for Debt Retirement, bring the total expenditure for this year up to \$7,446,000,000.

You will see from the above figures that not allowing for any new appropriations for Public Works ~~and without allowing one new dollar for Crop Control~~ and including only the statutory sinking fund item for debt retirement (\$585,000,000), we are obligated to spend, next year, a total of approximately \$7,380,000,000. The best ^{revenue} estimate we have at this time, provided that the tax rates stay as they are, would be that the 1938-1939 ^{receipts} ~~revenue~~ will be approximately \$7,100,000,000. In other words, on the basis of present commitments and today's expectation of revenue for the fiscal year 1938-1939 we are likely to fall ~~\$280,000,000~~ short of a true budget balance, including sinking fund requirements.

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I believe that you and I are equally determined ~~not to~~ ^{including a reasonable amount}
to balance the Budget for 1938-1939, ~~but also to retire a reasonable~~
^{for debt retirement} amount of the Public Debt. In order to accomplish this, it seems
to me extremely important that before you obligate yourself to spend
anything at all, ⁱⁿ additions to the commitments already made for
1938-1939 you give Mr. Bell and me an opportunity to go into this
situation with you, ^{fully} and examine it yourself with the utmost care.

I am,

Faithfully yours,

SECOND DRAFT

October 5, 1937

My dear Mr. President:

This morning's newspapers ~~indicate~~ ^{indicates} that you are thinking of calling a special session of Congress for the middle of November. Before you definitely decide upon this course, I am very anxious to have an opportunity to discuss it with you at some length. ~~I want particularly to talk to you about open control and its effect on the 1938-1939 budget and where it fits into our economy planer~~

During your trip out West I have been working very hard on the whole budget situation and I know you will be interested in having the information I have collected with the assistance of the Bureau of the Budget.

The regular activities of the Government, this year, will cost approximately \$5,400,000,000. You put down a tentative figure for next year of \$5,000,000,000. This year Public Works of all descriptions will cost approximately \$885,000,000. Next year if Congress does not appropriate another dollar, we are obligated to spend \$695,000,000. This does not include any amount to cover the balance of \$190,000,000 of the apportionment for good roads made by the Secretary of Agriculture to the States in December, 1936, for which Congress did not provide the necessary funds. Inasmuch as

- 2 -

this is a moral obligation it would be necessary to add to the \$695,000,000 for Public Works an additional estimated expenditure of \$170,000,000, or a total of \$865,000,000 for the next fiscal year. This year we will spend out of the Treasury for Unemployment Relief and C. C. C. approximately \$1,545,000,000. If we should ask for \$1,000,000,000 for Relief and \$200,000,000 for C. C. C. the total for those two purposes for 1938-1939 would be \$1,200,000,000. Agricultural Adjustment this year will cost approximately \$475,000,000 and next year, because of the cotton commitment, may be as much as \$65,000,000 more, ^{total of \$540,000,000,} Social Security and miscellaneous items come to another \$975,000,000 for this year. Other items, including \$200,000,000 for Debt Retirement, bring the total expenditure for this year up to \$7,445,000,000.

You will see from the above figures that not allowing for any new appropriations for Public Works (and without allowing one new dollar for Crop Control) and including only the statutory sinking fund item for debt retirement (\$585,000,000), we are obligated to spend, next year, a total of approximately \$7,350,000,000. The best estimate we ^{revenue} have at this time, provided that the tax rates stay as they are, would be that the 1938-1939 ^{receipts} revenues will be approximately \$7,100,000,000. In other words, on the basis of present commitments and today's expectation of revenue for the fiscal year 1938-1939 we are likely to fall ²⁷⁵ \$250,000,000 short of a true budget balance, including sinking fund requirements.

- 3 -

I believe that you and I are equally determined ~~not~~
to balance the Budget for 1938-1939, ^{including} ~~but including~~ a reasonable
^{for debt retirement} ~~amount of the~~ ~~1934~~. In order to accomplish this, it seems
to me extremely important that before you obligate yourself to spend
anything at all ^{in addition} ~~additional~~ to the commitments already made for
1938-1939 you give Mr. Bell and me an opportunity to go into this
situation with you ^{fully} and examine it yourself with the utmost care.

I am,

Faithfully yours,

October 6, 1937

My dear Mr. President:

This morning's newspapers indicate that you are thinking of calling a special session of Congress for the middle of November. Before you definitely decide upon this course, I am very anxious to have an opportunity to discuss it with you at some length.

During your trip out West I have been working very hard on the whole Budget situation and I know you will be interested in having the information I have collected with the assistance of the Bureau of the Budget.

The regular activities of the Government, this year, will cost approximately \$6,400,000,000. You put down a tentative figure for next year of \$5,000,000,000. This year Public Works of all descriptions will cost approximately \$586,000,000. Next year if Congress does not appropriate another dollar, we are obligated to spend \$695,000,000. This does not include any amount to cover the balance of \$190,000,000 of the appropriation for good roads made by the Secretary of Agriculture to the States in December, 1936, for which Congress did not provide the necessary funds. Inasmuch as this is a moral obligation it would be necessary to add to the \$695,000,000 for Public Works an additional estimated expenditure of \$170,000,000 or a total of \$865,000,000 for the next fiscal year.

This year we will spend out of the Treasury for Unemployment Relief and C. C. C. approximately \$1,665,000,000. If we should ask for \$1,000,000,000 for Relief and \$300,000,000 for C. C. C. the total for those two purposes for 1938 - 1939 would be \$1,300,000,000.

Agricultural Adjustment, this year, will cost approximately \$475,000,000 and next year, because of the cotton commitment, may be as much as \$65,000,000 more, or a total of \$540,000,000.

Social Security and miscellaneous items come to another \$978,000,000 for this year. Other items, including \$300,000,000

-2-

for Debt Retirement, bring the total expenditure for this year up to \$7,446,000,000.

You will see from the above figures that not allowing for any new appropriations for Public Works and including only the statutory sinking fund item for Debt Retirement (\$885,000,000) we are obligated to spend, next year, a total of approximately \$7,375,000,000. The best revenue estimate we have at this time, provided that the tax rates stay as they are, would be that the 1938 - 1939 receipts will be approximately \$7,100,000,000. In other words, on the basis of present commitments and today's expectation of revenue for the fiscal year 1938 - 1939 we are likely to fall \$275,000,000 short of a true Budget balance, including sinking fund requirements.

I believe that you and I are equally determined to balance the Budget for 1938 - 1939, including a reasonable amount for Debt Retirement. In order to accomplish this, it seems to me extremely important that before you obligate yourself to spend anything at all in addition to the commitments already made for 1938 - 1939, you give Mr. Bell and me an opportunity to go into this situation with you fully and examine it yourself with the utmost care.

I am,

Faithfully yours,

The President,

Ryde Park, New York.

COPY

October 5, 1937

My dear Mr. President:

This morning's newspapers indicate that you are thinking of calling a special session of Congress for the middle of November. Before you definitely decide upon this course, I am very anxious to have an opportunity to discuss it with you at some length.

During your trip out West I have been working very hard on the whole Budget situation and I know you will be interested in having the information I have collected with the assistance of the Bureau of the Budget.

The regular activities of the Government, this year, will cost approximately \$5,400,000,000. You put down a tentative figure for next year of \$5,000,000,000. This year Public Works of all descriptions will cost approximately \$886,000,000. Next year if Congress does not appropriate another dollar, we are obligated to spend \$695,000,000. This does not include any amount to cover the balance of \$190,000,000 of the apportionment for good roads made by the Secretary of Agriculture to the States in December, 1936, for which Congress did not provide the necessary funds. Inasmuch as this is a moral obligation it would be necessary to add to the \$695,000,000 for Public Works an additional estimated expenditure of \$170,000,000 or a total of \$865,000,000 for the next fiscal year.

This year we will spend out of the Treasury for Unemployment Relief and C. C. C. approximately \$1,665,000,000. If we should ask for \$1,000,000,000 for Relief and \$200,000,000 for C. C. C. the total for those two purposes for 1938 - 1939 would be \$1,200,000,000.

Agricultural Adjustment, this year, will cost approximately \$475,000,000 and next year, because of the cotton commitment, may be as much as \$65,000,000 more, or a total of \$540,000,000.

Social Security and miscellaneous items come to another \$978,000,000 for this year. Other items, in-

-2-

cluding \$200,000,000 for Debt Retirement, bring the total expenditure for this year up to \$7,446,000,000.

You will see from the above figures that not allowing for any new appropriations for Public Works and including only the statutory sinking fund item for Debt Retirement (\$585,000,000) we are obligated to spend, next year, a total of approximately \$7,375,000,000. The best revenue estimate we have at this time, provided that the tax rates stay as they are, would be that the 1938 - 1939 receipts will be approximately \$7,100,000,000. In other words, on the basis of present commitments and today's expectation of revenue for the fiscal year 1938 - 1939 we are likely to fall \$275,000,000 short of a true Budget balance, including sinking fund requirements.

I believe that you and I are equally determined to balance the Budget for 1938 - 1939, including a reasonable amount for Debt Retirement. In order to accomplish this, it seems to me extremely important that before you obligate yourself to spend anything at all in addition to the commitments already made for 1938 - 1939, you give Mr. Bell and me an opportunity to go into this situation with you fully and examine it yourself with the utmost care.

I am,

Faithfully yours,

The President,
Hyde Park, New York.

COPY

October 5, 1937

My dear Mr. President:

This morning's newspapers indicate that you are thinking of calling a special session of Congress for the middle of November. Before you definitely decide upon this course, I am very anxious to have an opportunity to discuss it with you at some length.

During your trip out West I have been working very hard on the whole Budget situation and I know you will be interested in having the information I have collected with the assistance of the Bureau of the Budget.

The regular activities of the Government, this year, will cost approximately \$5,400,000,000. You put down a tentative figure for next year of \$5,000,000,000. This year Public Works of all descriptions will cost approximately \$886,000,000. Next year if Congress does not appropriate another dollar, we are obligated to spend \$695,000,000. This does not include any amount to cover the balance of \$190,000,000 of the apportionment for good roads made by the Secretary of Agriculture to the States in December, 1936, for which Congress did not provide the necessary funds. Inasmuch as this is a moral obligation it would be necessary to add to the \$695,000,000 for Public Works an additional estimated expenditure of \$170,000,000 or a total of \$865,000,000 for the next fiscal year.

This year we will spend out of the Treasury for Unemployment Relief and C. C. C. approximately \$1,665,000,000. If we should ask for \$1,000,000,000 for Relief and \$200,000,000 for C. C. C. the total for those two purposes for 1938 - 1939 would be \$1,200,000,000.

Agricultural Adjustment, this year, will cost approximately \$475,000,000 and next year, because of the cotton commitment, may be as much as \$65,000,000 more, or a total of \$540,000,000.

Social Security and miscellaneous items come to another \$978,000,000 for this year. Other items, in-

-2-

cluding \$200,000,000 for Debt Retirement, bring the total expenditure for this year up to \$7,446,000,000.

You will see from the above figures that not allowing for any new appropriations for Public Works and including only the statutory sinking fund item for Debt Retirement (\$585,000,000) we are obligated to spend, next year, a total of approximately \$7,375,000,000. The best revenue estimate we have at this time, provided that the tax rates stay as they are, would be that the 1938 - 1939 receipts will be approximately \$7,100,000,000. In other words, on the basis of present commitments and today's expectation of revenue for the fiscal year 1938 - 1939 we are likely to fall \$275,000,000 short of a true Budget balance, including sinking fund requirements.

I believe that you and I are equally determined to balance the Budget for 1938 - 1939, including a reasonable amount for Debt Retirement. In order to accomplish this, it seems to me extremely important that before you obligate yourself to spend anything at all in addition to the commitments already made for 1938 - 1939, you give Mr. Bell and me an opportunity to go into this situation with you fully and examine it yourself with the utmost care.

I am,

Faithfully yours,

The President,
Hyde Park, New York.

COPY

October 5, 1937

My dear Mr. President:

This morning's newspapers indicate that you are thinking of calling a special session of Congress for the middle of November. Before you definitely decide upon this course, I am very anxious to have an opportunity to discuss it with you at some length.

During your trip out West I have been working very hard on the whole Budget situation and I know you will be interested in having the information I have collected with the assistance of the Bureau of the Budget.

The regular activities of the Government, this year, will cost approximately \$5,400,000,000. You put down a tentative figure for next year of \$5,000,000,000. This year Public Works of all descriptions will cost approximately \$886,000,000. Next year if Congress does not appropriate another dollar, we are obligated to spend \$695,000,000. This does not include any amount to cover the balance of \$190,000,000 of the apportionment for good roads made by the Secretary of Agriculture to the States in December, 1936, for which Congress did not provide the necessary funds. Inasmuch as this is a moral obligation it would be necessary to add to the \$695,000,000 for Public Works an additional estimated expenditure of \$170,000,000 or a total of \$865,000,000 for the next fiscal year.

This year we will spend out of the Treasury for Unemployment Relief and C. C. C. approximately \$1,665,000,000. If we should ask for \$1,000,000,000 for Relief and \$200,000,000 for C. C. C. the total for those two purposes for 1938 - 1939 would be \$1,200,000,000.

Agricultural Adjustment, this year, will cost approximately \$475,000,000 and next year, because of the cotton commitment, may be as much as \$65,000,000 more, or a total of \$540,000,000.

Social Security and miscellaneous items come to another \$978,000,000 for this year. Other items, in-

-2-

cluding \$200,000,000 for Debt Retirement, bring the total expenditure for this year up to \$7,446,000,000.

You will see from the above figures that not allowing for any new appropriations for Public Works and including only the statutory sinking fund item for Debt Retirement (\$585,000,000) we are obligated to spend, next year, a total of approximately \$7,375,000,000. The best revenue estimate we have at this time, provided that the tax rates stay as they are, would be that the 1938 - 1939 receipts will be approximately \$7,100,000,000. In other words, on the basis of present commitments and today's expectation of revenue for the fiscal year 1938 - 1939 we are likely to fall \$275,000,000 short of a true Budget balance, including sinking fund requirements.

I believe that you and I are equally determined to balance the Budget for 1938 - 1939, including a reasonable amount for Debt Retirement. In order to accomplish this, it seems to me extremely important that before you obligate yourself to spend anything at all in addition to the commitments already made for 1938 - 1939, you give Mr. Bell and me an opportunity to go into this situation with you fully and examine it yourself with the utmost care.

I am,

Faithfully yours,

The President,

Hyde Park, New York.

October 5, 1938

Letter of this date from Jesse Jones ^{to Home} and subsequent correspondence
are all together and filed under date of October 28, 1937.

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

October 5, 1937

Dear Mr. Ickes: *letter - Jones*

We now hold securities purchased from you totaling \$85,600,000. Allowing for the net premium on the 400-odd million heretofore sold, this leaves our investment in these \$85,600,000 at \$74,600,000.

In addition, we have contracted to purchase \$80,800,000 at par and accrued interest and you have asked us to purchase \$45,000,000 more at par and accrued interest. These purchases will bring our investment to \$200,400,000.

To enable you to carry out your other commitments that have been approved by the President, we will purchase from you at the price and on the conditions hereinafter set out the approximately 1,350 remaining issues you hold, aggregating \$108,780,000, listed in the schedule attached.

Because of the nature of many of these issues and our inability to ascertain their fair market value in time to provide you with funds necessary to meet your requirements, we will pay you 66-2/3% of their par value with the understanding that upon our request you will substitute for any issues we may hold any other issues you have on hand at the time.

This purchase will give you approximately \$79,000,000, or substantially more than the \$58,500,000 we are advised you will need to complete your approved allotments.

In the sale or retirement of the securities purchased on this basis, the principal amount we receive in excess of or less than two-thirds of their par value will be treated in the same manner as the profits and losses on securities heretofore purchased from you under our agreement of July 23, 1935.

C O P Y

Lucy M. ...

October 5, 1937.

Dear Mr. Ickes:

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This purchase will give you approximately \$75,000,000, or substantially more than the \$58,500,000 we are advised you will need to complete your approved allotments.

In the sale or retirement of the securities purchased on this basis, the principal amount we receive in excess of or less than two-thirds of their par value will be treated in the same manner as the profits and losses on securities heretofore purchased from you under our agreement of July 25, 1935.

Honorable Harold L. Ickes

Page two

This will give you the net principal amount we receive for the securities without profit or loss to us as is provided in our July 25, 1935, agreement.

We will take over such of your staff to service these securities as we are able to both here and in the field, charging the actual cost of servicing and handling the securities to the reserve account.

Upon completion of these purchases, we will have acquired from you \$756,168,494.01 par value in securities, \$415,908,056.29 of which we have sold at a net premium of \$12,097,384.91, and we will have on hand \$320,260,437.72 with a net investment of \$272,387,492.44.

Sincerely yours,

(Signed) Jesse H. Jones

Chairman.

Honorable Harold L. Ickes, Administrator,
Federal Emergency Administration of Public Works,
Washington, D. C.

Approved:

(Signed) HAROLD L. ICKES Administrator
Federal Emergency Administration of Public Works

Visit of Dr. Goerdeler, of Germany, and Mr. Bronisch (a friend of his in the United States) to Secretary Morgenthau on October 5, 1937. The interview was arranged by Mr. Messersmith of the State Department.

Present: Secretary Morgenthau, Dr. Goerdeler, Mr. Bronisch and Mr. White.

Notes on interview:

Dr. Goerdeler began by stating that he was here not as an official, but merely as a private individual.

He said it was his opinion that there must be freer trade than now exists between Germany and other countries if the German people were to have their standard of living improved. In order to reduce the obstacles to trade which now exist in Germany it was essential that Germany have a currency which would be stable and which could win the confidence of other countries. To have that kind of a currency two things were necessary: (a) a balanced public budget, and (b) gold reserves to take care of the imports which could not be paid for with exports. He hoped that when the proper moment arrived Germany would secure the cooperation from other countries necessary to obtain both these requisites. He believed there was a possibility of cooperation between Germany and the United States in the future -- "Not in the immediate future, but in the distant future".

It would not be easy, he continued, for Germany to change over from its present economy -- with its great emphasis on public works -- to an economy characterized by more private enterprise. When the time for that shift occurs, Germany, he said, will need help. He hoped when that time arrived such help would be forthcoming. He hoped that the error made by France (in the years before 1932) in hesitating to give aid to Germany until it was too late would not be repeated by other countries.

The Secretary replied that he thought he understood what Dr. Goerdeler was saying but that he (Dr. Goerdeler) appeared to refer to possible developments in the dim, distant future. The Secretary wondered whether Dr. Goerdeler had something more specific and less remote

Visit of Dr. Goerdeler - 2 -

in mind. He intimated that Dr. Goerdeler's remarks were somewhat too vague to constitute the basis for consideration. Dr. Goerdeler assured the Secretary that he had nothing specific in mind and was not referring to developments which he expected in the very near future, but that he was discussing a situation which he felt would arise some day. The Secretary replied that a great deal of water had to flow over the dam before the question of aid or cooperation to Germany would become one of practical consideration. "It is largely in the hands of the diplomats", he said. Dr. Goerdeler replied: "Yes, I see that very clearly and I agree. But I wanted to talk to you while I was here so you could get some idea of the kind of cooperation which Germany may need in the future." The Secretary remarked that the Treasury, when it was desirable to take action and when advised by the State Department that certain actions were called for, could always act quickly and that there was, therefore, hardly any need for considering developments not yet on the horizon.

Dr. Goerdeler said it was his understanding that the United States would make trade agreements only with those countries which had large gold reserves. The Secretary assured him that was not so.

The Secretary stated that for obvious reasons he leaned over backward in his consideration of German matters that came before the Treasury and that, therefore, the German side of any problem coming before the Treasury had always received treatment which was possibly more generous than the merits of the case frequently warranted. He added that Mr. Taylor usually saw all the people who came from Germany but that he was absent now. He assured Dr. Goerdeler that we were always ready to do everything possible to promote good relations with foreign countries.

Dr. Goerdeler said he would like to make certain that he understood the sterilization process of gold. The Secretary suggested that if he had any technical questions which he wanted to discuss and if he wished to take the time, Mr. White would be glad to supply such statistical and technical information as he would like to have.

(Dr. Goerdeler and Mr. Bronisch adjourned to Mr. White's office. There Dr. Goerdeler went over much

Visit of Dr. Goerdeler - 3 -

the same ground that he covered in the Secretary's office. He gave his version of the way in which the sterilization process operated to find out if he was right in his understanding. The only additional bit of information he volunteered was that he felt fairly certain that sooner or later "reason" would prevail in Germany with respect to control over trade, but could not, he said, give any definite evidence of any imminent change in policy aside from the fact that the innumerable restrictions to which the business man is subject, both in his internal and external trade, were proving to be a tremendous obstacle to the promotion of business. He also added that he believed if Germany were able to get about a billion marks in long-term credit or in gold they would be able to greatly reduce their restrictions on imports and thereby greatly increase their trade.)

H.D.W.

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Visit of Dr. Goerdeler - 3 -

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HDW
HDW:ls
10/6/37

MEMORANDUM OF THE DAY'S ACTIVITIES

114

October 5, 1937

To: The Secretary

From: Mr. Magill

1. Revenue bill of 1938

I have completed an outline of my conclusions as to the major features of the proposed new legislation; and have asked Messrs. Haas, Zucker, and O'Donnell to prepare the necessary supporting data in the form of a report which will be available for use before the Committee and for publication if desired. Messrs. Kent and Tarleau are preparing a similar report on the less important changes which we hope to propose. At your convenience I would like to go over with you the various major questions which you and I have not yet discussed.

2. Carriers taxes

I have a memorandum from the Commissioner to the effect that collections of the taxes due under the Carriers Taxing Act of 1937 have been delayed pending the completion of regulations and forms; and that it is expected the first collections will be made during November. It is anticipated that the collections for the fiscal year will amount to \$151,000,000, assuming that the railroad payroll approximates \$2,200,000,000.

Shortly after the Act was passed I discussed with the Commissioner the steps to be taken in putting it into effect and he assured me that collections would be promptly begun. I am at a loss to understand why the Bureau has not already collected the back taxes due from January 1, 1937, to date irrespective of the preparation of regulations and forms to be used in the future. Attached hereto is a copy of the memorandum which I have just sent the Commissioner on the subject. To obviate similar occurrences in the future, I have asked Mr. Haas and Mr. Bell to supply me with current information regarding the collections of the different taxes in order that I can keep better track of the Bureau's performance.

Rm

Copy for the Secretary

October 5, 1937

To: Commissioner Helvering

From: Mr. Magill

As I told you over the phone, I was unpleasantly surprised to learn that the Bureau has not yet begun to make collections of the back taxes due under the Carriers Taxing Act of 1937. Prior to the passage of this Act representatives of the carriers assured the Secretary and myself that the amounts due from January 1, 1937, to the date of passage would be promptly paid without litigation. It would seem to me, therefore, that these amounts could and should have been collected at once even before regulations and forms for the future administration of the Act had been prepared. Moreover, as the Act was approved on June 29, 1937, it would appear therefore that more than enough time has elapsed for the preparation of any necessary forms and regulations.

I hope that you will proceed at once to take the necessary steps to effect the collection of the amounts already due under the Act; and also to collect currently the amounts falling due thereafter.

I wish you would also investigate the causes for the delay in effecting collections; and report to me at once.

RM

October 5, 1937
10:24 a.m.

H.M.Jr: George
Operator: Go ahead
H.M.Jr: George
George
Haas: Yes
H.M.Jr: For '38 and '39 if the tax schedules stay approximately as they are, what is your estimate for revenue, including Social Security.
H: '38 and '39
H.M.Jr: Yes - fiscal year '38 and '39 - starting July 1, 1938.
H: I don't have the figure right before me, but I - I know about what it is.
H.M.Jr: What is it about
H: It's about seven billion one hundred million, as I recall.
H.M.Jr: Seven one
H: Yes
H.M.Jr: Well
H: I'll check that up, and if I'm off very much I'll send you in a slip on the same.
H.M.Jr: Well
H: Including Social Security
H.M.Jr: Yes - huh-huh.
H: I think that's about what it is.
H.M.Jr: Thank you.
H: You're welcome.

October 5, 1937.
4:05 p.m.

H.M.Jr: Hello

Operator: Mr. Madison. . . . - Go ahead.

H.M.Jr: Hello

Madison: Hello, Mr. Secretary.

H.M.Jr: Madison -

M: Yes, sir.

H.M.Jr: What's the latest dope on that Bethlehem Steel issue?

M: On the Bethlehem Steel

H.M.Jr: Yes

M: It closed two points down.

H.M.Jr: Huh-huh

M: Below the offering price.

H.M.Jr: Well, the answer - they didn't sell any.

M: The underwriters are very - very much discouraged.

H.M.Jr: Well, I should think they would be.

M: Hello

H.M.Jr: I say I should think they would be.

M: Yes - yes - just went as bad as everybody expected.
In fact, a little worse.

H.M.Jr: Well, I wonder how much they're stuck on that.

M: I don't know - I don't know how much - I really don't know.

H.M.Jr: Uh-huh. All right.

M: Had an awful bad stock market, you notice.

H.M.Jr: Yes, bond market was all right.

M: Yes. Our market held surprisingly well, didn't it?

- 2 -

H.M.Jr: It certainly did.

M: I was watching it like a hawk, and very much astonished, -

H.M.Jr: Yes

M: To see it hold so well.

H.M.Jr: Have you any orders left for us on bond?

M: One million, two hundred on that FDIC.

~~H.M.Jr:~~ Uh-huh.

M: And I'm going to watch it closely in the morning, because there was some sign of it easing off after three o'clock at the outside market.

H.M.Jr: I see.

M: So I think it can stand some watching tomorrow.

H.M.Jr: All right.

M: The Street is the bluest I've seen it in a long time.

H.M.Jr: Well, I'm glad I'm two hundred miles away.

M: Yes, it's an awful blue place, Mr. Secretary.

H.M.Jr: Well, come down here and - we're all right.

M: Yes, I'll come down and get some cheer from the -

H.M.Jr: Treasury - Righto.

M: All right.

October 5, 1937.
4:08 p.m.

H.M.Jr: Hello

Operator: Mr. Doughton is in a meeting for a half hour.

H.M.Jr: Uh-huh. Well remind me, I'll talk to him tomorrow morning.

O: All right.

October 5, 1937.
4:20 p.m.

Tom
Smith: Henry

H.M.Jr: Yes, Tom.

S: I can't see any reason why you should change your present system.

H.M.Jr: Attaboy. You agree with some very, other - some other smart fellows that I talked to.

S: I've talked to the men here, in our community - without their - kind of had an opportunity to talk to them and as much I can - consideration I can give it, I can't figure any reason why you should do it.

H.M.Jr: It doesn't make sense to me, and I talked to two or three other smart bankers, they all agree.

S: Well, how are you?

H.M.Jr: Oh, I'm fine. The Treasury is all right.

S: I'll be along there in about a month to say hello.

H.M.Jr: Do that, I mean -

S: Get out - I'm getting out of my job, you know, on the 14th of October.

H.M.Jr: What do you mean?

S: ABA

H.M.Jr: Oh, yes.

S: And then I'll have to - it's been pretty arduous

H.M.Jr: Yes

S: Then I'll have time to visit. I'd like to come to Washington, when I wouldn't have to be running around working.

H.M.Jr: All right, then give me plenty of notice, and you can have lunch or supper with us.

S: All right, I'll let you know.

- 2 -

H.M.Jr: Thank you for calling.

S: Goodbye.

H.M.Jr: Goodbye.

RE FINANCING PROBLEMS

October 6, 1937
9:30 a.m.

Present: Mr. Bell
Mr. Lochhead
Mr. Seltzer
Mr. Haas
Mr. Harris
Mr. Upham

H.M.Jr: The Wall Street Journal has talked to somebody. He won't say who. "The proposal that the Treasury substitute fixed-interest, short-term certificates for all or part of its discount bill issues appeared to be meeting heavy opposition as Secretary Morgenthau prepared to discuss Government financing today with the Federal Reserve open market executive committee. Although the Treasury may have to go into the money market shortly to borrow cash for gold sterilization and some running expenses, present indications are that it will again offer double series of discount bills instead of trying some innovation."

Well, where is it getting heavy opposition from?

Seltzer: The New York banks, I guess, and the Fed.

H.M.Jr: No, when you read that - "proposal that Treasury substitute fixed-interest, short-term certificates for all or part of its discount bill issues appeared to be meeting heavy opposition." Where is the opposition coming from?

Haas: Never discussed that.

Seltzer: Mentioned it once.

Bell: Coming from....

H.M.Jr: I just wonder where the opposition is coming from.

Bell: From the Federal Reserve Board.

H.M.Jr: The other thing was, you see - where this may come from - they're always so anxious to get credit. They raised this whole argument yesterday at lunch again -

-2-

so, boiling it all down - "Well, it's your policy, isn't it, that you don't want the Federal Reserve to go in about the first of December?"

"That's right."

"And buy governments, and so distort the market."

So, taking the suggestion which you (Lochhead) gave me, I said, "That's right, but is there any law that the Federal Reserve couldn't start the first of November if they think that they need this thing."

And a smile broke right out on Goldenweiser's face, and Ransom looked very serious, took the matter heavily under consideration. He said, "By God, you know, I don't suppose that we gave that any thought. That would be a month in advance."

Then Goldenweiser said, "You know, Mr. Chairman (or whatever you call him), I have always felt that the Federal Reserve could act a little quicker and a little sooner than it has." Then Goldenweiser said, "Well, if we do that, I'm completely with the Secretary." He said, "We haven't got a single argument against him, because I don't see why he should borrow in advance, I don't see why he should accumulate it." He said, "That answers the only argument we had." He said, "Now I'm completely with the Secretary."

So Ransom said, "Well, we can take this under careful consideration."

I said, "Well, would you mind reporting to your boss what I said, do it this afternoon?"

He said, "I want to tell you that Harrison and Burgess are coming down with new arguments, and they feel that the so-called Burgess plan (as I call it) is more important than ever."

So I said, "Well, at least you know where I stand."

So maybe Goldenweiser again saw the reporters last night and again told them, you see. Huh? So I mean that's the point of my story. Which always gets down

-3-

to the fact that if I want to keep a secret, talk it over only with the Treasury crowd - I mean to keep it secret. But just as soon as we start talking to S.E.C. or Federal Reserve, they always leak. Somebody always leaks. I know who.

Now let's have our own little executive meeting here first. How do we stand on money from now until the end of the year? Can we run without any new money from now until the 15th?

Bell: Yes, sir, I think we can. This new estimate indicates that we'll have a balance at the end of October of ~~641~~ million.

H.M.Jr: Do it a little louder. You (Seltzer) can't hear, can you?

Seltzer: Yes.

Bell: And at the end of November we'll have 489 million. That will be the low.

H.M.Jr: When?

Bell: At the end of November, 489 million. And then that contemplates that we raise 700 million dollars in December, of which 450 million would be used to pay off the Treasury bills; going out of December with 968 million.

H.M.Jr: 250 new money.

(Upham comes in)

Come in.

Upham: Did you want me?

H.M.Jr: Well, I asked for you. Sit down. Can't you shake hands?

Upham: (Shaking hands) Well, I'm not a good

Bell: Not a very good hand-shaker.

H.M.Jr: How far north did you get?

-4-

Upham: Minneapolis and St. Paul.

H.M.Jr: Your reports haven't come in.

Upham: Well, they should have.

H.M.Jr: The last I got was St. Louis.

Upham: Minneapolis, St. Paul, Des Moines, Iowa City, and Chicago. But I haven't written Chicago; it was mostly the parade of the President.

H.M.Jr: Well, we'll listen^{to}/you. But you (Bell) go ahead; do it again for Cy. Say it again.

Bell: At the end of October, we will have an estimated balance of 641 million; at the end of November, the low point, we will have a balance of 489 million. Then, raising 700 million of new money in December, of which 450 would be used to pay off the maturing Treasury bills, it would leave us a balance going out of December of 968 million.

Do you want me to go on to.....

H.M.Jr: Yes.

Bell: When in January we would start the June tax bills, raising 200 million in January and a hundred million in February. We would go out of January with a billion and 48 million. And then, on the first of February, we would pay off the 277 million maturing with cash, going out of February with 788 million dollars. In March there would be no financing other than the refunding of the 455 million Treasury notes and paying off of the 400 million dollars of maturing Treasury bills. We would go out of March with 806 million dollars.

H.M.Jr: No new money?

Bell: No new money and no financing other than refunding.

H.M.Jr: No. In other words, to boil this thing down, you figure that you need 250 million dollars new money in December.

-5-

Bell: That's right.

Seltzer: You merely use that to pay off your February note maturity.

Bell: Well, we're raising 300 million of new money in January and February on bills, which is the same thing.

H.M.Jr: But you could get along without that 250 in December if you wanted to. If it didn't look so good in December, you wouldn't have to do that. You could refund those February....

Bell: On February 1, that's right.

H.M.Jr: So you could keep it down to 450 if you wanted to?

Bell: Yes, sir, you could.

H.M.Jr: Beautiful.

Bell: Now, in April we would start the September tax bills, raising 200 million in April and a hundred million in May.

H.M.Jr: What's that?

Bell: Start the September tax bills the first of April. Of course, this is going pretty far ahead.

H.M.Jr: Yes. I wouldn't.....

Bell: All right. I thought I'd just....

H.M.Jr: Go ahead.

Bell: Going out of April, a balance of 762 million; at the end of May, 721 million. In June, we would have no financing other than the refunding of the 618 million dollars in bills and the paying off of the 300 million dollars Treasury bills - I mean Treasury notes, 618 million, and paying off the 300 million dollars of Treasury bills maturing, leaving us a balance of 679 million dollars going into July. And then in July again you would start your December tax bills. So

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you could be in money all the time.

- H.M.Jr: The only way - in presenting it to those people, I wish you'd say, "We can do two things in December. We can either just take 450 or 500 million dollars and figure that we will refund the February notes, or we can take 700 million and accumulate the money then at that time to pay them off.
- Bell: I thought I'd stop at March, or into February really.
- H.M.Jr: Yes. But I'd put it that if things look all right we can ask for 700 million and accumulate enough at that time to take care of the February refunding, or we'll simply ask for 500 million dollars and refund in February, see?
- Bell: Now, this plan contemplates no new bill issues until January, but the plan I have drawn up here contemplates issuing 90-day bills or March tax bills beginning October 13. You spoke the other day that you might want that to go to December 31. Well, that can be started just that much later, if you want to do that.
- H.M.Jr: How do you mean?
- Bell: I understood you the other day that you might want to make no change to the 90-day bill until after Christmas.
- H.M.Jr: Yes; well, as I intended, if I started on the 13th of October the March 15 tax bill, then I could raise 450 million and stop on December 1.
- Bell: No, 400 million and stop on December 1.
- H.M.Jr: 400 million and stop on December 1, and then start December 1 the 90-day bills.
- Bell: On December 8 would be your first issue of 90-day bills.
- H.M.Jr: Well, the reason - then I'll give everybody a chance to take a crack at me - why I'd rather make the decision and the announcement that we're going to stop the 9-months now and start the others is that there's been so much talk about it and I want to remove the uncertainty. I mean I don't think it's important enough

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to keep saying, "Well, I don't know what I'm going to do." I think it's better to announce tomorrow morning, "This is what I'm going to do," and that thing is out of the way. And then when these A.B.A. fellows meet, and they meet next week - "Well, what's Morgenthau going to do; is he going to do one-year notes, this or that?" - well, it's one less thing for them to chew over, which I think is important at this time. See, Dan? I mean I've talked to these fellows, and I'm in complete disagreement with the Federal Reserve of New York on this thing, as you (Upham) will hear. And I think why not just remove one uncertainty - "This is our program" - and start on the March 15 tax bills.

Bell: Well, I see no objection to that at all.

H.M.Jr: Well, if I want to - I may want to raise 500 million dollars - I can raise 500 million and stop it, or I can stop on the first of December and start the 90-day bills.

Seltzer: Of course, if you let it run into December, when you're going to do a financing - well, that's all right....

Bell: Yes.

Seltzer:unless you're going to double up new issues.

Bell: This is not new money, Larry, so I don't see that it is of any harm to your December financing. Doesn't do any harm other than you have had heretofore; always have had a roll-over during your financing period.

Seltzer: All right. If you're rolling over it's all right.

H.M.Jr: Now, you fellows argue about it. Who doesn't like this plan?

Bell: I have two plans. The other one is the so-called Burgess plan.

H.M.Jr: I'm not interested. I mean if I - I mean if these boys want to hear it, all right.

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Seltzer: Well, somebody ought to take the part of the Philistines in this matter and point out that this does, after all, tell the market, "You've got to avoid refundings and other financings in December because the Treasury is going to come in the market for money; better wait until the Treasury gets out of the way."

H.M.Jr: No, now listen - let's argue back and forth. After three years we have educated these people that we're going to do this thing quarterly. Now, to show you that they're not all jackasses up in the Street, Mr. Rentschler had his Government bond man figure, and they figured that the first quarter the deficit was about 270 million dollars; they figured the second quarter of the fiscal year it would be about 250. So they figured we'd need about 250 million dollars some time and they figured we'd do it on December 15. That's what his people told him before I saw him. That's as close as they hit; they figured we'd need about 250 million dollars.

Now they said that as far as they're concerned they're all for that thing, and if they simply know what we're going to do and if from now until the 15th we are out, they can get these things off their books right now, which is worrying them - not the 15th. I mean that to them is a lifetime away. What they're worrying about is Pure Oil and Bethlehem Steel.

And today, much to my surprise, they postponed Central New York, of Morgan-Stanley, which was scheduled to be offered today. That was not offered today. Is that right?

Harris: That's right. Two offerings came out today, though.

H.M.Jr: Yes, but the big....

Harris: The Idaho Power Company, with 18 million - that's going fairly well.

H.M.Jr: But the Morgan-Stanley people, the only crowd with no commitments, clean as a whistle, postponed the Central New York - how much was that, 40 million or

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45 million - and the other one they've got, which is the Associated Gas, which is 80 million. Now, they're not worrying at all about the 15th of December. What they're worrying about is the next two weeks. See what I mean?

And they've told me that as far as they're concerned, it doesn't make a damn bit of difference. That isn't their worry; now, we can or can not and it won't affect the capital markets one iota; and that this talk the Federal has given me is just the bunk, see, and they're all geared and expect the Treasury to take its new money quarterly.

Now, what we're saying to the market is that we do not need any new money between now and the 15th, and they've got October and November to do any financing they want and to sell the stuff which they've got. How big is that Pure Oil?

Harris: 40-some million; 45 I believe it is.

H.M.Jr: There's 45, and Bethlehem Steel is another 45. There's 90 million that these same - are they in the same underwriters?

Harris: Some of them are.

Lochhead: They are interlocking underwriters.

H.M.Jr: Look it up for me. Get me the two - no, not now, later on - who's in the syndicate of Pure Oil and who's in the syndicate of Bethlehem Steel, and how much on the two issues. Now, nobody bought Bethlehem Steel yesterday, because you could buy it two points less than the offering - it was off.

Larry, I've been all through this; I've talked to some of the most important men that make their money by it.

Seltzer: There is this, though. Bethlehem Steel and the Pure Oil, these other sticky issues, have a different segment of the market. It's a different segment, I mean, not only as regards speculative versus investment funds, but bills will go into the hands of banks; investors may think that in December you're going to

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issue some longer-term stuff that would be good for them; hence, they may lay off corporate long-term stuff.

H.M.Jr: Which plan are you arguing for, the Burgess plan?

Seltzer: I'm giving some considerations in favor of the Burgess plan.

Bell: Stating the other side, which is all right.

H.M.Jr: Again, if I may ask you - quoting from Dr. Goldenweiser on this thing, that if we take an extra 50 - he put it this way. He said, "You can not have any watertight compartments when you borrow money. Whether it's here or there - there are no watertight compartments, and of course it affects the capital markets." Now, that's quoting Goldenweiser. He says, "You can't go to the well and if you've got three segments say, 'I'm going to take it from one and the thing doesn't seek its own levels.'" "

Larry, I've been all over this thing, and I very seldom say before a meeting that I've made up my mind, but this time I have made up my mind. Now, you very seldom have heard me say that, have you?

Seltzer: That's quite right.

H.M.Jr: I mean I very seldom say, but after all I've had one week, I've consulted some of the smartest fellows in the business, who make their living at it, and there isn't a one that says to me, "Mr. Morgenthau, if you start accumulating your new money, it will hurt the capital market." They just laugh at me; they think I'm crazy. See?

Bell: Larry - oh, go ahead.

H.M.Jr: No, let me stop and you fellows argue for five or ten minutes and I'll listen, because I'm so full of this and I'm so sure I'm right that it's hard for me to listen, so I'll let you fellows argue amongst yourselves.

Bell: Larry, isn't it the usual thing for the capital market

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to be pretty dead in December from the standpoint of commercial stuff?

Seltzer: Yes.

Bell: Well, that seems to me to answer their argument. It seems to me that October and November...

Seltzer: Well, it isn't December. You make your announcement around the second of December, something like that; they're waiting for it a couple weeks prior to that, so you kill half of November too.

Haas: In so far as it does kill it.

Bell: Yes, in so far as it does kill it.

Lochhead: The market realizes that whatever new money we're going to take in December is going to be a comparatively limited amount; it's not a question of borrowing a billion dollars in new money - something of the way we had before. The market knows that at the utmost we'll take maybe 250 million new money.

Bell: What you (Seltzer) say is true before every financing.

Seltzer: Surely.

Harris: Mr. Bell, one program is not so clear in my mind. If you have a 700 million dollar financing in December, you won't start the tax bills now, is that it?

Bell: Will not what?

Seltzer: You'll start the tax bills, sure.

Harris: If you take the 700 million?

Seltzer: Sure, but you won't have any others.

Bell: There will be the tax bills, but it won't be new money; it will be a rolling over of the maturing issues.

Harris: And then you're raising 700 million in December.

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- Bell: 700 million in December, but 450 million will be used to pay off maturing Treasury bills.
- Harris: What will you use the tax money for?
- Bell: The tax money will be used to pay off maturing bills weekly.
- H.M.Jr: Discontinue the 9-months.
- Harris: Oh, I see. I thought you were going to continue them.
- H.M.Jr: No, no, no. The proposal is - Dr. Burgess wants us to borrow, beginning now, a hundred million a week; we only want to borrow 50.
- Harris: I'm not so much for discontinuing the roll-over of the 273-day bills. I can't see the particular advantage in that. I mean why not roll them over into more 273-day bills and just not have any tax bills to fool with in March, or raise your 400 million now with tax bills and only have a 250 million dollar financing in December; or just let December go altogether and let February take care of itself and just say to the market, "There will be no December financing."
- Bell: Well, we've got to have some money in December to pay off the maturing Treasury bills.
- Harris: Well, raise it with tax bills, along with 273-day bills.
- Bell: That's Burgess's plan.
- Haas: That's the Burgess plan.
- Harris: Well yes, it is.
- Bell: Burgess plan - raise your money now and have no financing in December.
- Harris: Well, speaking of their bill-buying program, it is likely that they will approach December 15 with at least 500 million dollars of excess reserves. It's

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running over a billion now. And if that's the case, it certainly will not be necessary for them to make any purchases in the market, as I see it, with 500 million dollars of excess reserves in the market.

- H.M.Jr: Well, Goldenweiser believed - he said the demands for currency are not up to expectations, so he says that he greatly questions whether they'll have to buy any bills. He says the demands for currency are not up to expectations.
- Harris: Well, the minimum should be 500 million dollars by December 15, I think.
- Haas: A business recession saved them.
- H.M.Jr: Well, the way it looks now - he won't underwrite it, but Goldenweiser greatly questioned whether they haven't got enough excess reserves the way it is now.
- Harris: I think so, certainly.
- Seltzer: The real consideration I had in mind was this. Your bills would go into the hands of banks that right now have a lot of excess reserves. If you don't issue these extra bills and you're going to look to a December financing, the market might anticipate a longer-term financing, a longer-term security which will not go into the hands of banks - there will be some banks take them temporarily and sell something else - so that the longer-term financing would substitute for corporate issues that might be taken by the same type of investors, whereas the bills don't displace that type of funds. That's what I had in mind. It isn't a matter of the amount of new money; it's essentially the character of the financing.
- Bell: But our Treasury notes haven't displaced any corporate money in the past few years.
- Seltzer: No, but of course we haven't made a commitment that it would be Treasury notes - that is, this December financing.
- Bell: Well, most anybody looking at the present market would say so.

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- Seltzer: If you said that your December financing would be a note or certificate issue, that would help a lot so far as this particular point is concerned.
- Harris: That would be reducing the amount of bills outstanding and adding to the notes.
- Seltzer: I don't urge that this is a decisive consideration. I just thought it ought to be aired, that's all.
- Bell: Oh yes.
- H.M.Jr: That's the purpose of the meeting. That's the purpose of the meeting. But I can't - I've had a week on it now and I can't see....
- Haas: We argued this whole thing out. Larry doesn't feel this very strongly.
- Bell: Larry's just taking the opposite side.
- H.M.Jr: It's good, and you'll have - hear the opposite side when Dr. Burgess comes in.
- Haas: Oh, he called me on the phone a few days ago and asked that we look over this question you raised about the debt going over 37.
- H.M.Jr: Yes.
- Haas: And asked if we had figured it out. And Larry made some approximations.
- Seltzer: Well, under Danny's proposal, the debt won't go over 37 billion except on the 15th of December.
- Bell: Yes it will. I've got the debt here by months. On September 30, it was \$36,875,000,000. On October 31, it will be \$36,969,000,000. On November 30, it will be \$37,059,000,000.
- Seltzer: Oh.
- Bell: And on December 31, \$37,405,000,000. You've got special obligations coming in there of 105 million dollars at the end of November, and 25 million a month of your savings bonds, which will run it up, you see.

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- Seltzer: I see.
- Bell: That's Debt Plan One.
- H.M.Jr: We won't use that argument.
- Haas: You used it before. They're trying to get prepared for it.
- H.M.Jr: I guess on that particular thing we were doing yesterday we fixed up our arguments. What?
- Bell: (Laughs)
- Harris: What would be the particular advantage in rolling over our 273-day bills now into tax date bills? Only give us a bigger problem next March. I don't see any particular advantage to be gained by the Treasury from it.
- Seltzer: What would you do, make a March concentration by retiring 450, say, of March notes out of cash in March?
- Harris: No, continue to roll over your 273-day bills now and on December 15 have your 700 million dollar financing.
- Bell: How would you take care of your March money market? You'd have all that money coming into the Treasury out of the market in the form of tax receipts, which wouldn't be used. The money market....
- Seltzer: Have to retire out of cash part of the note maturity in March to help the money market out there.
- Bell: I think you've got to take care of that either by putting bills in there or retiring the note issue out of cash.
- Harris: Well, why not raise your cash now?
- Bell: Well, that would be the Burgess plan.

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Harris: I hate to see the 273-day bills stopped. I like them; I think they are an advantage to the Treasury.

H.M.Jr: But the market doesn't.

Bell: I think what the Secretary is trying to do is accommodate the market.

Harris: Tax bills will be five and a half months; there's no demand in the market for bills around six months. The demand is definitely for 90-day bills, if you want a good demand.

I checked the market yesterday, and the only reason they can give for the increase in bill rates - your short-term market, your notes, went up all during that week - was because they were slow moving last week.

H.M.Jr: Well, another thing - we made them pay cash too.

Harris: And the dealers - some of them still had some.

H.M.Jr: Well, the reason I'm getting out of the 273-days is every time they get together the Federal gets all hot and bothered about it, that there's only - there's less than a dozen people buying 90 percent of them.

Harris: That's true; it always has been that way.

H.M.Jr: Well, these fellows can move the market one way against us; and everybody says it's - the 9-months bill - it just doesn't fit anybody's portfolio. Now, they're crazy to get 90-day bills. The British Treasury has got four billion of them.

Haas: That's all they have.

H.M.Jr: What?

Haas: That's all they have.

H.M.Jr: Yes, and I'm looking to raising working balances in the 90-day market - the 90-day bill market.

Harris: Well, the rate has been so attractive on it - doing financing at less than one-half of one percent.

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H.M.Jr: True.

Harris: And up until last week they had no particular trouble in moving them.

H.M.Jr: Oh, last summer there was a time when they were terrible.

Harris: Well, we were doing a hundred million dollars a week then.

Lochhead: Of course, I don't feel there's any advantage to the Treasury by putting out 90-day bills instead of 9-months, except possibly the advantage you get from the market feeling better about them.

Bell: I think that's all. I think Harris is right; we lose money on it.

Harris: And I hate to see too big a bunching of these maturities; we've got well over a billion dollars worth of maturities coming due in the next three quarters, and that's a lot of maturities; we've got to go repeatedly into the market and be refunding.

H.M.Jr: But we may swing, Harris, from the 9-months to a one-year.

Harris: Yes, I agree that would be fine.

H.M.Jr: I may do that in December.

Haas: Certificate concentration.

H.M.Jr: I may in December begin to sell this one-year certificate - a one-year certificate and a 90-day; not put it all into 90-days, see?

Now look, if the market stays the way it is now I could sell 700 million of five-year notes just like that, and that would take 700 million dollars worth of debt and put it off five years, and that's what I'd do.

Now - I mean if the thing - after all, if we can stand all these shocks the way we have, why, we've

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come a long way, and I personally think that the Treasury five-years, with the Social Security and everything else - I think that's the thing to sell. And especially if we - at that particular period it's not very congested. So I mean if we got along, whatever the market would take at that time - then pick up 700 million and sell them five-years, why, they'd go just like that. Even today I could sell 700 million of a properly priced five-year note. They're crazy for it. And every time - these periods never last more than six months. There always comes a period where there's a - when you can't sell; then there comes a good period. That's the time to soak them out with something, get it out from under your vest.

- Seltzer: Get a lot of kicks on the program not to offer the February noteholders any preferential subscription.
- H.M.Jr: We'll announce that tomorrow. We'll announce that tomorrow. There's no premium on it.
- Seltzer: The March notes will go off too. All your notes - your near term notes are likely to go off for that reason.
- Bell: I haven't got my sheet, but I think the Februarys are selling on a yield basis. The Marchs are selling on a negative; I don't know why.
- Seltzer: Februarys sell at zero yield.
- Harris: It's off the tax date - never carries the privilege that a tax date note carries.
- H.M.Jr: Would you (Bell) announce that there would be no rights on the February? Would you go beyond that? You've been telling me you'd like me.....
- Bell: Well, I think some time along here we've got to let the public know that they can expect pretty soon not to get rights up to the hundred percent. I think we've got to do that some time pretty soon.
- H.M.Jr: But we would do it for the February ones now.
- Bell: You could do it.

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Lochhead: Starting off with a small amount and....

Seltzer: That would ease them into it by giving them partial preferential rights. Otherwise, they claim that you're arbitrarily discriminating against them, letting the March holders get preferential subscription rights, etc. That is, in the past when we have cut it out, we have done it gradually, haven't we? You say 50 percent preferential or something like that.

Bell: Yes, that's right.

H.M.Jr: Well, I think whatever we're going to do, Dan, on that, we ought to say tomorrow what we're going to do about February.

Harris: I do too.

H.M.Jr: Say it so that we can, if we want to, pay it off in cash, and I think to say, "No rights for February."

"Well, why?"

"Well, we may want to pay it off in cash."

We want to serve notice on them now. "Don't say that we do, but we may if we want to."

Harris: You couldn't say in your December financing, if you have 700 million, that 450 million would be used to pay off bills and that 250 will be used to pay off notes in February? You couldn't announce that?

H.M.Jr: Now?

Harris: Yes.

H.M.Jr: At this time? No.

The other thing they wanted me to do - to make an announcement right up to the 15th of March. The hell with them.

Upham: Right.

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H.M.Jr: I won't announce beyond one week.

Haas: Probably would like to have you say that it's the end - take their proposition, say that would be the end of the new money financing.

H.M.Jr: Well, they should sit in this chair for a while, and Danny Bell's chair for a while.

Bell: I'm just wondering how far you can go tomorrow on the February financing - February issue. I think you might qualify your statement, saying that you might want to pay off in cash.

H.M.Jr: Well then, we don't - they throw that back in your face - "Things are worse." Awful hard to make these announcements so far in advance. I mean what I was going to say - that I just wanted to serve notice on the holders of the February notes that.....

Bell: ...there is a possibility.

H.M.Jr:there is a possibility, and that there will be no rights.

Bell: That you may want to pay it off in cash at that time.

H.M.Jr: Yes.

Bell: I think maybe that's the best way.

H.M.Jr: We can talk that over at this meeting this morning, see what they think.

Now, everybody moderately happy? Well, all of you are invited back here at 11 o'clock. I'd like to talk to George Haas, if I may.

All right, Dan?

Bell: Yes.

MEETING WITH EXECUTIVE COMMITTEE OF
FEDERAL RESERVE OPEN MARKET COMMITTEE

October 6, 1937
11:00 a.m.

Present: Mr. Bell
Mr. Lochhead
Mr. Haas
Mr. Upham
Mr. Seltzer
Mr. Harris
Mr. Ransom
Mr. Harrison
Mr. Burgess
Mr. McKee
Mr. Piser
Mr. Goldenweiser
Mr. Davis
Mr. Sinclair
Mr. Williams

H.M.Jr: All right, Mr. Bell, will you tell them how it looks from now until the 15th of March?

Harrison: Like to know how it looks from now until the 15th of October.

H.M.Jr: How about between now and four o'clock this afternoon?

Sinclair: That's harder, I should think.

Bell: Well, this plan contemplates no financing until December 15, at which time we would raise, say, 700 million dollars in cash, out of which we would pay off the 450 million maturing Treasury bills. That would give us a balance on October 31 of 641 millions; on November 30, 489 millions; and on December 31, 968 millions. Then in January we would start the June tax bills, new money, giving us 200 million in January and a hundred million in February; and paying off 277 million note maturity on February 1 out of the cash. That could be done that way or it could be refunded in December, or the December issue could be reduced by that amount, by 250 million, and then refunded in February. But on that basis we would have a balance in January of a billion, 48 million; a balance going into March of 788 million dollars. And that also includes an estimate for gold of 90 million in October and 80 million in each of the other months.

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- Burgess: Does that involve any plans for the March financing, Dan?
- Bell: The only plan there would be to pay off the 400 million dollars of maturing Treasury bills out of the tax receipts, and refund the 455 millions in Treasury notes maturing. That would leave us a balance of around 300 million going out of March.
- Burgess: So you wouldn't have to take any new cash in March.
- Bell: No, sir.
- H.M.Jr: Be glad to hear any discussion.
- Harrison: Is that plan all settled, Mr. Secretary? I mean
- H.M.Jr: No.
- Harrison: I didn't know whether you wanted a post-mortem on it or....
- H.M.Jr: No, no, I said we'd be glad to hear any discussion.
- Harrison: Well, I have only this feeling: that if it were possible for the Treasury to pass through December without asking for new money, it would be a more conservative program so far as the market is concerned and its effect on the market, than if you didn't do that. That being so, the question arises whether conditions now, as we see them, or as we can forecast them, are such as to call for a more conservative or a less conservative program in December. No one can tell what will happen between now and December, but things don't look so very good at the moment. The capital market is badly shot; and, as you said last week when we were here, the one thing that you would consider as very important in determining which of the different courses of action you would take, would be the capital market.
- H.M.Jr: Right.
- Harrison: Now, there may be differences of opinion as to whether taking money currently out of the bill market is more conservative than not taking it and then taking it in one lump plus additional new money in December.

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Personally, my own judgment is that the more conservative program would be the current financing through bills and avoiding a new money demand in December, if that were possible. I don't like the looks of things, because a lot has happened even since last week throughout the world as a whole and particularly in the financial markets and the commodity markets. Therefore, I should think if you were going to plan now for December in the light of conditions as they are now, your objective would be to choose the most conservative course.

Now, we might differ as to what that conservative course is, or which is the most conservative.

- H.M.Jr: I personally don't think - I don't see why you use the word "conservative." I just don't see that. I mean what you people recommended - if you want to get down to it - you recommended that we borrow additional money now, and to me, by not borrowing, it seems to me that I am more conservative than you fellows are.
- Harrison: Well, I say that's the question of judgment, as to which is most conservative. I don't know; maybe you're right.
- H.M.Jr: Now, to get back to the capital market thing. I've done independent checking of my own, and I can't find anybody who is in the business of getting out stock issues who says that this contemplated action by the Treasury one way or the other will make the slightest bit of difference.
- Harrison: It would make the slightest.
- H.M.Jr: Slightest bit of difference one way or the other. But they would - those that I have asked suggested that we don't go into the market for new money until December.
- Harrison: Realizing that you would have to go in for a large amount in December?
- H.M.Jr: Yes.
- Harrison: Well, I'm surprised. Depends a little on what you do in December, of course. If you're going to get all your money through one-year certificates.....

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- H.M.Jr: Of course we can keep the thing in December down to 450 or 500 million if we want to; just pay off the maturing bills and then do a refunding in February.
- Harrison: In February.
- H.M.Jr: The 250 that we're asking for in December takes care of the February maturity. If we don't want to do that in December, just borrow enough money to pay off the 450 in December, and then have the - roll over the Februarys.
- Harrison: Well, I think that's more conservative than the temporary suggestion that Mr. Bell made at the outset.
- H.M.Jr: Well, it's an alternative plan to Mr. Bell's suggestion. Now, how can you do anything more? We stay out of the market and don't go into any new money for three, four, five months.
- Harrison: Well, I think that makes it appear more conservative this week than next week; but if you project your view right straight through the rest of the year and realize that by doing that you've got to borrow a large amount in December, then I don't think that, covering the period as a whole, that is the most conservative course.
- H.M.Jr: In December we could take 450 or 500 million, or we could do 700 or 750. We could sell a one-year certificate, sell a five-year certificate, a short bond, whatever the market will take.
- But on this question of helping the capital markets, I can't find anybody in the business, who is actually in the business, who says that it will affect their business one way or the other.
- McCree: Do I understand, Mr. Secretary, that your real reason for the change of this bill program is to help the capital market?
- H.M.Jr: No, no. All - what it gets down to - what we're trying to do is this. If we didn't think of anybody but the Treasury, only thinking of the Treasury, what would be the normal thing for us to do? The normal thing for us to do would be to say, "Do we need any

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money now?" The answer is, "No, we don't need any money until the middle of December, when we have a maturity, so why borrow?" And, following that program which I have put up to several people who are in the business - they say so far as they are concerned it's all right and it won't affect their business one way or the other; or if we wanted to go in and borrow a couple hundred million dollars extra now, in order to have it for December, that that wouldn't particularly affect them. They said either program wouldn't affect, help or hurt the capital market.

Harrison: Mr. Secretary, you said a minute ago when you prefaced that statement, that it wouldn't hurt the stock market, or....

H.M.Jr: No, no, I didn't mention the stock market.

Harrison: Are they in the stock or bond business, or both?

H.M.Jr: What they are doing now is all bonds.

Harrison: I think you said stocks at first.

H.M.Jr: If I did, I didn't know I did. I didn't mention the word "stocks."

Harrison: I misunderstood you.

Burgess: You got a different set of witnesses from what I got. The most competent people I got on it felt just the other way.

H.M.Jr: Well, I think we did talk to different people. Well, I didn't only talk in New York. I spread out around the country.

Harrison: Mr. Secretary, I think that the matter resolves itself almost precisely as it did before. You've got an objective to accomplish, and it's a question of judgment only as to which might be the more conservative in the light of present circumstances. My inclination would be one way, and I see grounds for the other way. But, as Mr. Burgess says, most of the evidence we have

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got does happen to support our slant on it.

There is another factor that might be a part of your consideration, and that is the program that the Federal Reserve outlined for itself in conjunction with you at the time we made that announcement, which contemplated that we might have to go into the market and buy some bonds for the purpose of increasing excess reserves.

H.M.Jr: Buy what? You said bonds.

Harrison: Stocks.buy some Government securities.

McKee: You didn't want that "stocks" on the record, did you, George?

Harrison: No, that's not for the record.

H.M.Jr: I just wondered when you said bonds.

Harrison: No, I meant Government securities. And some of us feel more strongly than others that the developments in the next few months may make it necessary for us to buy some securities. I happen to be one that thinks probably it would be less necessary than some others think; but if we do have to do that, then that would be just about the period that we have to do it, and if we follow the ordinary principles that you have laid down for yourself as a matter of Treasury behavior and what I think should be central bank behavior, then I don't believe we ought to buy prior, or just prior, to a new Government issue. So that it would serve pretty well to stop us just about the time we normally might be expected to do it if we do it at all.

H.M.Jr: I've got an answer on that. Certainly you people ought to know the early part of November what your excess reserve situation is going to be by the middle of December, and there is nothing in your by-laws to keep you from buying these Government securities the first two weeks in November.

Harrison: Well, that would make it a little more palatable, but not much more.

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- H.M.Jr: As a matter of fact, if I was doing it and it was my responsibility, I wouldn't think of waiting until the first of December, because it would be too late to have any effect. I mean if you're going to be....
- Harrison: But I mean I don't think that that would remove it from the odium of having done it in a way which would possibly appear as supporting a Treasury issue.
- H.M.Jr: If you people see you're going to need another one or two hundred millions of excess reserves, why not start in now, or the first week of November?
- Burgess: The market doesn't need the money now, Mr. Secretary.
- H.M.Jr: But you're certainly going to know by the first week in November.
- Burgess: No, I don't think we are.
- H.M.Jr: You're going to know by the first fifteen days of November.
- Burgess: I don't think really - you can't tell about the flow of funds through the country and demands for currency until considerably later than that.
- H.M.Jr: Well, I went over this yesterday with Dr. Goldenweiser; went over it with Mr. Ransom. I don't know whether they've had a Board meeting since or not. But I don't think that is a sufficient argument. In the first place, if you people need it, you've got all of November to do your buying, and that's that. And then the question as to what is the best guess as to whether you're going to need it or not - and the best guess is that you're not going to need it.
- Ransom: Mr. Secretary, there is also this to be considered: that there is a date for operations which would be too near the Treasury financing both before and after it. But the period before it would be free, as you suggested, in November, and it would be possible, of course, some time after your December financing, if the situation then developed where an open market operation was clearly indicated, to take that action.

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H.M.Jr: When was that?

Ransom: Well, let's say about the 13th, 14th, or 15th of December - the real pinch comes around the Christmas season, so there is a period of ten days, say, before the actual crisis in that would arrive, where we would also have a clear field of operation, if that's going to be the Treasury's program. We could of course operate in November before that time, so that all we would have to do would be to get off the track when your financing was in process.

H.M.Jr: Well, that's another way. Have you had a chance to talk it with your other Board members since you've seen me?

Ransom: Yes, we had an informal meeting of the same gentlemen who are here this morning, and I conveyed to them the point that you made, that the operation could be carried on in November. We discussed the possibility of what would be the best time for such an operation, and it seems to me to be, just to take arbitrary figures, not later than November the 15th and not earlier than December the 15th. Now, the period between November the 18th and December the 13th, I believe, Mr. Burgess suggested ought to be a clear period, in his opinion, if the Treasury financing was to take place according to the program Mr. Bell has outlined.

H.M.Jr: Well, let me put it this way. If you have had time, as far as the Board is concerned, if we go ahead the way we are talking about - thinking of doing, of simply borrowing enough each week to pay maturing bills off, namely, 50 million a week, will that program be pleasing or will it disturb the Board?

Ransom: Well, that's a decision....

H.M.Jr: As to the Board, will it....

Ransom: Well, the decision as to the operation, of course, is a decision for the Open Market Committee.

H.M.Jr: No, as to the Board.

Ransom: Speaking for myself only - the two other members of the Board present can speak for themselves - I don't

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see any reason why we can't operate successfully, under the program we have outlined, under either - what we have referred to as the Bell or the Burgess plan, just to give them a label here. I don't know whether either of them claim the authorship of it, but that's a tag that will serve its purpose. It seems to me the question is one of decision from the Treasury as to what is most advisable in the matter of timing.

H.M.Jr: Well, I wonder if the other Board members would care to express themselves.

McKee: Yes, I don't - if you have canvassed the situation and are satisfied from your stand point, I don't see why we can't operate from our standpoint whether or not you put off your financing all to December, if you are willing to take the chance on what the market is for funds in December.

H.M.Jr: Well, I'm entirely satisfied in my own mind that if we follow the Bell plan, it won't have any effect on whether Bethlehem Steel, or Central New York, or "Con" Gas goes over or doesn't go over; I mean it won't have any effect on it one way or the other. I am completely satisfied in my own mind as to that. Now, I've always had to take my chances on the quarterly date and I'm perfectly willing to wait until that time comes around and then meet the situation, whatever it is. I've done that now 14 times, and with the help of these people and the Federal Reserve System, we've been successful. But I'm completely satisfied. As to whether or not the issues which are offered today - the Central New York issue, what's that, 40 million dollars - whatever it is...

Burgess: No, that's tomorrow. Idaho Power today. Continental Can today.

H.M.Jr: Yes. And the big one is Con Gas, 80 million dollars. This decision that we're trying to make today won't have any effect one way or the other. Now, I'm entirely satisfied. I've taken a lot of trouble to satisfy myself. Does that answer you? And as to December, it's just in the lap of the gods. I mean

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you've got all sorts of - I mean, here in this room, we sold over five million dollars worth of gold yesterday in London, and then late yesterday afternoon an American security holder sells two and a half million dollars worth of securities in London and he wants to bring his money back. Now - I mean now is anybody going to sit here and say what the decision is going to be in December? You've got cross-currents. Belgium sends us gold when they should send it to London. They could get how much more percentage in London?

Lochhead: About a tenth of one percent anyway.

H.M.Jr: How much?

Lochhead: Be about five cents an ounce difference.

H.M.Jr: They get five cents an ounce more by sending it to London, who are hungry for it, than by sending it here.

I mean how can I say? Just have to face December, and I'm willing and I'm not particularly worried.

(To Davis) Want to say something?

Davis: I can't register any excitement over it one way or the other, Mr. Secretary.

H.M.Jr: Mr. Sinclair?

Harrison: I think, just so you won't misunderstand my position - I raised that point about Federal open market operation. I don't know that I agree personally with the impression that I got from both Mr. Ransom and Mr. McKee that it is just as easy for us to carry out the open market program under one theory as well as under the other. Under the so-called Bell program we are at a stop for a period of certainly three weeks and are therefore forced either to act before that period, when we won't know the facts so clearly, or after that period, when it may be too late. So I don't think that the two things do leave us the same freedom of choice at all. I wouldn't have said that except for that little machine.

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H.W.Jr: Well, when the machine isn't working, I don't want - you know, we don't have many thoroughbred horses, but we have quite a few thoroughbred cows, and we go back and look at their pedigrees, go back six or eight generations, see how they'll perform, see, and then the bucket - milk pails; so when we're talking about when you fellows will go in to buy, we go back and look at your pedigree, see?

Harrison: Well, that stands for something this time.

Sinclair: Mr. Secretary, without in any way elaborating on the record, I think where it is a matter of personal judgment, it seems to me that it comes to - I'd be in the position of feeling that it is your decision really - why, I certainly don't think I would quite agree on the matter of judgment. I would be more inclined to take the money when I am sure I could do it, rather than leave it to possible uncertainties in December and the possibility of being on the same track at the same time. However, I think that is your decision to make.

H.W.Jr: Well, I don't like to make a decision not feeling that everybody is with me, but the final responsibility is mine, and we have spent a lot of time on this thing. And, looking at it from all angles, I think that the decision I'll make is that we will continue - I'm not going to make any public announcement; I mean I did answer New York Tribune when they asked me if we were contemplating any major financing in October or between now and December, and I answered "Positively no," and I think that's enough. So I think we'll just continue, and then what we'd like to do - borrowing 50 million a week - is to discuss the other program, and what we are thinking of is, beginning next Monday, to offer March tax bills; to discontinue the 9-months and start next Monday.

And then the other thing - I mean none of these things - I mean the other thing is, if we do that, should we also announce it tomorrow morning, at Thursday press conference - should we announce then that there would be no premium on the February maturing notes, tell them we just want to serve notice on the note-holders of February that we may pay it off in cash, and therefore we now announce that there will be no rights for

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February.

I'd like to know first whether we're in agreement that we start Monday offering the bills maturing in March. I mean does anybody object to that? Do it next Monday, or would you do it a week from Monday? Doing it Monday gives us 400 million dollars up to December 1. My feeling is - the reason why I'd like to do it Monday, there's been so much discussion and so many guesses; you fellows are going up to A.B.A.; might just as well have this thing out. And it doesn't make a hell of a lot of difference whether we do it this Monday or a week from Monday. I think you might just as well get it settled and get it over. Then when you fellows go up there - "What's the Treasury going to do?" - well, that's out of the way and settled.

- Burgess: Your program will be to put out the March bills until you get 450 million?
- Bell: 400 million.
- Burgess: Then what would you start after that?
- H.M.Jr: The 90-day.
- Bell: December 8th, start that.
- Burgess: That brings you to the doubling of your 90-days in March.
- Bell: (Nods yes)
- Harrison: Three months afterwards.
- Burgess: Just at the time of the March financing.
- Bell: March 9th, have a hundred million dollars of Treasury issues roll over.
- Burgess: That means a change in the bill program at the time of the announcement of the financing.
- H.M.Jr: Better put this thing off to a week from Monday, and that would bring it....

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Bell: ...about the 15th, 16th, or 17th of March.

Burgess: I think that would be better, because you carry through your March bills through the middle of December.

H.M.Jr: Well, if you don't want it on the 15th, we can do it two weeks more, and then it gets us beyond the 15th. Then we won't have that confusion.

Burgess: I think that's a little better. Then you won't have a change, you won't have a doubling up of bills before the March financing or at the same time as the financing; it would come after the financing.

H.M.Jr: Are you sure on your dates now?

Bell: Yes, sir.

H.M.Jr: If we do two more - let's say we do two more; what's next Monday?

Bell: That would be the 13th, your next issue.

H.M.Jr: Do two more.

Bell: October 13th would be your next issue of bills.

H.M.Jr: Then we do the 13th and 20th.

Harrison: Isn't it April that this thing doubles up?

Burgess: If he starts it in December, it'd be in March. If he starts it in January, it doubles up in April. We've been talking about starting in December. Start the 90-days in December - goes into March.

Bell: If you started the 90-day bills on December 8, your roll-over would come on March 9, along with the 273-day maturity. So that would be a hundred million. Now, if you start it on December 15, your roll-over would come on March 16. If you start it on the 22d, Mr. Secretary, you would roll it over on the 23d of March.

Harrison: The point about getting this thing out of the way before the A.B.A. - couldn't you arrange for 450 million dollars

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of tax bills in March, which you probably want anyway, and run that through that extra week in December, and then you'd be all right.

H.M.Jr: I could simply say, George, tomorrow, "We're going to issue two more issues of 9-months each and then we'll go to the tax dates." And that, anyway, doesn't make those tax ones quite so long. I'd simply say tomorrow, "We're going to do this thing two weeks more." And that gets us beyond March 15, doesn't it, Dan?

Bell: Yes, sir, that would be....

H.M.Jr: I'd just as leave get it out.

Bell:March 16.

H.M.Jr: Then you'd start.....

Bell: The roll-over would be on March 16th.

H.M.Jr: For a hundred million?

Bell: 23d, if you do two.

H.M.Jr: 23d?

Bell: That's correct.

H.M.Jr: Wouldn't you (Burgess) do that?

Burgess: Yes. That gets us beyond the March financing.

H.M.Jr: And I think that sounds all right, don't you (Ransom)?

Ransom: (Nods yes)

H.M.Jr: That gets us beyond the March financing.

Now, the other thing - I don't want to go too fast; does that sound all right?

Burgess: Where does that bring us out? The last 9-months bill will fall on July....

Bell: July 20th.

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Burgess: That's all right.

H.M.Jr: Then the other thing - should we - now, I don't want to go too fast; is that agreeable to everybody? There will be two more issues of 9-months. All right?

Harrison: (Nods yes)

Piser: One suggestion. You could make one more issue, which would bring the doubling up on March 16, which is just one day after the....

H.M.Jr: Well, we get beyond that mess there, that's all. I mean if I could, I'd just as leave issue two more and get beyond that. There's an awful scrambling of funds, isn't there, at that time?

Burgess: Yes.

H.M.Jr: What?

Burgess: Yes.

H.M.Jr: I think so.

And then what about telling these February note-holders there won't be any - have no rights.

Burgess: Well, I guess I made the original suggestion on that, but I made it on premises which now appear to have been quite erroneous. That is, I got the impression that your cash position was better than it was. I thought you'd be able to pay those off without new financing in December. Now, if it means raising additional cash in December, I would vote against it. That is, I wouldn't make any change in the program at a time like this in the money markets. That is, I would leave the rights; I wouldn't say anything about February, and I'd give them rights when it comes along so it's just a roll-over, so it's just an exchange offering.

H.M.Jr: You'd do it right in the middle of February?

Burgess: My inclination would be to do it in the middle of February, but I think you can tell when you get to December and decide about your financing whether to

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include it or not.

H.M.Jr: Won't these babies shed crocodile tears if along the first of December we're going to tell them we're going to pay off in cash?

Burgess: Well, I would decide right now not to do that.

H.M.Jr: Not to do what?

Burgess: Pay them off in cash. Because I think a 700 million dollar cash financing in December is - you can tell right now, would not be a wise thing to do.

H.M.Jr: Well, I'm not going to argue with you.

Harrison: It might be or might not be. Is it necessary to commit yourself to it now?

H.M.Jr: No, I didn't think I was. I was simply serving notice to these people that I might. I was trying to do them a kindness, do these note-holders a kindness, to let them know, but not commit myself, that's all. Supposing we have a good market.

Burgess: If you were going to cut them off without rights, you ought to tell them right now. You ought to settle right now whether or not you're going to pay off in cash or whether you're going to do an exchange offering; but you don't have to decide now whether you'll do the exchange offering in December or in February. Now, I don't think it's a - this is a good time to change your practice in dealing with maturing issues. That's my only point. You don't have to argue the other question.

H.M.Jr: I'm more than willing to take your advice on that. I mean I won't argue with you about that. If that's the way you feel, O.K. I thought I was doing these fellows a kindness, because supposing we have a swell market for financing in December and I want to pay these fellows off in cash; then they're going to say, "You can't do it, because look, these rights are worth half a point." But it's - from my standpoint, I don't hold any of them, I don't care.

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Burgess: I think if you change it right now, if you say these Februarys will no longer have any exchange privileges, that your whole short market would be immediately affected and make a readjustment to that.

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

Burgess: Which I don't think is desirable at the present time. That's my only point.

H.M.Jr: We'll skip it.

Do you want to tell us a little bit now before.... As far as I'm concerned, I'm all right now, and before we leave Treasury financing I'm going to ask, does anybody want to say anything? I want to ask Dr. Burgess to talk about the private refundings and tell me what's going on. Anybody want to say anything about Treasury financing? All right.

Dr. Burgess, you want to tell us something?

Burgess: I think one point on Treasury financing that we might just take a minute on - that's bills. The bill rate this week was .0044, which was up from .0038. I don't think that means a thing. I think the explanation is this. The bill rate has been working down - the 9-months bill rate - from .0070 to .0058 to .0045 to .0038. It's been trying to find the position where the bills would be sold at a given rate, and the dealers over-reached themselves last week; they took more than they could sell at that particular rate. So this week they have bid a little higher for them; that's all that means. And this is a better figure; as the rate went down, a certain number of buyers disappeared because they weren't interested if the rate went down. So this is an adjustment of the market finding the position at which bills would go. I don't think it means anything in the general picture of bills and so on.

Now as to the general bond market. The Treasuries, I think, have behaved very well in the face of a bad market. There's been a good demand for the notes, and those notes have steadily gone up; good demand apparently

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comes from all sources, partly from banks, a little bit from insurance companies but not very much; and I think a steady demand from individual investors who want a tax exemption on those. There's been a pretty good demand now and again for the intermediate bond - '45-'47, '46-'48, so on. There has been very little demand for the longer bonds, so that in any little period of weakness they have tended to slip off a little bit and some people are ready to sell. This morning, for example, there are very few bids in for the longer bonds. We are watching that very closely. So the Treasury market has been extremely little affected by a bad situation in the bond market generally.

The bond market generally. The picture, of course, was that we had pretty good financing coming along in the summer, but, coincidentally with the stock market slump, the bond market has gone badly, partly because a great many issues were convertible issues or were stock issues; naturally they are affected very much by the stock market.

Now, the underwriters had to make a gamble some six weeks ahead on three of those issues, on the Allis-Chalmers, Pure Oil, and Bethlehem. They underwrote a very substantial block of those issues at a given price. Then these things were offered to the stockholders, and the underwriters were to take what was left after the stockholders had a considerable period to think about the thing. While they were thinking about it, the stock market went all to pieces, and the underwriters have got very much more than they thought they would have.

H.M.Jr: Does anybody know how much they've got?

Burgess: Yes. Allis-Chalmers - of course, the market - the stockholders took 70 percent, and that left seven or eight million for the underwriters, which they sold promptly.

H.M.Jr: Which they sold, so that....

Burgess: ...that's out of the way. There may be a few of those in the hands of the smaller distributors, but it's pretty well out of the way.

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H.M.Jr: I understand that's cleaned up - the Allis-Chalmers.

Burgess: Now, second, Pure Oil - 44 million dollars issue, and only two million - only two percent was taken by the stockholders, so that the underwriters now hold some 43 million dollars of that thing. And the preferred stock, the outstanding stock of the company - 6 percent stock - is selling below par. This is 5 percent stock. Although it's convertible, they simply can't operate on the present market with hopes of success, and they're holding back on that thing, waiting.

Now, that's jammed up a certain body of underwriters very badly. The underwriting-capacity in New York, if you try to segregate out the capital that may be assigned to underwriting from the capital that is engaged in Government securities and so on and so forth, - the underwriting capital probably isn't very much over 50 million, under the operation of the Banking Act of 1935, and so on. And their capital is their margin on their loans, and they borrow to carry these things, so that when they get hit with 43 million dollars of an issue, it's a very considerable wallop.

Now, Bethlehem came along and last Friday night the offering to the stockholders was closed up and the underwriters of that, headed by Kuhn-Loeb, found themselves with 46 million dollars of convertible debentures, 3½%, that they paid 97½ for, on their hands. They made a re-offering of that yesterday and only sold a very limited amount, and they are now available at two points under the offering price; the offering price was 95½; that is, these fellows took two points' licking right off of that. And it's not going, although available at 2½ discount this morning under the offering price. Even if they had sold it at the offering price yesterday, we figured they would have taken a loss right out of nearly a million and a half on this 50 million of capital, if you will. So that that's a bad situation; it's in pretty bad shape.

Now, this morning there is another issue of the Idaho Power - 18 million dollar issue - and that's available

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at a point under the offering price this morning. It's too early to tell fully how it's going, but it's quoted at a discount.

Harris: 1-1/4 to 1-1/2.

Burgess: 1/4 to 1/2?

Harris: No, 1-1/4 to 1-1/2.

McKee: That offering price is above the underwriting, isn't it?

Burgess: Oh yes, that's offered with some profit to the underwriters.

McKee: They're not yet down to the underwriting price, are they?

Burgess: The point and a quarter to a half would be covered by the underwriting and distributors' profit. The distributors usually get a half, three-quarters, and they have been given a whole point in this Ohio-Edison that sold last week and sold successfully. The distributors were given a full point profit to help make it go, which is in excess of the ordinary profit. That went successfully.

Harrison: That's due to the fact that they say they're having so much more difficulty selling that they have to put on a great deal more sales pressure; that is, it's costing so much more to sell it now, and it's the recognition of that additional cost.

Burgess: So when you ask how much is backed up in the hands of these underwriters, there are these two issues that I have referred to; there is a remainder of an issue of Port of New York Authority - that was some 50 million dollars, and about half of that is around. There's Public Service of Ohio; that's around - five or ten million of that. So that it's certainly well over a hundred million dollars that is backed up in the hands of these underwriters.

Now, a great deal of that is dependent on the stock market and on that thing settling down so the people will be willing to buy stuff. But it creates a

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condition under which new issues are being postponed and cancelled and so on, which is important right now, because with the Treasury spending going off you need private spending, and the new issues of today will determine to some extent the spending by business concerns over the next six months or a year. That's about the story.

H.M.Jr: Well, I have nothing else, unless you people have.

Ransom: All right, sir.

PROPOSED TREASURY BILL PROGRAM

(In millions of dollars)
 Begin March tax bills on October 13 and after 8 issues begin on December 1
 with ninety-day bills

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	Present Maturities		Proposed new issues				Total Outstanding	
	Regular	Special	Tax Bills		Ninety-Day Bills			
			Amount	Maturity	Amount	Maturity		
<u>1937</u>				<u>1938</u>				
October 15	50		50	Mar. 16			2,400	
20	50		50	16				
27	50		50	17				
November 3	50		50	17				
10	50		50	18				
17	50		50	18				
24	50		50	18				
December 1	50		50	19				
8	50			19				
15	50				50	Mar. 9		
16		100			50	16		
17		100						
18		100						
20		100						
21		50						
22	50				50	25		
29	50				50	30		
		450						Special Mat. 450
			400					1,950
<u>1938</u>								
January 5	50		50	June 16	50	Apr. 6		New funds 300
12	50		50	16	50	13		
19	50		50	17	50	20		
26	50		50	17	50	27		
February 2	50		50	18	50	May 4		
9	50		50	18	50	11		
16	50				50	18		
23	50				50	25		
			300 New funds					
March 2	50				50	June 1	Special Mat. 400	
9	50				100	8		
16	50				100	15		
23	50				100	22		
30	50				100	29		
							1,850	
April 6	50		50	Sept. 16	100	July 6	New funds 300	
13	50		50	16	100	13		
20	50		50	17	100	20		
27	50		50	17	100	27		
May 4	50		50	18	100	Aug. 3		
11	50		50	18	100	10		
18	50				100	17		
25	50				100	24		
			300 New funds					2,150
June 1	50				100	Sept. 5		Special Mat. 300
8	50				150	7		
15	50				150	14		
22	50				150	21		
29	50				150	28		
							1,850	
July 6	50		50	Dec. 16	150	Oct. 5	New funds 300	
13			50	16	100	12		
20			50	17	100	19		
27			50	17	100	26		
August 3			50	18	100	Nov. 2		
10			50	18	100	9		
17					100	16		
24					100	23		
31					100	30		
			300 New funds					2,150
September 7					150	Dec. 7		Special Mat. 300
14					150	14		
21					150	21		
28					150	28		
October 6					150	Jan. 4 '29		
	1,950	450	300		1,500		1,850	

PLAN IGROSS DEBT BY ISSUES

(In millions of dollars)

Month :	Gross Debt :	Bonds :	Treasury Notes :	Treasury Bills :	U.S. Savings Bonds :	Special ob- ligations :	Other ob- ligations :	Gold acquisitions (net)
<u>1937</u>								
June 30	36,425	20,133	10,617	2,303	800	1,947	625	
July	36,716	-	-	138	38	142	- 27	126
Aug.	37,045	-	-	199	33	116	- 19	122
Sept.	36,875	-	-	- 239	28	91	- 50	- 126
Oct.	36,949	-	-	-	25	79	- 30	90
Nov.	37,059	-	-	-	25	105	- 20	80
Dec.	37,405	-	700	- 450	35	81	- 20	80
<u>1938</u>								
Jan.	37,747	-	-	200	75	82	- 15	80
Feb.	37,709	-	- 277	100	40	112	- 13	80
Mar.	37,389	-	-	- 400	30	80	- 30	80
Apr.	37,675	-	-	200	25	81	- 20	80
May	37,848	-	-	100	25	63	- 15	80
June	37,612	-	-	- 300	25	69	- 30	80
June 30	37,612	20,133	11,040	1,851	1,204	3,048	336	
Increase	1,187	-	423	- 452	404	1,101	-289	852

Accounts & Deposits
October 5, 1937

ESTIMATE OF CASH POSITION

October, 1937 - June, 1938

(In millions of dollars)

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STRICTLY CONFIDENTIAL

Plan I

	1937 Oct.	Nov.	Dec.	1938 Jan.	Feb.	Mar.	Apr.	May	June	Total
Balances at beginning of periods	909	641	489	968	1,048	788	606	762	721	909
RECEIPTS:										
General revenue	345	370	375	360	410	1,120	545	385	920	5,130
Unemployment trust fund	32	58	34	35	65	35	36	54	25	375
U. S. Savings bonds	25	25	35	75	40	30	25	25	25	308
Silver certificates	15	5	-	-	-	-	-	-	-	80
Treasury bills (special)	-	-	-	200 June	100 June	-	-	-	-	600
Treasury bonds and notes	-	-	700	-	-	-	200 Sept.	100 Sept.	-	700
Total available	1,386	1,099	2,133	1,658	1,663	1,971	1,412	1,326	1,694	8,059
EXPENDITURES:										
General	320	300	290	320	320	350	350	340	300	2,890
Emergency	175	170	170	160	150	140	130	130	130	1,358
Interest on public debt	70	10	155	15	20	165	70	10	175	590
Special transactions	-	30	-	-	15	-	-	30	-	75
Debt redemptions	30	20	470	15	290	430	20	15	330	1,620
Gold purchases	90	80	50	80	80	80	80	80	80	730
Total expenditures	685	610	1,165	590	875	1,165	650	605	1,015	7,360
Balances at end of period	641	489	968	1,048	788	806	762	721	679	679
Refunding operations:										
Treasury bills:										
Regular	200	200	250	200	200	450	400	400	700	3,000
Special	-	-	450	-	-	400	-	-	300	1,150
Treasury notes	-	-	-	-	1/ 277	455	-	-	612	1,380
	300	200	700	200	477	1,305	400	400	1,612	5,500

1/ To be redeemed in cash.

ACCOUNTS AND DEPOSITS

October 5, 1937.

AMB

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

166

DATE

Oct. 6, 1937

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Recent exports of cotton and scrap iron and steel to Japan and imports of silk from Japan.

1. Scrap iron and scrap steel exports from the United States to Japan continue but in much smaller volume.

September exports of scrap iron and scrap steel from the United States to Japan were approximately 50,000 tons. This is about one-fifth of the monthly shipments during the first half of 1937. Shipments are being loaded right now on ships going to Japan, and other shipments are scheduled to leave within the next two weeks.

Scrap iron exporters claim that all Japanese buying of scrap iron and scrap steel in the United States stopped about four or five months ago. Shipments leaving now are on orders given before April. They claim that only a small amount of unfilled orders remain.

2. Raw cotton is still being exported to Japan but only in small amounts.

September cotton exports to Japan totaled about 40,000 bales (compared with 170,000 bales in September 1936 and an average of 124,000 bales for each of the first six months of 1937). It is estimated that there have been about 135,000 bales of American cotton ordered by Japan since August 1st, but most of these new orders have not been shipped. They await receipt of permission to ship. (Permission to ship about \$100,000 worth of cotton was received yesterday according to the National City Bank.)

It is reported that Japan now has enough cotton to last three, possibly four months. The area in North China under control of Japan expects to have about 1 million bales of

Copies of first 2 pages of this report sent to:

The President - LD 10/7/37 sgn by Secy.

The Secy of State- LD 10/7/37 sgn by Secy.

Secretary Morgenthau - 2 -

cotton ready to move within a few weeks. This cotton formerly went mostly to Japanese mills in China. It will now be diverted to the mills in Japan.

The Department of Agriculture estimates that Japan will purchase 600,000 bales this cotton year (August 1, 1937 to August 1, 1938), compared with 1.5 million bales last cotton year. Japan has set aside 50 million yen for cotton purchases for months of September, October and November. Were half of that sum to be spent on American cotton it would represent approximately 50,000 bales a month which is close to our September exports to Japan.

We can obtain no evidence of any shift of cotton manufacture under Japanese direction from Japan to India. Two exporters, presumably conversant with cotton textile conditions in the Far East and in India felt that such a move on any substantial scale would definitely not be feasible. They were very skeptical about the possibilities of any such shift.

3. United States is still importing silk from Japan.

No restrictions have been placed on exports of silk from Japan to the United States. Silk importers in the United States are buying now and have been buying in recent weeks as much silk as they want, and they have been receiving their shipments on time. The latest cargo of silk arrived a few days ago and another one is due in a few days.

United States Imports of Raw Silk

12 Months ending July 1937

		Quantity	Value
		: Thousands of lbs.:	: Thousands of \$
1936	July	4,279	6,713
	August	5,614	9,000
	September	6,193	10,155
	October	6,120	9,860
	November	6,501	10,539
	December	6,774	11,700
1937	January	6,757	12,229
	February	5,212	9,633
	March	4,046	7,549
	April	5,269	9,895
	May	4,852	9,310
	June	5,170	9,668
	July	3,667	6,749
	August	4,754	8,978

United States Exports of Iron and Steel Scrap to Japan

	<u>Tons</u>	<u>Value</u>
1936		
July	141,277	\$1,802,000
August	147,080	1,913,000
September	127,984	1,607,000
October	79,132	1,071,000
November	29,644	612,000
December	29,043	556,000
1937		
January	36,280	634,000
February	73,635	1,391,000
March	224,873	4,182,000
April	283,828	5,701,000
May	443,251	9,434,000
June	256,936	5,349,000
July	210,608	4,726,000

United States Exports of Raw Cotton to Japan

	1936		1937	
	000 bales	Value	000 bales	Value
January	156	\$10,129,000	134	\$ 8,828,000
February	55	3,461,000	162	11,079,000
March	106	6,738,000	166	11,812,000
April	99	6,247,000	112	8,504,000
May	78	4,917,000	124	9,427,000
June	66	4,275,000	45	3,232,000
July	16	1,030,000	29	1,943,000
August	25	1,562,000	17	1,194,000
September	164	10,776,000		
October	253	16,760,000		
November	221	14,701,000		
December	118	7,742,000		

MEMORANDUM OF THE DAY'S ACTIVITIES

October 6, 1937

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To: The Secretary

From: Mr. Magill

1. Conference with General R. E. Wood, President, Sears, Roebuck & Co.

General Wood discussed possible changes in the undistributed profits tax, and the general business situation. He says he has always favored the general idea of the tax but that it is operating badly in cases of corporations which wish to extend or improve their properties and of corporations, particularly small corporations, which wish to use earnings to pay off outstanding indebtedness. He says that the issuance of rights to subscribe to stock which Sears, Roebuck utilized last year is not a permanent solution of the problem of obtaining new money for improvements, since in his view rights cannot be issued year after year. Moreover, he believes that small corporations cannot use this method to advantage any way.

As to business conditions, the farmers and working men are well supplied with cash and so far trade has been good. He regards the jitters of the stock market or even of business executives as unimportant but if the consumer becomes convinced that conditions are uncertain he foresees a bad six months ahead, since inventories are comparatively high. He notes that some steel furnaces in Gary and Pittsburgh and some textile factories in the South have been reducing employment, but so far it has not affected Sears, Roebuck particularly.

2. Conference with David Lawrence

Mr. Lawrence expects to start a series of articles on fundamental principles of taxation, beginning about three weeks from now. His leading principle is that it is essential to preserve and encourage the volume of business transactions. He suggested the desirability of the President's calling a conference to consider the coordination of state and Federal taxes and the elimination of the present overlapping; and also to formulate a series of principles of taxation. In the second place, he believes that the job of tax revision would be immensely simplified if the President delivered an address around December 1st or 15th setting forth the basic principles on which the tax system should be formulated. He thinks that tax revision is by all means the most important matter before the Congress; and that the great advantage of a speech by the President on the subject of fundamental principles would be not only to lay a foundation for the Treasury's recommendations, but also to give Congress a yardstick by which the detailed proposals could be measured.

3. Conference with Congressman Vinson and Mr. Parker

We spent yesterday evening discussing very informally various aspects of the tax revision program. The principal item of interest is the fact that Mr. Vinson expressed himself strongly to the effect that the budget must be balanced even if it involved increases in some of the taxes. He is personally not as much interested in any type of tax reductions or allowance as he is in obtaining enough revenue to meet the expenditures including debt retirement.

Rm

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 6, 1937, 11 a.m.

NO.: 1396 RUSH FROM COCHRAN.

Yesterday the French control lost foreign exchange to the amount of 270,000,000 francs. This morning there is a demand for sterling and by 11 o'clock the control had given 300,000 pounds. The rate had been brought down to 150.38 by the control, but it was not at all sure that this level for the franc could be maintained. A few minutes after I had the conversation with my contact I learned that the rate had dropped to 150.42, and the traders believe that this rate cannot be held for very long. Anticipation on the market is that by the end of the week the rate will be 160. Nothing new had developed, but there is a continuing pressure resulting from the hopeless political situation and other uncertainties.

WILSON.

EA: LWW

RECEIVED
OCT 7 1937
AMERICAN EMBASSY
PARIS, FRANCE

JR

GRAY

Paris

Dated October 6, 1937

Rec'd 2:56 p.m.

Secretary of State,
Washington.

1399, October 6, 4 p.m.

FROM COCHRAN.

During official market French control sold sterling at or near 150.40 but the demand slackened from forenoon. At half past three control was trying indirectly to acquire a little sterling at same rate at which it was offering it. Weakening of dollar is attributed to sales of dollars by Swiss who are worried over prospect of further devaluation of dollar and by continental, principally Swiss and Dutch, sales of American dollar securities for the same reason. French rentes up around 1.5 francs. Bourse sentiment has thus improved this afternoon but undertone is still bad. President's Chicago speech interpreted on Bourse as likely to mean American aid for France versus Germany and Italy.

Premier Van Zeeland will take holdiday of two or three weeks. His report to Parliament of Belgian recovery program is widely reprinted.

(END SECTION ONE).

WILSON

KLP:WVC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 7, 1937, noon

NO.: 1405 RUSH

FROM COCHRAN.

This morning at 11 o'clock the French control was yielding sterling at 150.40 rate. The pressure on the franc was slightly reduced as compared with yesterday morning. My contact attributed this to the good effect here of the speech made by President Roosevelt and to forecasts that the cantonal elections may be more favorable to the Radical Socialists than it had been thought they would be. The control sold and acquired sterling yesterday, but lost 120 million francs of foreign exchange on balance.

WILSON.

EA: LWV

October 6, 1937.
3:47 p.m.

H.M.Jr: Hello

Operator: Mr. Madison.

H.M.Jr: Hello

O: Go ahead.

H.M.Jr: Hello

Madison: Yes, sir.

H.M.Jr: Madison

M: Yes, Mr. Secretary.

H.M.Jr: What was the tone on the Government bond market today.

M: What was the quote.

H.M.Jr: No, tone - t-o-n-e

M: Oh, it was very steady.

H.M.Jr: Yes.

M: They opened a little down, evidently in sympathy with the London market, but they kept steady at practically the same prices, they didn't gain any to speak of, but they only lost - from one to three generally - some of them were four down, and the market held very steady and gave a good account of itself.

H.M.Jr: I see.

M: It's very, very quiet.

H.M.Jr: Uh-huh. You didn't have to do anything.

M: Didn't have to do anything. No.

H.M.Jr: Uh-huh. Well, how about the private offerings today.

M: Well -

H.M.Jr: Idaho - was that -

- 2 -

M: The Idaho, was a little sticky.

H.M.Jr: A little sticky.

M: A little sticky, and Bethlehem Steels were still very bad. I tried to find out how many of those sold, but I couldn't. It seems to be impossible to get that information. The Continental Can, of course, went - went quite well, they're selling at a comfortable premium.

H.M.Jr: Who headed that?

M:

H.M.Jr: Oh, yes. Now, it's tomorrow Central New York.

M: Yes, Central New York. I understood the other day that they are going to put them out at a hundred but they say today that their price will be ninety nine.

H.M.Jr: I see.

M: That's a forty eight million dollar issue, you know.

H.M.Jr: That's - Morgan Stanley.

M: Yes. Morgan Stanley - It was a 3-3/4 coupon -

H.M.Jr: Yes

M: At ninety nine. That yields about three eighty one.

H.M.Jr: Uh-huh.

M: That ought to go pretty well.

H.M.Jr: I hear the Farm Credit - the intermediate credit went all right.

M: Very well. Charlie Dunn said they went right out the window.

H.M.Jr: Uh-huh. Well that's all right.

M: Very well indeed.

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

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H.M.Jr: Well, all right.

M: Got through very well, I think.

H.M.Jr: Thank you.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 7, 1937, 4 p.m.

NO.: 1407

FRGM COCHRAN.

Paris exchange market quiet this afternoon. Market selling a little sterling but control has at 3:30 been yet unable to obtain any through credit Lyonnais which is offering 150.23 for it. Forward franc more bid. Day to day money easy. Rentes further improved. Bank of France statement as of September 30 showed wiping out of 1,099,000,000 item of advances against gold resulting from Bank of Spain sale gold to French control. Circulation up 2,724,000,000; deposits down 1,241,000,000; coverage 50.91 versus 51.61.

I had a talk today, at the American Club luncheon for Prime Minister Chautemps, with a number of financial and banking officials. The Credit Lyonnais General Manager, Masson, who has not much sympathy for the Popular Front, said to me that "seeing so many bankers present one might get the idea that France's difficulties were financial". I also spoke with Bonnet, who said that he was a little more encouraged over the prospects for the cantonal elections. However, he added that his Radical Socialist Party candidates were for the most part serious and respectable middle-aged or elderly men who do not like to make public speeches. They are thus handicapped

- 2 -

handicapped in opposing the vociferous and rowdy young fellows who are making a vigorous campaign for the Socialist and Communist candidates. Interest was expressed by the Minister of Finance in the results of the conversations which Phillips had with Secretary Morgenthau. The Bank of France Governor, Fournier, said he hoped the cordial reply of Chautemp to President Roosevelt's speech would have a favorable effect on the market. Fournier said that trading is now so much influenced by psychological and political factors that the franc might be a great deal influenced by such a development. In Rueff's opinion, the outlook for the French today was a little brighter. Still some nervousness on the part of Paris-American bankers, who look for a further franc weakness. The bankers believe that if the Left Wing gains in the elections the currency will suffer. Should the Radical Socialists gain, they said there is a possibility that dissension in the Popular Front might develop which for a while at least could react on the franc, although there would be improvement in the long term outlook.

WILSON.

EA: LWW

October 7, 1937.

Before we call Congress to consider crop control or control of wages and hours we better first consider the control of the dollar. It is far more important to a farmer and the laborer to know what the future purchasing power of his dollar is going to be, and the only way that the administration can give him any assurance as to the stable purchasing power for his dollar is through balancing the budget in 1939.

MEMORANDUM OF THE DAY'S ACTIVITIES

October 7, 1937

To: Secretary Morgenthau
From: Mr. Magill

1. Louisiana Cases:

Messrs. Cliphant, Russell, Wenchel and some of their assistants came in at my request to discuss the present status of the Louisiana cases. An attorney has gone to New Orleans for the purpose of completing the preparation for the trials of a large number of the cases which are set for trial before the Board of Tax Appeals in January. He will also consider offers in settlement. After a discussion of some of the individual cases I directed the Bureau representatives to complete their consideration of pending cases at once and to issue deficiency letters wherever deficiencies are found to exist. Mr. Cliphant has already directed that in the settlement of cases there should be no "horse trading"; that is, if there is evidence on both sides of a particular issue the issue is to be submitted to the Board. Compromises are only to be made where the taxpayer concedes the point or where it clearly appears that the Treasury determination was wrong.

2. Tax Revision:

Congressman Vinson and Mr. Parker discussed the procedure to be followed by the Vinson subcommittee; Mr. Doughton is coming to Washington Monday for the same purpose. Mr. Vinson wishes the Treasury representatives to sit down with the subcommittee in executive session, with no publicity, and with the tacit understanding that the Treasury will support the tax bill produced by the subcommittee. To aid in this result he wants to discuss the various major proposals with me informally in advance of their consideration by the committee. I want to discuss this situation with you tomorrow.

3. Business Advisory Council Conference:

The Tax Committee of the Business Advisory Council, of which Mr. Clarence Francis, President of General Foods, is chairman, called upon me this afternoon in support of their recommendations for revision of the tax laws. They propose the repeal of the tax on capital gains realized on property held for one year or more; and a number of credits in the undistributed profits tax, the cumulative effect of which would be almost to eliminate the productivity of the tax. They also suggest broadening the base of the personal income tax. It was agreed at the end of the conference that no publicity should be given either to the committee's recommendations or to the discussion and Mr. Gaston handled it on that basis.

Rm

October 7, 1937.
10:11 a.m.

H.M.Jr: Hello
Cordell
Hull: Hello, Henry.

H.M.Jr: Good morning, Cordell.

H: What's doing.

H.M.Jr: Well, that's what I called up to find out from you.

H: Yes

H.M.Jr: I'd like to say something in the most friendly spirit,
if I may.

H: Yes, sir.

H.M.Jr: We didn't - I didn't know till I picked up the paper
this morning about your note on the Japanese situation.
You see all the other Treasuries get six hours head
start on

H: Yes, well I don't know what happened to my fellows that
they didn't transmit that around, we -

H.M.Jr: Yes, and if - I mean I'm saying it in the friendliest
of spirits -

H: Yes

H.M.Jr: If we could be told about those things -

H: Why, of course, I don't know how it happened, I -

H.M.Jr: It would be helpful.

H: I'll read the riot act to my fellows this morning.

H.M.Jr: I'd appreciate it because, if they would just say now
it's coming, why then we could get ready.

H: Yes exactly.

H.M.Jr: But, we have -

H: Exactly. Thank you Henry for calling attention to it,
and I'm awfully sorry.

H.M.Jr: Thank you.

October 7, 1937.
12:13 p.m.

H.M.Jr: Hello

Operator: Mr. Rentschler.

H.M.Jr: Hello

R: Hello there fellow, how are you this morning.

H.M.Jr: I don't hear you very well.

R: Can you

H.M.Jr: Hello

R: Hello

H.M.Jr: Yes

R: Is that clearer?

H.M.Jr: You're not at your office, are you?

R: Yes, I'm right at my office now.

H.M.Jr: Go ahead.

R: Is it clear now.

H.M.Jr: I hear fairly well.

R: Yes. Now on these of the Japanese imports
and exports through us.

H.M.Jr: You gave me a bum steer on that young fellow.

R: On what

H.M.Jr: On telling me that the Japanese had stopped sending
their silk over.

R: No, here's what I mean, in quantity. Now here's what
happened on our stuff, in and out.

H.M.Jr: And also on the cotton.

R: Yes, -now there's -

H.M.Jr: I mean -

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R: Nine hundred and thirty six thousand dollars since the first of September, until the fourth of October. There's nine hundred and thirty six thousand dollars worth of stuff that has gone into Japan.

H.M.Jr: Yes -

R: Of which four hundred and ninety four thousand is cotton.

H.M.Jr: Uh-huh. Now that's just what you handled.

R: Yes, that's ours.

H.M.Jr: Yes, but if you remember, I don't know who gave you the facts, you told me that they were - that there wasn't any silk coming out, you remember.

R: On the permit.

H.M.Jr: On the what

R: Ya mean on permit.

H.M.Jr: No, any silk Japan -

R: On silk coming out -

H.M.Jr: Yes

R: On silk coming out there's eight hundred and fifty five thousand dollars worth, on other materials six hundred and thirty nine.

H.M.Jr: Yes.

R: And on goods to South America, sixty seven.

H.M.Jr: Uh-huh.

R: So the figures for that period are nine thirty six in.

H.M.Jr: Yes.

R: And a million five sixty one out.

H.M.Jr: Yes.

- 3 -

- R: But on permit for exchange during that period -
- H.M.Jr: Yes
- R: They - We've cut down to about twenty five per cent of normal.
- H.M.Jr: Yes
- R: And this represents about - less than thirty per cent, of normal in and normal out.
- H.M.Jr: Yes. Well, that isn't their total silk business though.
- R: Oh no, no. That's not their total, that's just our own.
- H.M.Jr: I know, and if you'll remember - I think whoever gave you your facts didn't get them quite right, because if you remember you told me you were doing about ninety per cent of the business.
- R: Yes, we have been.
- H.M.Jr: And as near as I can find out, as far as the silk is coming out in China, out of Japan, it's about the normal amount.
- R: Well, then - they - then it's been going to other sources that we weren't familiar with.
- H.M.Jr: Yes. Well, we've gotten out a lot of telegrams, I did a lot of work on it.
- R: Yes. Well, have you got your other figures.
- H.M.Jr: Well, I mean I've got figures which I can't release because we've got actual figures into the port, now under the law we're supposed to turn those over -
- R: No, no, I don't want them.
- H.M.Jr: No, we're supposed to turn those over to Commerce, but - so I went right out, spent a little money and got the actual figures.
- R: Now probably what they're doing is because we're making it a little more difficult for them to deal, they're probably avoiding the normal stuff to us.

- 4 -

H.M.Jr: Perfectly possible.

R: That's exactly - very likely what's happening.

H.M.Jr: Perfectly possible.

R: Now I'm coming down to Washington tonight, and I expect to see Hull in the morning,

H.M.Jr: Yes

R: And give him all of our figures on the whole set up.

H.M.Jr: Uh-huh.

R: And if they're interesting to you I'll drop over and tell you.

H.M.Jr: Well, I'll tell you what you do. When you get ready to leave there, give me a call. I can't - I've got a bad morning tomorrow morning.

R: Yes.

H.M.Jr: Appointments you see.

R: Fine.

H.M.Jr: Will you call up when you get ready to leave and I'll -

R: Yes, indeed I will.

H.M.Jr: - Because I'd like to see you.

R: Well, now, of course, if you got them from the port, that's much more accurate than but it shows any run around, they might be giving to us.

H.M.Jr: Yes

R: That very definitely shows up in your thing.

H.M.Jr: Well, I've actually got what's in and out of American ports, - I got them from the Collector of Customs. I mean what you told me was so disturbing that I went out and spent a lot of money to get that stuff.

R: Yes. Well, now this is - it probably is because we made it harder for them to do business, that they just quietly went around and did it somewhere else.

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H.M.Jr: Yes. Well I actually got the port figures.

R: Well, then, that gives you the story very perfectly.

H.M.Jr: Yes.

R: Well, I'll - I'll drop in and see you some time, if you're free.

H.M.Jr: You give me a ring -

R: I'll give you a ring, anyway, Henry.

H.M.Jr: Well, then, give me a ring and we'll see, but as I say on account of the President coming in tomorrow -

R: Oh, yes.

H.M.Jr: It's a bad morning.

R: Yes. You'll probably have a very bad morning.

H.M.Jr: Yes, but you call up. I made my announcement on what our financing was for October and November this morning.

R: Oh yes.

H.M.Jr: And I told them that as far as I can foretell, at this time, we'd ask for no new money for October and November.

R: I see. Very good.

H.M.Jr: And that we'd issue two months - two weeks more of nine months.

R: Yes.

H.M.Jr: And then go to our March 15th tax bill.

R: I see.

H.M.Jr: And I announced that this morning.

R: That's very good.

H.M.Jr: As far as I could foretell, no new money for October or November.

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R: Very good. All right, then if you're too busy tomorrow, why don't hesitate to tell Mrs. Klotz to tell me, will you?

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

R: All right, fellow.

H.M.Jr: Thank you.

R: Bye, bye.

H.M.Jr: Goodbye.

October 7, 1937.
3:03 p.m.

H.M.Jr: Hello

Operator: Burgess. Go ahead.

H.M.Jr: Hello

Burgess: Hello, Henry.

H.M.Jr: How are things going?

B: All right.

H.M.Jr: How do the Government bond dealers feel about my announcement.

B: Well, I haven't talked to many of them since, and I haven't heard any comments, to speak of.

H.M.Jr: Uh-huh.

B: I'll have more in the morning, when I've talked with them more. We see them all in the morning -

H.M.Jr: Oh.

B: I didn't want to call them specially.

H.M.Jr: Well, after you see them tomorrow, will you give me a ring.

B: Yes.

H.M.Jr: Some time between, say, eleven and twelve.

B: Yes. The comments I've heard - nobody's very much excited about it, so far.

H.M.Jr: Well, that's good.

B: That's fine. These Central New York bonds have gone pretty well.

H.M.Jr: Well, that's encouraging.

B: And the Idaho Power are all right.

H.M.Jr: Uh-huh

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B: And the Continental Can is all right, so that's very encouraging.

H.M.Jr: Well, the only thing then is the Pure Oil and Bethlehem.

B: Yes. Bethlehem is very sour.

H.M.Jr: And the - maybe we'll have to give them a war or something.

B: Well, I wondered if we weren't going to.

H.M.Jr: And then there's still some - how many of those Port authority are they kicking around?

B: Oh, not more than seven or eight million.

H.M.Jr: How many

B: Seven or eight million.

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

B: There's one or two others that are kicking around a little. I suppose there's a hundred million stuff piled up.

H.M.Jr: Still

B: Something like that, yes.

H.M.Jr: Uh-huh. All right, well after you've talked to the Government bond dealers tomorrow, I mean - I haven't talked to any of them, today -

B: Yes

H.M.Jr: And - I'll appreciate you calling me.

B: Very good.

H.M.Jr: Thank you.

B: Fine, goodnight.

GROUP MEETING

October 8, 1937
9:30 a.m.

Present: Mr. Magill
Mr. Gaston
Mr. Oliphant
Mr. Gibbons
Mr. McReynolds
Miss Roche
Mr. Lochhead
Mr. Haas
Mr. Upham

H.M.Jr: Duffield in writing that story estimated - oh, I don't know, a financing of a billion, a billion and a half, for next year - I mean for December. Wish you'd send for him. All you've got to say is, "Take the deficit. If the deficit is as great the second quarter as the first quarter...." - I think the deficit was about 207 million.

Gaston: Yes.

H.M.Jr: "Let's say it's just as great. Well, we go along until the middle of December, and we might have to raise, we'll say, another quarter of a billion dollars. We've got 450 million to pay off and we've got to raise maybe 250, so that would be 700 million dollars."

Gaston: Yes, but that doesn't take account of the investments in the Social Security funds too, which lessens it. It's all a question of the gold, I suppose. It's just a guess as to the amount of gold.

H.M.Jr: Well, they allow a quarter of a billion dollars for gold from now until the 15th.

Gaston: You mean he did in his story?

H.M.Jr: No, he....

Gaston: He allowed a great deal more for it.

Lochhead: He allowed a great deal.

Gaston: I'll ask him how he figures it.

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H.M.Jr: Yes, that's the point. He's the only one that's done it and he's all wet.

Gaston: Yes, I'll do it.

H.M.Jr: I don't want to do it. It would make it too important. But he's all wet. And simply make him put down his figures.

Gaston: Duffield hasn't been right for some time. He's been worried.

H.M.Jr: I think you'll do him a kindness. Because the Wall Street Journal's Washington office was wrong on this whole question of financing. I think you'll do him a kindness if you send for him and let him put it down, and show him where he's wrong.

Gaston: Yes, I'll do that.

H.M.Jr: The other thing, strictly within this room - not very complimentary - partly to make a record and partly to inform you, is this. I had a long talk with Henry Wallace this morning. Of course he's the fellow who has been doing most of the talking about an extra session - and as I say, this is very confidential - and I put it up this way to him. I said, "Henry, do you consider that getting through your crop control bill is a sufficient emergency that the President should call an extra session of Congress to handle that?"

And he said, "No, I can't say that it is." He says, "If we could get our bill through by the 25th of January, it would be all right."

And Bill Myers said if he gets his bill through by the first of March, he's all right.

And the other thing which is interesting: the three plans which he has in mind - he hasn't got the slightest notion how the President feels about any of them. I mean I'm just giving this.....

And on the wages and hours, Miss Roche - I mean the position that I'm taking is that it is much more

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important for Labor to know what the dollar is going to buy next year than to have a Wages and Hours bill next month. I mean they can wait until January and February. If we can't get this question of knowing what the dollar is going to buy - settle the Wages and Hours bill with an unsettled purchasing power of the dollar, it may be very bad, see? And what I am trying to do is to get the President to face the situation - How much are we going to spend, and how much are we going to collect, total sums? - so that Mr. Magill can tell how much he should work for. Now, he wants to meet with Mr. Doughton Monday, and they want to commit us. We can't commit ourselves if we don't know how much money we're going to spend. It's like anybody's family budget.

And so Wallace comes back and says, "Well, we've got to have national abundance."

I said, "That's swell. That's one part of the picture. But first you've got to put all of these things together. And if Labor has the purchasing power of a hundred or if it has the purchasing power of its dollar, anything that might vary that 25 percent up or down makes a great deal of difference to them." I don't know whether you - I'm not arguing for or against the Wages and Hours bill; I'm simply arguing for a postponement of calling Congress until we know where we're at.

Roche: Which Wages and Hours bill, might I ask?

H.M.Jr: Pardon me?

Roche: Which Wages and Hours bill?

H.M.Jr: I mean here's Wallace talking for an extra session of Congress - has three different plans for control of crops and admits he hasn't had a chance to discuss one of them with the President; says that Smith will come here the 15th of October, begin to hold hearings, hasn't got the slightest notion; and also says that as far as he's concerned it will be terrifically embarrassing to have Congress here, because everybody's going to jump on him about the price of cotton, and it may

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cost the Treasury another 75 to a hundred million dollars this year in order to satisfy these fellows, because they may just take the ball and run away with it.

Now, I'm trying to find out who does want an extra session of Congress.

Gaston: I think Miss Roche is suggesting that the situation is about the same with reference to wages and hours; that there isn't a definite policy about that.

Roche: There is great division, sir. There was even, of course, in Congress and among the people who want something done, as they say.

Oliphant: But they don't know what.

Roche: Great deal of difficulty.

H.M.Jr: Well, you wouldn't feel - let me put it this way: postponing this thing until January isn't going to be of any hardship to the man or woman who is known as a workman. I don't know - I mean

Roche: No, I think the only point on that, sir, is that if you have three or four things, all of which are important, and Congress doesn't meet until January, with the primaries starting in March, they're going to go ahead with the things they want to do and a lot of things are going to be put over again. That's the general feeling.

H.M.Jr: There are four things: Wages and Hours, Crop Control, Reorganization of Government, and National Resources.

Roche: Uh-huh.

H.M.Jr: Well now, I happen to know that the man the President brought in here to do the National Resources, this engineer from Philadelphia - what's his name? -

Gaston: Morris Cooke.

Oliphant: Morris Lewellyn Cooke.

H.M.Jr: He threw up the sponge, quit, couldn't handle it; gave him three different plans.

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- Oliphant: That's the regional planning.
- H.M.Jr: Just threw up the sponge after he was here two weeks. So there's nothing ready for the President.
- Reorganization - as the President himself says, it's a nice gesture towards efficiency in government, but doesn't save anybody a nickel, because we had it in the State of New York, had it in the State of Virginia, and it didn't save a dollar. So there's no emergency about that.
- Wallace admits he's not ready.
- Miss Roche says - I take it that Labor hasn't agreed.
- Gibbons: None of these labor people have agreed on hours and wages - four different opinions.
- H.M.Jr: I can think of a thousand reasons why the President for his own sake shouldn't have a meeting. I mean I just want to give Miss Roche a chance to tell, not as an Assistant Secretary of the Treasury, but....
- Roche: Yes.
- H.M.Jr: I mean whether you think I'm
- Roche: I think you're approaching it very soundly.
- H.M.Jr:whether the course that I'm taking is going to do anybody an injury.
- Roche: I think that would be not at all the case if these things go through in the regular session. I think the only argument for starting earlier is that there is very grave doubt if any of these things that either Labor or farmers care about will get through by March. That's the only thing.
- H.M.Jr: Well, that - that's in the lap of the gods, isn't it? And if they're in a hurry to get away, the chances are possibly.....
- Roche: They won't.

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- H.M.Jr: They either won't get away..... How important is it for them to get away? And I'm perfectly sick and tired of seeing half-baked bills introduced and found to be unconstitutional and go through all that thing once more. I haven't talked to Miss Perkins; I don't know whether she's ready. But certainly no one could be more frank than Henry Wallace, who admits he isn't ready and hasn't got the slightest idea what the President has in his mind. And he's never sat down with us - "How much is it going to cost? Can we afford it? Is the money there?" The answer is, "The money is not there."
- Roche: Wages and Hours won't be any
- H.M.Jr: Pardon me?
- Roche: Wages and Hours won't be any great cost.
- H.M.Jr: No, no. But there are only two good reasons to call a special session: Wages and Hours, and Crop Control. I don't consider either Reorganization or National Resources.....
- Gibbons: Why wouldn't the thing - next year there will be an election of these members of the House and one-third of the Senate; and if they don't put this stuff over by March, wait a month and let the President call an extra session, put them on the spot. I think it would be better politics.
- H.M.Jr: Well, Steve, the way my mind is working is this - I mean if this thing is good for the country, it's good politics. I don't think we should think merely of what is good politics, but what is good for the country, and this time that's good politics.
- Gibbons: Merely answering Miss Roche.
- H.M.Jr: If what we do is good for the country, good for the working man, that's good politics.
- Gibbons: Sure.
- H.M.Jr: And I can't see that anybody has had a chance to think this thing through. What's the use - you (Magill) say to me you're going to see Mr. Doughton

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tomorrow and Monday and they want a blank check that we'll back them up whatever they do. Now, do we need 800 million dollars, do we need 600 million dollars? How can you and I face Mr. Doughton and Mr. Vinson unless we know? I'm not fighting with Wallace whether he should spend 500 million dollars or a billion. My fight is, Are we going to spend six billion, seven and a half, seven billion; what are we going to spend? Then we can go about the tax program intelligently. But until I have, what's the use of fiddling around on what is important but are details compared to the total, the total figure?

Magill: That's right.

H.M.Jr: Now, I just want to give anybody in this room a chance to shoot back at me and hit as hard as they want, if they think that, man to man, I'm thinking along lines which aren't for the best for the majority. Now, that's - now, I've said a lot and I'll listen.

Oliphant: The demand for.....

H.M.Jr: Anybody can hit me and as hard as they want.

Oliphant: The demand for an extra session could be largely met if the President, instead of calling an extra session, would set up the machinery to get agreement on wages and hours, to get agreement on the farm program, in advance of the regular session.

H.M.Jr: Well, that would be the intelligent way to do it.

Oliphant: That would take care of the demand for the extra session, in the minds of reasonable people.

Gibbons: Just because that last Wages and Hours bill - if the Congress had gone along for three months longer, there never would have been agreement on it, and it wouldn't have done very much for Labor anyhow. It would set up boards and it would take three years to find out.....

H.M.Jr: You notice I'm not saying anything about business psychology, the financial centers, and all that.

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I'm not using that as an argument. But certainly at no time since the fall of

- Gibbons: I was going to mention that's a very important factor; you don't know what's coming out of this next Congress in the way of increased taxes.
- H.M.Jr: I don't want to use that, because if I do they immediately throw back that I'm just as bad as the rest of them.
- Gibbons: Yes, in terms of the Right.
- H.M.Jr: Well - yes, but I mean it's - anybody that picks up the papers can tell how these babies feel.
- Gibbons: Well, as you say, everything that's practically been done heretofore has been just sort of haphazard - get the things half way through, find it's unconstitutional, or it won't work, or something. You're approaching it in a very intelligent way.
- H.M.Jr: Miss Roche, are the labor unions, the two groups, A. F. of L. and the C.I.O. - I mean are they ready - I mean from their standpoint, postponing it, is that good or bad?
- Roche: Well, they both had in general - both groups endorsed the wages and hours legislation. There were points in the various measures on which there was disagreement, but by and large you can say the entire labor group, both factions, are back of some wages and hours bill which will set up a floor for wages and a ceiling for hours. That's the general idea.
- H.M.Jr: Well, supposing you didn't have an extra session - I mean would they feel they'd been let down?
- Roche: Well, they would most certainly, I think, and rightly, if there were not specific arrangements made for it to have either first or second place in the January session.
- H.M.Jr: Well, on the other hand, I take it they are not satisfied the way the bill is written.

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- Roche: Well, there were many different ones used.
- H.M.Jr: There would be hearings, so forth and so on, now, to get ready for January.
- Roche: Of course, they had extensive hearings. I should think with a few successive meetings of various sorts of legislators they could work out something, and the Labor Department.....
- H.M.Jr: Well, supposing it is said that first comes Agriculture.
- Roche: I don't think they need more hearings.
- H.M.Jr: The Agriculture bill comes first. Then the lynching bill comes second in the Senate. You know that.
- Roche: Yes.
- H.M.Jr: Then third would come Wages and Hours. I mean that isn't the order that I'd put them in, but I mean that's what...
- Roche: Uh-huh.
- H.M.Jr: ...would happen, wouldn't it?
- Roche: Yes, and I would expect a long bitter battle on the anti-lynching bill, and Wages and Hours to go over. I mean I think that's just realistically how they will argue about it.
- H.M.Jr: I'm trying to get my arguments together, and where are they unsound?
- Roche: I beg pardon?
- H.M.Jr: I mean I'm trying to argue with myself.
- Roche: Oh yes.
- H.M.Jr: What I'm trying to do is, I'm advising the President not to call it. I've got one chance in ten. The cards are all stacked against me, and I'm trying it

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out on you people. And where am I arguing unsoundly? I mean am I doing something narrow, purely from Treasury - am I too Treasury-minded? I mean that sort of thing. See what I mean? I don't think so, because I think the fundamental thing - I mean if we take any lesson from Europe - is to get this dollar so that you continue to buy the working man and the farmer a decent return for his money. I think that's the most important thing, and I think we've got to stop talking about balancing the budget or else say we're not going to balance the budget, come out point blank and say we're not going to balance the budget or we are. But let's stop fooling the people, because they have lost complete confidence in anybody.

I mean even Archie was going to believe I was serious about it, until yesterday Roper came out and talked again. Then he said, "Well now, I don't know where I stand."

Haas: Yesterday and day before, and day before that.

H.M.Jr: I mean I almost had Archie convinced we were going somewhere.

McR: Is that because Roper's people talked to Roswell yesterday?

Magill: No, he made another speech.

H.M.Jr: Well, anyway, that's that.

Mac, you got anything?

McR: No.

H.M.Jr: I don't feel very happy - you fellows are taking the thing in hand, but it seems to me that Internal Revenue - that they should be as badly off as they are in handling the Social Security tax is a pretty serious matter. That's one black mark. Black Mark Number Two - the fact that they haven't collected this money from the railroads. And certainly the memorandum that you (Magill) wrote them - anybody who could read English could understand it. Now, what it does to me is - "How many other things are there?"

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Magill: I'm afraid there's a whole business. This week, it just happens, there's been one succession of similar instances.

H.M.Jr: Have you put them down?

Magill: Yes.

H.M.Jr: Well, certainly that note that you wrote to Helvering doesn't leave any question.

Magill: I don't see how you could have written any other note, do you?

H.M.Jr: No. He's away, isn't he?

Oliphant: Two weeks.

H.M.Jr: What's that for, election?

Oliphant: I don't know.

Magill: I - no, I think it's personal.

H.M.Jr: It just raises the whole question. How much are you in on this thing, Mac?

McR: Well, I know Graves talks to me every day about the program as we go, and I'm spending an hour or two every day with him.

H.M.Jr: Well, I think it's well worth your while.
Cy?

Upham: Nothing.

H.M.Jr: Ask Miss Chauncey what she did with your reports. I haven't got them.

Upham: She said she sent them up to the hotel.

H.M.Jr: The hotel! I don't live there any more.

Upham: Or your home - wherever you are.

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H.M.Jr: Well, they're not there. Every single thing I've seen. Will you? If necessary, ask Secret Service. But I haven't got them. I'd like to read them.

Upham: Nothing since St. Louis?

H.M.Jr: Nothing since St. Louis.

Lochhead: Nothing.

Gibbons: Nothing.

Roche: Nothing special. We had some very interesting health conferences in New York.

H.M.Jr: George?

Haas: I have nothing.

H.M.Jr: Herbert?

Gaston: I don't think of anything.

The Advisory Council was in yesterday to see Roswell. We didn't have the newspapermen in, because they told us both before and during the meeting that their lips were absolutely sealed.

H.M.Jr: Uh-huh.

Are you (Oliphant) going to be here this week-end?

Oliphant: Yes, sir.

H.M.Jr: I mean are you going to go down to the Bay?

Oliphant: I have no plans. Mrs. Oliphant has driven west.

H.M.Jr: Pardon me?

Oliphant: Mrs. Oliphant has driven west, so I haven't any plans.

H.M.Jr: Well, tomorrow morning I'm going to Mrs. Hopkins' funeral, so I won't - I wouldn't - won't work this week-end. I'll take up - I tell you, about 10 o'clock

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Monday we'll do this road thing. You don't want to do it now?

Oliphant: No.

H.M.Jr: I mean so you won't think I'm going to hold you off.

Oliphant: Well, I haven't any....

H.M.Jr: I'll say 10:15 Monday.

McR: To relieve your mind on that Revenue thing....

H.M.Jr: Yes.

McR: ...the reason why Internal Revenue is in its present situation with respect to that collection, is that Treasury undertook - after being convinced that Social Security Board wouldn't do the job on these information returns, they undertook, at the very insistent request of Social Security Board, to do the job of auditing those returns.

H.M.Jr: I know.

McR: And that's the reason why we're behind.

H.M.Jr: Well, we kind of asked for it.

McR: No we didn't.

H.M.Jr: Well, we sort of went around and said, "Social Security, you can't do them. If you want to see a good job done, the Treasury will do it."

McR: We did that originally.

H.M.Jr: Yes.

McR: And they turned us down. But after they took it themselves, then they came around and said, "You can do it better than anybody else and we wish you'd do it." Now, there's been a succession of circumstances; lack of information available, lack of decisions by the Board, made it very difficult

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for our men in the field. I came back from California in March with the idea that we'd have to make a definite survey in every collection district in order to get at the taxpayers, and talked to Altmeyer about it. He said, "No, our registration records will be sent out there in the course of the next six weeks, and it will be sufficient." Well, it isn't sufficient, it doesn't do any good, and we've got to do what I suggested then.

H.M.Jr: You better write a history of this thing and have it put up, because this is the way I work. We put Harold Graves on this thing. The first thing that I know that the thing isn't going well is when Harold Graves throws up a red flag and says, "Danger signal." You better write a history of this thing - just what your connection has been, and what is your relationship with the Board. And, the first thing you know, we're going to be the goat. You heard Molly Dewson, huh?

McR: She didn't talk that way when she left me.

H.M.Jr: Well, I still say you better write a history for your own sake as well as the Treasury's sake. Will you? Just because you can let married people work in the Treasury is no reason why you should be so cocky.

But seriously, you better get busy, Mac. Because supposing somebody sends for me and says, "Well, the Treasury's falling down." I don't know what the answer is. It was in your hands up to the time we put Harold Graves in there.

McR: Well, my hands merely as a contact man. In the hands of the Commissioner of Internal Revenue now, to do the job.

H.M.Jr: I again say you better write me a history. Will you?

McR: O.K.

H.M.Jr: You're watching it for me.

McR: I have been every minute.

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Haas: May I ask a question?

H.M.Jr: Yes.

Haas: Have you definitely decided to put out the budget summation?

H.M.Jr: I have, but it's the President's budget summation. I mean it's one of the recommendations I make to him when I see him.

Haas: The reason I asked - you said you wanted to personally go over those figures.

H.M.Jr: I know, but between the time he says he'll do it and the time he does it gives me time enough to sit down with you.

Haas: Yes. I just wanted to make sure.

H.M.Jr: Before we made this decision about how much money we're going to borrow from now until the first of December I had to be very careful. I've done that. I think I was right. I think the Federal Reserve crowd was awfully wrong. Time will tell.

Anybody got anything else? All right.

Cabinet Oct 8, 1937

F. D. R.

THE WHITE HOUSE
WASHINGTON

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we have gone crazy on
roads - it is just nuts.

gave strong talk
on balancing the Budget.

Said it looks as
though we would have
to cut out 300
million for 39 -
Used all of my
information in my
letter of Oct 5th -

OCT 8 1937

2/12/37

I wish you would read this. Though it deals with the same subject - as my earlier memo, it cuts across it in a more helpful way.

KD
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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE OCT 8 1937

TO Secretary Morgenthau
FROM Herman Oliphant

Attached is a list of the agencies all or a part of whose capital was advanced by the Treasury directly, or indirectly through the RFC. The advance in each case appeared as an expenditure in the budget. To the extent that the Treasury could, with or without legislation, get these advances back, their return would (under present practice) constitute receipts for budget purposes and would reduce interest outlay by decreasing borrowing or reducing the public debt. So far as agencies are getting their operating expenses from their capital invested in Government bonds, budgetary control of such expenditures is circumvented and the public debt is needlessly increased.

How and to what extent can these capital funds be recaptured, with or without legislation? The answer to this twofold question cannot be extemporized. Instead, each of the listed agencies would have to be thoroughly probed to get clear-cut answers to a series of questions about it, such as the following:

1. Does it now have more capital than it needs, assuming no change in its set-up or work? This might be true of some of the farm credit agencies.

2. If the agency is in, or headed for, liquidation, can capital be recaptured by speeding up such liquidation?

Promising from this angle are RFC, PWA, HOLC and FHA modernization loans.

3. Is the agency performing a function which the Government need no longer perform, assuming appropriate legislation to effect transition? Something on this score might be found by a thorough-going examination of such agencies as the Export-Import Bank and the RFC Mortgage Corporation.

4. Was the agency set up merely because of some limitation in the law, and hence could all or part of its capital be freed by merging it with another agency having the necessary capital? Here fall such agencies as the Commodity Credit Corporation, the RFC Mortgage Corporation and the Export-Import Bank.

5. Could the public or private institutions be induced to supply all or a part of the capital of the agency now supplied by the Government? Thus, could more of the capital load of FDIC be thrown on the insured banks? Here should be examined certain of the farm credit agencies, the Federal Savings and Loan Insurance Corporation, the Home Loan Banks and the Federal Savings and Loan Associations.

6. Could the agency be currently financed by taxes and its capital thereby freed for returned to the Treasury? Thus, the President's anxiety for a special tax on boats in coastwise and inland shipping and on motorboats to make them bear part of the costs of the harbor and inland-waterway improvements might make it possible to free the capital of the Inland Waterways Corporation. Financing by current taxation of the

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limited portion of the community especially benefited by the agency in question is a possibility which should be examined as to all of these agencies.

7. Finally, and quite important, why as to each of these agencies do we have a capital set-up at all as opposed to a nominal capital and a line of credit with the Treasury?

Hermon O. O'Connell

Proprietary Interest of the United States in Governmental Corporations and Credit Agencies,
as of June 30, 1929 to 1937 ^{1/}
(In millions of dollars)

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Financed wholly from Government funds:									
Reconstruction Finance Corp.	-	-	-	780	1,498	2,452	2,035	1,804	1,491
Commodity Credit Corp.	-	-	-	-	-	206	154	244	123
Export-Import Banks	-	-	-	-	-	14	14	18	17
Public Works Admin.	-	-	-	-	-	115	312	152	146
Regional Agric. Credit Corp.	-	-	-	-	150	51	77	35	27
Production Credit Corp.	-	-	-	-	-	106	121	121	121
Panama Railroad Co.	40	42	42	45	43	^{2/} 43	43	43	44
Shipping Board Merch. Fleet Corp.	210	207	217	233	224	143	182	151	87
War Emergency Agencies	14	11	10	10	10	10	9	9	8
Farm Loan Board - Over. Loans	7	160	392	628	^{3/}	-	-	-	-
Farm Credit Administration	-	-	-	-	555	^{2/} 74	193	175	191
Inland Waterways Corp.	20	21	24	24	25	24	24	25	25
Railroad Obligations	62	55	40	39	38	38	31	30	30
Tennessee Valley Authority	-	-	-	-	-	^{2/} 90	64	96	179
Subsistence Homesteads (R.A.)	-	-	-	-	-	^{2/} 30	24	80	128
Federal Housing Administration	-	-	-	-	-	-	20	30	30
R. F. C. Mortgage Corp.	-	-	-	-	-	-	^{4/}	18	48
Rural Electrification Administration	-	-	-	-	-	-	^{4/}	1	12
Other	-	-	-	-	-	1	5	6	14
Total Group 1	353	496	725	1,759	2,544	3,319	3,317	3,038	2,721
Financed partly from Government and partly from private funds:									
Federal Land Banks	^{4/}	^{4/}	^{4/}	125	125	151	257	256	292
Federal Intermediate Credit Banks	^{3/}	^{3/}	^{3/}	35	60	85	84	103	104
Federal Farm Mortgage Corp.	-	-	-	-	-	197	205	201	177
Banks for Cooperatives	-	-	-	-	-	111	129	156	154
Home Loan Banks	-	-	-	-	43	81	82	100	131
Home Owners Loan Corp.	-	-	-	-	1	144	70	13	68
Federal Savings & Loan Insurance Corp.	-	-	-	-	-	-	102	104	108
Federal Savings & Loan Associations	-	-	-	-	-	1	32	102	48
Federal Deposit Insurance Corp.	-	-	-	-	-	150	150	150	150
War Finance Corp.	1	1	1	1	1	^{4/}	^{4/}	^{4/}	^{4/}
Total Group 2	33	34	35	162	230	930	1,106	1,185	1,222
Grand Total	386	530	760	1,921	2,774	4,249	4,423	4,223	3,943

^{1/} Source: Annual Report of the Secretary of the Treasury, 1936; Daily Treasury Statement, July 31, 1937.
^{2/} Estimated. ^{3/} Transferred F.C.A. ^{4/} Less than one million.

October 8, 1937.
10:06 a.m.

Operator: Mr. Farley.
Jim
Farley: Hello
H.M.Jr: Jim
F: Yes
H.M.Jr: Have you got a moment. Jim, I want to tell you what I'm trying to do, I don't know whether we're together or not, but I'm trying to influence the President not to call an extra session of Congress. - Hello.
F: Yes, well I haven't any views on it.
H.M.Jr: You haven't.
F: I mean - no I haven't. Frankly, I prefer not, but I'm not tied or bounds - committed any way.
H.M.Jr: Well, may I give you a few reasons why I think he's making a major blunder if he does.
F: Yes.
H.M.Jr: One reason is crop control, see.
F: Yes
H.M.Jr: I talked to Henry about it, and Henry says frankly he's got three plans - he hasn't had a chance to check any of them with the President, and if he got his bill through by the 27th of January, he could get by, it would be a little difficult see - hello
F: Yes, go ahead.
H.M.Jr: I talked to Miss Roche about the wage and hour bill, and she said if the President would indicate that they're going to have it in January, that Labor wouldn't have any great kick, see -
F: Yes
H.M.Jr: What I'd like him to do is to do what he said he was going to - really put his mind on this question of the budget.

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F: Yes

H.M.Jr: Which he hasn't done, and which is in a very bad shape, see.

F: I see

H.M.Jr: And before we decide any new legislation, he ought to decide how much we are going to spend and how much taxes we are going to raise.

F: Yes

H.M.Jr: We don't know, he doesn't know because he hasn't looked at it, and I think from the standpoint of the country, if he'd say that he was going to sit in and have these budget hearings for a month, a great deal of confidence would go out among the business men, and God knows we need that. Now on the other side why give all his enemies a sounding board with 500 newspaper men in listening to him and they all come in here, Bert, Weaver and all the rest of them that's been behind the President and they've got somebody to listen to them.

F: Yes.

H.M.Jr: And I can think of a hundred reasons why he should.

F: Has he definitely made up his mind.

H.M.Jr: No, he has not. It is not so. Jim, the only argument - the last time I discussed it with him - he indicated the reason he wanted it now was if he waited until after the first of the year, they get jammed up, and with the rest of the stuff, they wouldn't do anything - they'd murder it like they did before.

F:

H.M.Jr: Well, I tell you Jim,

F: Yes

H.M.Jr: I don't know - we really need a breathing spell, to get a chance to tell which way we're going. I haven't seen the business men since last November '33, as - as jittery as they are now.

F: Yes

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H.M.Jr: And it's getting steadily worse.

F: I see.

H.M.Jr: I can't - I can't see anything in it for the President - I can see a hundred reasons why he shouldn't.

F: I wonder if they are going to bring it up today.

H.M.Jr: Well, if he doesn't, I'm going to.

F: I see

H.M.Jr: If I get a chance, and Wallace has been the fellow who's been talking publicly about it, and I had a heart to heart talk with him and he said well it would be difficult but he could get by, but he said on the other hand, he said when the Southern Senators in Congress come here they may jump him on the cotton, and it may cost us another seventy five to a hundred million dollars.

F: Yes

H.M.Jr: Now we're in the hole for this year, now, five hundred million dollars.

F: I see.

H.M.Jr: And the President keeps talking about balancing the budget and you can't do it unless you really put your teeth into it.

F: I see.

H.M.Jr: And, I think we've got to - just catch our breath. Now if there was anything in it for him, I'd say swell. Sure we've got to have a cotton crop control bill, sure we've got to have a wage and hour, but - but I don't think he's going to lose anything by waiting until the first of January, and the people really are terribly frightened, and -

F: Well, of course they get that way.

H.M.Jr: I know they do, but each one talks to the other and each one gets a little bit more frightened and after a while they talk themselves into a depression.

F: Yes.

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H.M.Jr: Now, I'm not frightened - I'm not frightened, but I'm worried.

F: Yes.

H.M.Jr: I'm really worried.

F: Well, I'm going to try to see him this morning, and I'll try to get his reaction.

H.M.Jr: And - I just wanted to tell you, as man to man where I stand.

F: Well, - well I haven't any views, see, I mean, I -

H.M.Jr: Well, I really think from his standpoint and from the country, it'd be a major blunder to get them in here.

F: I see. O.K. I'll see what I can find out from him, see how strong he really is.

H.M.Jr: O.K.

F: Now, listen, thank you very much for that Minnesota thing.

H.M.Jr: Well, -

F: The reaction was all right up there, I mean - the newspaper reaction was all right.

H.M.Jr: Well, you put it up on a basis I couldn't turn you down.

F: Well,

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

F: I was terribly depressed because I wanted to keep - we could go that way assuming the fellow was all right. And you'll find that that reaction up there is all right.

H.M.Jr: All right.

F: Even Landis said it was all right.

H.M.Jr: Well, I'll take your word.

F: Did you know that.

H.M.Jr: No.

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F: Well, he said it was all right. Said the appointment was a good appointment.

H.M.Jr: All right.

F: O.K.

H.M.Jr: Goodbye..

October 8, 1937.
11:10 a.m.

H.M.Jr: Hello

Randolph

Burgess: Good morning, Henry.

H.M.Jr: Hello, Randolph.

B: Well, I talked with a number of the dealers, and Manning talked with some of them. No one is very much excited. I can't get much reaction either way.

H.M.Jr: Well, that's good.

B: I think so, yes.

H.M.Jr: Yes

B: The only person who expressed much opinion either way was Jesse Mills, he said he was disappointed.

H.M.Jr: Disappointed.

B: He said he thought it just postponed any difficulties there might be.

H.M.Jr: I see

B: But he's the only one

H.M.Jr: Uh-huh.

B: Said it means taking down the War Loan deposit of the bank.

H.M.Jr: Uh-huh.

B: Makes them a little less eager to buy which is no great matter.

H.M.Jr: Uh-huh

B: The papers didn't understand it very well as you can see^{by the} morning paper. Of course the papers just gave part of what you said. With a full explanation he got it pretty well.

H.M.Jr: Uh-huh.

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B: Now the other fellows, most of them
no special reaction to it,
and so on.

H.M.Jr: Uh-huh. Well that's all right.

B: Well, the reaction is all right.

H.M.Jr: Now, you'll have to wait until about the 15th of
December, and then we'll have dinner together and -
if it goes well, I'll give you a dinner - and -

B: If we run into trouble I'll give you one.

H.M.Jr: That's right.

B: O. K.

H.M.Jr: How's that. All right.

B: That's first rate.

H.M.Jr: All right, Randolph.

B: Otherwise - the market is all right, these issues
have gone pretty well, you know - the Central New
York power has gone pretty well.

H.M.Jr: Good

B: And the Idaho Power, which looked a little bit sour
at first, has gone over all right.

H.M.Jr: Fine

B: So that's pretty well cleaned up, the only two things
the Bethlehem and the Pure Oil and a few of these
little things. I'll write you a little note, perhaps,
today -

H.M.Jr: I wish you would.

B:

H.M.Jr: Thank you very much.

B: O. K.

H.M.Jr: Goodbye

B: Goodbye

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 8, 1937, noon

NO.: 1413 RUSH

FROM COCHRAN.

Yesterday the French control lost foreign exchange in the amount of 86 million francs. I visited the Bank of France this morning, and up to 11 o'clock the control had not been obliged to give up any foreign exchange; officials were pleased that there is thus a diminishing of the export pressure. One of the officials said he did not think there was any hope of the franc gaining any of the ground lost vis-a-vis other currencies, but he said conditions might soon develop which would prevent a further drop in the franc.

This particular official made reference to the belief that the chances for the Radical Socialists in Sunday's election are being improved by the withdrawal/of certain "moderate" candidates, thus they are strengthened against the Left party. It is also the understanding of this official that Paul Rey, sensing the change toward conservatism, is now willing and even anxious to fit into a Munoz government as Minister of Finance if the elections go against the Left - which he was not willing to do a few days ago.

WILSON.

EA: LWW

LMS

GRAY

Paris

Dated October 8, 1937

Rec'd 5:10 p. m.

Secretary of State,
Washington.

1415, October 8, 4 p. m. (SECTION ONE)
FROM COCHRAN.

At the opening of market French control sold a little sterling between 150.35 and 40; later acquired some around 150.20 and toward close of afternoon appeared to be giving again. Exchange market was thin and nervous this last trading day before elections. Traders have heard forecasts favoring both Extreme Left and Radical Socialists with really nothing very convincing for either view. Consequently the tendency today is to await the very uncertain outcome. Renten and French shares better but internationals offered with bad markets at Amsterdam, Brussels and London.

According to London press report French Government has arranged for loan of 100,000,000 Swiss francs from Swiss banks to French state railways in the form of two-year bills bearing four percent and issued at 99. I cannot yet confirm this story.

Following paragraphs excerpted from LONDON TIMES:

(END SECTION ONE)

WILSON

RGC:NPL

LMS

GRAY

Paris

Dated October 8, 1937

Rec'd 5 p. m.

Secretary of State,
Washington.

1415, October 8, 4 p. m. (SECTION TWO)

account of speech delivered last night by Chancellor of the Exchequer to London bankers and merchants' gathering:

"Equally important for the promotion of prosperity is the maintenance of general confidence in the international financial system. Last year my predecessor referred to the notable step in international monetary cooperation which had recently been embodied in the tripartite declarations of September 26, 1936. That is a year ago. In the interval a welcome degree of stability has been maintained between the pound and the dollar. As regards the franc our hopes have ^{not} been fulfilled to the same extent. The French Government has had to face great difficulties and I desire to pay my tribute to the efforts which it is making to overcome these difficulties.

The French Government has indeed a great deal of solid achievement to show since it took office at the end of June. Georges Bonnet has recently issued figures
for

LMS 2-No. 1415, October 8, 4 p. m., Sec. 2, from Paris.

for his budget for 1938 which will show a surplus while he anticipates that the borrowing requirements of the French Treasury for extraordinary expenditure will be reduced to a sum well within the capacity of his own market. Important progress has thus been made;

(END SECTION TWO)

WILSON

NFL:RGC

LA-

GRAY

Paris

Dated October 8, 1937

Rec'd 4:50 p. m.

Secretary of State,
Washington.

1415, October 8, 4 p. m. (SECTION THREE)

We earnestly hope that the French Government's efforts will be crowned with success and that conditions will soon be restored in which confidence in the French currency situation may (*) both at home and abroad.

We welcome very warmly the speeches recently made by the French Prime Minister and Bonnet in which they reaffirm their intention to maintain the policy laid down in the tripartite declaration. Especially do we in this country welcome the assurance that France is determined to avoid any measure of exchange control.

I feel sure that this country will join with me in according to the French Government in the task that still lies before them the fullest measure of sympathy, the more sincere because it is based on a realization of the difficulties of the situation, and a recognition of the courage and skill with which they are being faced."

(END OF MESSAGE)

WILSON

MFL:RGC

(*) Apparent omission.

October 9, 1937

The attached was furnished by Mr. Bell.

EXPENDITURES - DEPARTMENT OF AGRICULTURE
(In Millions of Dollars)

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	ACTUAL								ESTIMATED	
	1931	1932	1933	1934	1935	1936	1937	1938	1939	
1. Department Proper	76	72	60	45	49	53	60	66	89	
2. Payments to States for Agricultural Experiment Stations and Extension Service	13	13	13	13	13	22	22	24	25	
3. Soil Conservation Service										
(a) Regular Funds	—	—	—	—	—	4	22	23	25	
(b) Emergency Funds	—	—	—	1	10	21	12	4	1	
Total, Soil Conservation Service	—	—	—	1	10	25	34	27	26	
4. Farm Tenant Act										
(a) Title I, Tenancy	—	—	—	—	—	—	—	10	23	
(b) Title II, Rehabilitation	—	—	—	—	—	—	—	—	89	
(c) Title III, Submarginal Land	—	—	—	—	—	—	—	5	20	
(d) Title IV, Completion Resettlement Projects	—	—	—	—	—	—	—	—	3	
(e) Total, Farm Tenant Act	—	—	—	—	—	—	—	15	135	
5. Agricultural Adjustment Administration										
(a) Agricultural Adjustment and Related Acts	—	—	—	300	629	498	81(b)	6	2	
(b) Jones-Connally Act	—	—	—	3	85	25	3	—	—	
(c) Section 37, Act August 24, 1935 (u)	—	—	—	—	—	1	18	15	2	
(d) Section 32, Act August 24, 1935	—	—	—	—	—	32	32	29	118	
(e) N. I. R. A. Funds	—	—	—	3	35	—	—	—	—	
(f) Conservation and Use of Agricultural Land Resources	—	—	—	—	—	—	370	400	400	
(g) Administration of Sugar Act of 1937	—	—	—	—	—	—	—	28(v)	48	
Total, Agricultural Adjustment Admin.	—	—	—	306	749	556	504	478	570	
6. Road Funds										
(a) Regular Funds	150	144	110	50	15	34	89	210	272	
(b) Emergency Funds	24	65	68	197	288	211	263	120	35	
Total, Road Funds	174	209	178	247	303	245	352	330	307	
7. Emergency Funds (Other than for Soil Conservation Services, A. A. A., and Roads)										
(a) Farm Security Administration (Formerly Resettlement Administration)	—	—	—	—	5	145	222	141(w)	13	
(b) Forest Service (x)	3	—	4	11	15	27	31	14	1	
(c) Entomology and Plant Quarantine	—	—	—	3	3	11	15	9	1	
(d) Biological Survey	—	—	—	—	1	3	5	4	—	
(e) Drought Relief	—	—	—	—	81	3	—	—	—	
(f) All Other	—	—	—	2	2	4	5	1	—	
Total, Emergency Funds	3	—	4	16	107	193	278	169(v)	15(v)	
8. Total, Regular Funds	239	229	183	108	77	113	193	336	546	
9. Total, A. A. A. (Exclusive of N.I.R.A. Funds)	—	—	—	303	714	556	504	478	570	
10. Total, Emergency Funds	27	65	72	217	440	425	553	293	51	
11. Grand Total, All Funds (Checks Issued)	266(z)	294(z)	255	628	1,231	1,094	1,250	1,109	1,167	
12. Adjustment between checks issued and cash expenditures	- 15	+ 13	- 4	+ 4	- 2	- 24	+ 8	+ 7	+ 6	
13. Cash Expenditures	251	307	251	632	1,229	1,070	1,258	1,116	1,173	

(b) Includes a credit of \$17,000,000 representing final repayment of \$64,500,000 advanced to Secretary of Agriculture under authority of Section 3, paragraph 2(b) of the Agricultural Adjustment Act.

(u) Includes expenditures for Elimination of Diseased Cattle by the Bureau of Animal Industry.

(v) In order to carry out the provisions of the Sugar Act of 1937 an additional amount of \$47,614,210 will have to be appropriated for Conditional Payments to Sugar Producers; of which \$28,000,000 will be expended during 1938.

(w) These expenditures are based on the Farm Security Administration limiting its obligations to \$118,300,000 during 1938.

(x) Includes expenditures from \$30,000,000 Emergency Conservation Work Allocation for Land Acquisition.

(y) Includes estimated expenditures of \$10,000,000; \$7,000,000 in 1938 and \$3,000,000 in 1939; from additional funds to be allotted from Emergency Relief Funds during the remainder of the fiscal year 1938.

(z) Includes \$46,000,000 (1931) and \$11,000,000 (1932) for Farmers Seed Loans, which activity was transferred to the Farm Credit Administration in 1933.

October 11, 1937 (9 a.m.)

Jesse Jones called me at the house last night and wanted to know whether he could have more time for preparing his list of approved projects. I told him it would be time enough if he had it Thursday or Friday.

In walking down with Bell this morning I said: What's Jesse Jones up to? and he said: Well, he's got this idea that he's going to sell R. F. C. securities and get new money that way and give the Treasury all of the money which he takes in and in that way help us to balance the Budget. I said: He told me about that a week ago. What do you think of it? Bell said: I told him it was a tricky way of balancing the Budget and might help us out temporarily but would not accomplish anything. I told Bell I thought just the same.

I am going to call up Jesse later on and tell him that I don't want him to start working on the President along those lines.

Worked last night with Haas on my speech and really felt that I gave him some very good material. Seltzer's draft and Upham's draft (which is simply a paraphrase of Seltzer's) were not very helpful. I told Haas to have something for me by Thursday.

Sunday, spoke both to Viner and Rieffler and told them to come on down and review what we have been doing in the Stabilization Fund because the situation had changed so during the last two weeks. Viner was dumbfounded when I told him we had sold \$20,000,000 gold last week. He said: There is certainly no indication of it in the papers.

The one new idea which I gave Bell today is this: that the first time the President again says anything about the Budget, he should announce publicly that he will keep the 76th Congress here indefinitely until they balance the Budget. This is quite different from what he has said heretofore. Bell was most enthusiastic about the idea. He said: That means that the Committees on Appropriations and Ways and Means will have to work together and if the President serves such notice on Congress they will stay here until they balance the Budget. Bell wants him to

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put this into his Budget summation if he decides he wants to give one out.

I asked Bell to give me the figures which show how much more has been authorized than appropriated. He thinks it's about \$1,500,000,000. (See that I get it.) He also says that Junk, Administrative man for Agriculture, has given him a swell statement on total appropriation for Agriculture. (See that I get it.)

oOo-oOo

October 11, 1937

Bell's attitude is that the President will go along and make the two of us feel good up to a certain point and then he will back out and back down on balancing the budget. Bell again said that nobody believes the President. This does not help me any to make my fight and have Bell on my right who, for the time being, has lost his belief in the President.

October 11, 1937

Conference with the President this morning, at 9:30 a.m.

Overcame his objections to giving out Budget summation. The fact, he said, that influenced him most in giving it out is that we can prove Congress voted \$240,000,000 in excess of his Budget estimates. He says it's hard to believe it because the information that he received before from Bell made him believe that the savings made by Congress offset the increased expenditures. I told him I thought he was wrong. He said: Before giving out these figures I want Bell to show them to Senator Jimmy Byrnes and Congressman Cannon so there can be no possible misunderstanding.

He said: I have got good news for you in regard to Relief. He said: I have been talking things over with Hopkins and while I won't announce it, I think we can get by with \$850,000,000 next year. He said: I expect to work out a way with the various Highway Commissions that they take a number of people off the relief rolls which we will pay for provided that they do not reduce their own expenditures. He said that Hopkins felt that he would not object to Jimmy Byrnes' amendment this year calling for 40% of the Relief appropriation being supplied by the community because Hopkins felt that the communities could now mostly afford this.

The President said: It's a great thing to motor through the country and I find that most of the communities now have used up all their useful projects and are now spending our money for maintenance -- digging out irrigation ditches and things like that -- which should be done by the community. He said: Hopkins and Williams won't admit this. I said: Mr. President, do you know that a large part of our relief money in the City of New York is spent for the maintenance of the City Government? And, I said, That's going on all over the country.

Evidently the President and Hopkins have gone much, much farther than I had any idea they might in their attitude toward spending money for Relief.

I gave the President my idea that he should serve notice on the next Congress that he would keep them here until they balance the Budget. He said: Your idea is all right, but I will have to say it more politely. I

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said: That's all right, as long as you say it. He said: I will. I said: That's much better than saying what you have before that if they appropriate additional money you will ask for extra taxes. He said: That's right.

He certainly has this whole question of spending very much in his mind.

I took the opportunity to say that Jesse Jones had advanced the idea that he would sell R. F. C. securities and get his money that way instead of getting it from the Treasury and that on paper it would look as though we balanced the Budget. I told the President that I could not stand for it; it was just a trick. While he didn't say so, I could see that Jones had already talked to him about it, but before I got through I am quite sure that I convinced the President that we should not do this sort of thing at this time.

He talked about Roper and he said he believed that Roper's philosophy was that he should try always to placate the business man and be the "go-between" between the business man and the Government, but that at present Roper was being too "Polly-Annish", which of course is the word I used and the Times used last Friday. This gave me my opportunity that I have been longing for and I said: Mr. President, if you were back as President of the F. & D. Insurance Company would you hire Dan Roper as Vice President? He said: Of course not. I said: Roper has got nothing but a Class C brain. I said: For three years he has been talking about building one ship and during that time the price has gone up from \$10,000,000 to \$15,000,000. And the President just shrieked with laughter!

The President agreed to release his Budget summation next Monday provided that we had the thing in shape for him this afternoon. I said: Don't you want to go over it again next Friday at Hyde Park? He said: No; it won't be necessary. I said: Do you want to explain it to the boys, the newspaper men, the way you always do? He said: I don't think it's necessary. We will just give it out. Personally, I think it would be very good if he did explain it to the newspaper men and put a little 'punch' into his explanation.

oOo-oOo

October 11, 1937

Bell and I were with the President for an hour and a half and every single suggestion that Bell and I made for saving money was accepted by the President. When we got through the President turned to me and said, "I want you to tell me that I was pretty good. I think I deserve a pat on the back," and I said, "You certainly do," and I shook hands and congratulated him.

with F. D. R.
Oct 11, 1937

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DRAFT NO. 4

STATEMENT BY THE PRESIDENT ON THE SUBMISSION
OF THE 1938 BUDGET

The attached summation presents revised estimates of receipts and expenditures for the fiscal year 1938, reflecting the changes which have occurred in the Budget since its transmission to Congress in January 1937 and the subsequent revision of estimates contained in my message of April 20, 1937. In the latter message, I pointed out that the decline in tax receipts was almost entirely responsible for the then estimated deficit of \$415,000,000 for the fiscal year 1938. It was indicated that this estimate would necessarily be subject to change dependent on any action taken by Congress which might increase expenditures.

In the April 20 message I stated:

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

In carrying out the first proposal a letter was addressed, on June 23, 1937, to the heads of all departments and establishments, requesting

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them to set up in reserve not less than 10 percent of the total amount of all funds that are properly susceptible to the establishment of reserves. It was estimated that not more than \$3,000,000,000 in appropriations made to the regular departments and establishments could be subjected to the reserve requirements. Pursuant to this request reserves were established against these appropriations by the heads of the various departments and agencies amounting to \$409,000,000. While a certain percentage of this amount will necessarily have to be released for expenditure, substantial savings will be effected.

Changes have occurred which were unforeseen at the time the estimates for 1938 were revised in April, and but for these, the deficit would have been practically eliminated.

The principal changes affecting receipts and expenditures which have caused the present estimated net deficit of ^{695,655,000} ~~\$471,245,000~~ are:

1. The enactment of the new Railroad Retirement Act which increased the number of annuitants by adding certain groups of employees, retired under railroad pension systems, who were not included under the provisions

- 3 -

of the former retirement act, and which added a reserve feature necessitating the annual investment of funds to establish a reserve against future payments. These two provisions, which were not contemplated at the time the April 20 estimates were formulated, increased the estimate of expenditures by \$ 113,000,000

2. The continuation by Congress of reduced interest rates on Federal Land Bank loans and the reduction, for the first time, in the interest rates on Land Bank Commissioner's loans necessitating an additional expenditure to reimburse the Land Banks and the Federal Farm Mortgage Corporation for the loss suffered through these reductions..... 40,000,000

3. The enactment of legislation authorizing refund of the taxes collected under Title 9 of the Social Security Act to those States enacting subsequent to the collection of such taxes, unemployment compensation programs resulting in an additional expenditure of 36,000,000

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4. The enactment of Farm Tenancy legislation authorizing
an appropriation in the fiscal year 1938 of \$ 20,000,000
5. The extension of the Public Works Administration for
two years and the increase of funds available for
grants and administrative expenses resulting in an
additional expenditure in 1938 of \$ 25,000,000
6. Due to the anticipated surplus cotton crop, the Commodity
Credit Corporation probably will be unable to secure
repayments of cotton loans or to dispose of cotton now
held by that Corporation and the expected revenue from
this source will not be received in 1938 \$ 30,000,000
-
- \$ 264,000,000

- 5 -

The effect of these changes has been to increase the deficit in the amount of \$264,000,000. While the loss in revenue is apparently \$256,000,000, there is included in the estimated receipts for 1938 the amount of \$46,000,000 to be collected from taxes levied under the Sugar Act. This will be offset by the payments required under that act which are included in the supplemental item in the estimates of expenditures. Thus the loss on a comparable basis over the April 20 estimates of revenue is \$302,000,000. This loss is due in part to a reduction in the estimate of Social Security taxes and is offset by a reduction of \$115,000,000 in the amount required for investment in the Old Age Reserve Account, leaving a net loss in the revenue of \$187,000,000.

The increased expenditures listed above, amounting to \$264,000,000, together with the net revenue loss of \$187,000,000, have added \$451,000,000 to the deficit, and had that not occurred the present estimate would show a net deficit of \$254,000,000 instead of \$695,000,000. The revised net deficit for the fiscal year is \$2,012,000,000 less than the net deficit

for the fiscal year 1937.

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Review of the Fiscal Year 1937

The total receipts amounted to \$5,293,840,237 against the estimate in the 1936 Budget of \$5,628,150,719 and the estimate in the April 20th revision of \$5,224,000,000. Part of this loss in the estimated revenue is due to the legislation relative to retirement of Railroad employees. Last January it was estimated that \$134,552,000 would be received from taxes on carriers and their employees during 1937. Litigation involving these taxes and the subsequent reenactment of the legislation deferred practically all collections under this heading to the fiscal year 1938.

Income taxes produced \$2,157,526,981 against the January estimate of \$2,372,900,000, a loss of \$215,000,000. Miscellaneous Internal Revenue taxes were about \$94,000,000 less than was estimated last January, while Social Security taxes were \$79,000,000 less. The tax on unjust enrichment produced only \$6,073,351, whereas it had been estimated that \$82,000,000 would be received from this source in 1937. Customs receipts increased about \$40,000,000, while miscellaneous

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receipts produced \$15,000,000 more than had been anticipated.

The total expenditures in the past fiscal year amounted to \$5,105,158,547, including \$103,971,200 for debt retirement. The estimates of expenditures in the 1938 Budget for the fiscal year 1937 were \$5,480,804,493, including \$404,525,000 for debt retirement. Thus, eliminating the amount spent for retirement of the public debt, the actual expenditures were \$75,000,000 less than the January estimate. They were, however, \$220,000,000 greater than the revised estimate of expenditures made on April 20 due principally to an increased expenditure for interest of \$26,000,000, the investment of \$40,000,000 more than was anticipated in the Old Age Reserve Account because of the question as to the availability of the appropriation for expenditures in 1938, and the failure of certain Government corporations to liquidate their assets as rapidly as had been anticipated resulting in an increase in the expenditure figure of \$107,000,000.

Forecast for the Fiscal Year 1938

The total receipts for the fiscal year 1938 are now estimated at
 6 650 000 000
 \$6,774,420,000, a decrease of \$59,000,000 under the estimates contained
 644

- 3 -

in the 1938 Budget and a decrease of ²⁵⁷ \$231,000,000 below the revised estimates of April 20. This decrease is more than accounted for by the reduction in the estimate of income and Social Security taxes. When the estimates were prepared, a new revenue measure had just been enacted, and there was no experience to serve as a guide as to probable receipts. As I stated on April 20 the analysis of the March returns indicated that certain loopholes existed in the revenue laws and during the past session information was presented to the Congress resulting in enactment of legislation closing these loopholes. The suggestion I then made as to the need of a careful survey of the present tax structures has received the favorable consideration of Congress and a study will soon be commenced under the direction of the Ways and Means Committee to prepare for presentation to the next Congress the legislation necessary to remedy the deficiencies in the revenue producing power of the present tax levies. It is somewhat doubtful whether such legislation could be enacted in time to affect the outlook for the fiscal year 1938.

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The expenditure requirements for the fiscal year 1938 are now estimated at \$7,⁵445,695,000, including \$200,000,000 for debt retirement. Excluding debt retirement this figure is about \$11,⁸⁹000,000 ^{more} less than was anticipated last January for all expenditures, including \$1,500,000,000 for work relief, and \$76,²²000,000 ^{more} less than the revised estimates of April 20.

The estimated expenditures for the civil departments and agencies are about \$99,000,000 greater than the actual expenditures for 1937, due principally to increased expenditures of \$63,000,000 for highways and \$40,000,000 for the Maritime Commission. The expenditures for national defense will be approximately \$69,000,000 greater than in 1937. The Agricultural Adjustment program will require \$58,000,000 less than in 1937, and the Civilian Conservation Corps, \$76,000,000 less. Expenses under the Social Security Act will increase about \$67,000,000 largely due to increased participation by States in the program, and interest on the public debt will increase \$59,000,000.

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Under the recovery and relief program the estimated expenditures for public works, including work relief are \$994,000,000 less than in 1937, \$621,000,000 of which represents a reduction in the work relief program of the Works Progress Administration. Expenditures of the Resettlement Administration will be \$85,000,000 less than in 1937.

Due to the condition of the cotton market the operations of the Commodity Credit Corporation will not result in the anticipated excess of credits of \$30,000,000 which it was expected the Corporation would receive from the sale of cotton and repayment of loans, and the earnings of the Corporation for this year will only be sufficient to effect expenses. Last year the receipts of the Corporation exceeded expenditures by about \$112,000,000 thus effecting the total expenditures of the Government by that amount, but this year there will be no corresponding effect. Likewise the excess receipts of the Reconstruction Finance Corporation will be about \$124,000,000 less than last year, thus increasing total expenditures by that amount.

Investments in the Old Age Reserve Account for the fiscal year 1938 will be \$160,000,000 greater than in 1937. They will, however, be

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\$115,000,000 less than the previous estimates for the fiscal year 1938. The former estimate of expenditures under the Old Age Reserve Account was \$540,000,000, of which \$40,000,000 was a carry-over from the 1937 appropriation. Due, however, to the question as to the availability of the 1937 appropriation for expenditure in 1938 this amount was invested during the latter part of June, thus becoming a 1937 expenditure. On a reexamination of the status of the fund it has been found that the total amount of investments in the account on June 30, 1938 should be \$690,000,000. Inasmuch as \$265,000,000 was invested prior to this fiscal year the remaining amount necessary to place the fund in proper status at the end of this fiscal year is \$425,000,000, a reduction of \$115,000,000 in the amount carried in the 1938 Budget.

The annuity payments and investments under the Railroad Retirement Act will be \$134,000,000 greater than the expenditures for 1937. In that year under the provisions of the Retirement Act than in 1937 the expenditures consisted of annuity payments only, since that Act did not provide for the establishment of a reserve. The contribution by

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the United States to Government Employees Retirement funds will be \$27,000,000 greater than in 1937. The expenditure last year of \$556,000,000 from the Adjusted Service Certificate Fund for adjusted compensation payments exhausted the appropriation made for that purpose. There is included in the 1938 estimate, an additional amount of ²\$180,000,000 for supplemental items which will be needed to meet appropriations authorized during the past session, or deficiencies in existing appropriations. \$200,000,000 is included in the 1938 estimate for debt retirement which is \$96,000,000 greater than the amount spent for this purpose in the past year.

The estimated net deficit (excluding debt retirement) for the fiscal year 1938 will be ^{695 655 000}~~\$472,245,000~~. This amount is ²⁷⁸only \$53,000,000 in excess of the estimate of April 20, despite the further net loss of revenue of ¹⁸⁷\$62,000,000 and the addition of expenditures for new activities amounting to ⁴\$267,000,000. The further addition of \$200,000,000 for debt retirement would make the gross deficit approximately

^{895 655 000}
\$672,000,000.

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While the net deficit in the general and special accounts is not the only item affecting the size of the public debt, it does mean that the total debt will be increased in 1938 by ^{695,655,000} ~~\$471,000,000~~ provided that the balance in the general fund remains at the same figure until June 30, 1938 as it was on June 30, 1937. It must be understood that in making this statement no consideration is given to the effect of the gold sterilization policy. Any increase during the fiscal year in the amount of gold held as inactive will increase the public debt in the like amount. Because of the impossibility of accurately forecasting gold acquisitions and because of the further fact that the debt increase from this cause is offset by a corresponding increase in cash, it is not practical to consider the effect of the gold policy in arriving at an estimate of the public debt at the close of this fiscal year.

Therefore, aside from changes due to gold acquisitions, the gross public debt will increase because of the contemplated deficit approximately ^{695,655,000} ~~\$471,000,000~~ during the year 1938. The point of major signifi-

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change in connection with the debt, however, will be the change in the character of the debt which will occur during the year. There are included in the expenditures for 1935, which resulted in the above deficit, investments in Government obligations in the amount of \$575,000,000 which require no cash to finance them and in addition contributions to be made by the States to the unemployment trust fund in the amount of about \$587,000,000 will likewise be invested in special Government obligations. Thus from these two sources \$1,162,000,000 will be available to reduce debt outstanding in the hands of the public and replace it by special issues held by the Government in trust for unemployment compensation and Old Age benefits, and for annuities to Government and Railroad employees. It can thus be seen that, except for gold acquisition, the debt in the hands of the public will decrease about ⁴⁶⁷\$691,000,000 during the year, while the debt represented by special investment accounts will increase \$1,162,000,000, a net increase in the total debt of ⁶⁹⁵\$473,000,000.

RE REVENUE ESTIMATES

October 11, 1937

10:45 a.m.

Present: Mr. Bell
Mr. Haas
Mr. Taylor
Mr. O'Donnell
Dr. Crum
Mr. Daggett
Mr. Driver
Mr. Magill
Mr. Lochhead (brief period)

H.M.Jr: "The one thing," he said, "to impress on Dan is that he's got to show Jimmy Byrnes and Cannon that Congress raised my budget" - talking for the President - "240 million dollars over and above the 418."

"Now," he says, "I'm under the impression from Danny that Congress saved enough to make up that difference. And before I give out this statement, I want Jimmy Byrnes and Cannon to see it and say it's all right."

Bell: He may be under the impression that Congress raised the budget 240 million, but he certainly isn't under any impression from me that Congress saved the 240 million.

H.M.Jr: What I said was - I said I got information from you that the net increase over the 418 was 240.

Bell: That's about right, now.

H.M.Jr: Well, you had it in the budget summation, and he saw it.

Bell: I just forgot for the moment whether that included the loss of revenue. There's a revenue in there of 6.5 billion.

H.M.Jr: Well, what I want to say is, with his taking this attitude - I mean I wonder if you want to sit in on this thing now, which is the question of Haas and his crowd justifying the revenue estimate - whether you don't need this time to get ready on the other, when you know what's coming.

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Bell: I think I'm pretty ready.

H.M.Jr: The first thing he'll ask you for is to justify that 240 plus 418, which is 658. And then I said, "From that we're going to bring it down to below 500 million."

Bell: That's right.

H.M.Jr: So I said, "We're going to have to save around 150 million." And that's the first thing he's going to ask you.

Bell: I think he looks at this picture at the wrong angle.

H.M.Jr: What we are saying here is terribly confidential.

Bell: He talks about Congress increasing these items over his budget. Well, everything Congress did, outside of the 40 million dollars for crop loans, riding over his veto, he approved; so that, in effect, it's his budget.

H.M.Jr: We'll put it another way. When we estimated July 1 a deficit of 418 - from that time to the time Congress adjourned, they increased it by 240.

Bell: That's right.

H.M.Jr: What?

Bell: That's right. I think we've got it worded properly in the summation.

H.M.Jr: All right. Well, if we get through, maybe I'll take time.

Bell: Fine.

H.M.Jr: Excuse me one minute. (Confers privately with Bell)

All right. Now, whose show is this?

Haas: O'Donnell's the professor.

H.M.Jr: All right, Prof, go ahead.

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O'Donnell: I'm not familiar with exactly the way in which you'd like to have us proceed.

H.M.Jr: Well, I'll tell you exactly how I'm going to proceed. The President of the United States said to me, "What's the irreducible minimum revenue that you will guarantee for this year of '37 and '38?" And I want you fellows to give me a figure so I can keep my job. Now, that's putting it right down, and I don't want any "ifs, ands," or "buts," and I want an irreducible minimum. And, my god, make it low enough. But give me a figure that I, as Secretary of the Treasury - so I can say to the President that if I go wrong - I can't say, "That man O'Donnell over at the Treasury gave me those figures, and he's the one that should be fired." The President will say, "I never heard of him; you're fired." That's what I want - a figure - and I want you to justify it. When we've got that figure, we can fool around with it for three or four days. But the point is the President now says that he will give out for next Monday this budget summation. Now, of course, the keystone of the whole thing is, What is the revenue? I mean all this stuff of having to send Mr. Magill up to New York to find out who didn't pay his income tax is all right, but you can't do it more than once, and I didn't convince many people when he did go. At least it was a gesture anyway. Right?

Magill: (Nods yes)

H.M.Jr: So come on. You boys are right on the carpet now.

O'Donnell: Well, we approached the problem of estimating revenue from a forecast of business conditions, and one of the most important things that we are interested in is the Federal Reserve Board index of industrial production, with which you are very familiar. We made an estimate last March which was one of those things we like to boast about. It was just right. And, contrary to the opinion of experts from other government departments that we had in consultation, we took the position that there would be a business recession this summer, and in fact we gauged its magnitude with regard to the

H.M.Jr: (Talks aside to messenger) All right, go ahead.
Well, now good were you last time?

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- O'Donnell: We were pretty good on that particular index. I want to mention that in case at some future time we're not so good.
- H.M.Jr: All right.
- Haas: You'll need the credit for next spring, I'm afraid.
- Taylor: That's a fine way to start off.
- O'Donnell: Our index of wholesale commodity prices is probably our second most important index that we have to forecast, and there again our forecast was just about in accordance with what history has since proved. And I might say that our forecast of between 87 and 88 was in contrast to Dr. Lubin's forecast, as I recall it, of 90 to 92 for the equivalent period, in the Bureau of Labor Statistics.
- H.M.Jr: Have you got something in writing to prove what you're saying?
- O'Donnell: (Handing chart to Secretary) That's the first one on the left.
- H.M.Jr: This is August 31.
- O'Donnell: The one on which we predicate that - I don't have that.
- H.M.Jr: Well, some time.
- O'Donnell: I'll be glad to give it to you.
- H.M.Jr: Got any other copies for anybody?
- O'Donnell: Yes. Now, these are the forecasts on which we predicate the estimates.
I've got two sets, Mr. Magill, if you want another one.
- H.M.Jr: Has Mr. Bell got one?
- Haas: Better give Danny one.
- O'Donnell: I don't know whether Mr. Daggett will want these left around or not; will you, Ed?

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Haas: We'll pick them up.

H.M.Jr: Now let's just see. You forecast 114 for August; it was 117. BLS index, you forecast 87.5.

O'Donnell: We forecast 87; the actual is 87.5.

H.M.Jr: What's the NICB?

O'Donnell: National Industrial Conference Board.

H.M.Jr: Little low on that. BLS index, factory, 97; it was 103. Index of real payrolls, 111; it was 118.

Is that better, to have it low?

O'Donnell: Well, we just set the irreducible minimum.

H.M.Jr: I see.

O'Donnell: And we've been on the side of conservatism in each of these.

I might point out there, Mr. Secretary, that the bottom of our forecast for the Federal Reserve index is 106, in contrast to the present level of 117; and in trying to evaluate the effect of the present recession in business, you will see that we have made allowance even at this point on the Federal Reserve index for further recession of 11 points.

H.M.Jr: The only thing you went wrong about is stocks.

O'Donnell: We forecast correctly the turn in stocks; we forecast it too soon, however, and when it came it came in greater magnitude than we had anticipated.

H.M.Jr: Well now, Standard Statistics index of 419 stocks; you forecast 114 - 120. In September you said 115; it was 105.

O'Donnell: That's correct.

H.M.Jr: What's the next 105 opposite that?

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- O'Donnell: That's actual.
- H.M.Jr: Oh, I see.
- O'Donnell: But back in March we had forecast the turn down in stocks. We didn't quite hit the amplitude of the turn down; we had it timed just about right.
- H.M.Jr: How do you mean? Where did you forecast it?
- O'Donnell: Well, that's on our March estimates.
- H.M.Jr: Have you got a sheet like this for March?
- O'Donnell: I can get one. I don't think there was one available, but we can make one up.
- H.M.Jr: Now, what's this other one?
- O'Donnell: The other sheet is a historical sheet which shows you, in the first column, what the Federal Reserve index of industrial production has been in the years from 1929 to date, together with our forecasts of those indexes, on an annual average and on a fiscal year average basis.
- H.M.Jr: Well, when you say 1937, is that calendar?
- O'Donnell: That's a calendar year, and in the second column it's fiscal. The first column is a calendar year in each instance. The second is the same as the Government fiscal year, and that's true of each of the indexes as we cross the page, to give you a historical perspective as to the way in which those indexes come out.
- Magill: Well, this horizontal one - is it just what these indexes actually were?
- O'Donnell: The smaller sheet is a cyclical pattern, and Mr. Bell is more concerned with that than is the President, I suspect. That enables us to forecast monthly collections with more accuracy.
- Magill: No, I mean this one. What are these figures?

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- O'Donnell: Those are actual.
- Haas: To give you some retrospect.
- O'Donnell: The other is a monthly figure, on this first page. These are annual figures.
- Bell: And the 1938 figures on this sheet cross the basis of your 1938 revenue estimates. I mean you have used those as a basis for your estimates.
- O'Donnell: That is in part true, Dan. The income tax, for instance, is predicated on the collections from calendar year liability, which is collected in two fiscal years, so that the calendar year '37 indices will represent collections partially in fiscal '38 and partially in fiscal '39.
- Bell: But there isn't enough difference between your '37 and '38
- O'Donnell: That is true in this particular instance.
- H.M.Jr: Well now, the question everybody asks is, how much has this recent recession affected profits and how much will it affect our income? I mean this fourth quarter that we're in.
- O'Donnell: As I interpret our job, it is to anticipate such things as have just happened, and in fact I am trying to say what - that we did, too, do it relatively successfully, and that has been taken into consideration in the estimates which I am now ready to show you.
- H.M.Jr: All right.
- O'Donnell: And I think you will find that series of tables - you can use them if you like.
- Bell: Everybody seems to think that the fourth quarter showings of the corporations are really going to be bad, much worse than we anticipated. In your anticipation of this downswing, do you think that you have taken up enough to take care of this loss in revenue in the fourth quarter? In other words, do you think

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you'll get enough in nine months to take care of that loss.

O'Donnell: I don't think there's going to be a loss in the first place.

Now, our method of forecasting what the statutory net income of corporations is - and that of course is a good take-off place for discussing revenue estimates - we do that by relating it to the two principal indices which we have forecast here.

We find that historically statutory net income is a function of the volume of business, and of course that must be done at a profit. As you come out of the depression, when plants are being used at less than capacity, each additional amount of business volume that we get yields more than commensurately in profits. We are in the field of what economists call increasing returns.

We also find that profits are a function of indexes of prices. If during the year the trend of prices is upward, those companies that have large inventories, evaluating them at the end of the year, realize a large inventory profit.

We find also that characteristically at successively higher levels of commodity prices, profits are also higher.

Now, by statistical techniques which are perhaps too complex to go into in a general meeting of this character, we relate statutory net income to the Federal Reserve index of industrial production. We find that there is a definite relationship. And then we plot those deviations against the index of commodity prices, taking into consideration the price factor. And that relationship historically has been a very satisfactory one. This year that forecast read directly from the charts.

I might say historically that our latest statistics of income, which are for the calendar year 1935, show statutory net income under the old definition of about 5.1 billions. We estimated for calendar

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year 1936 approximately 7.3 billions. Those figures we will not know definitely until the returns have been tabulated in the Bureau of Internal Revenue, which will probably be about six months from now - before we have even a satisfactory preliminary estimate.

For 1937 calendar year we forecast directly from the chart - and this figure has to be qualified - about nine billion dollars statutory net income. There were two new factors in the situation this year. One, the fact that Social Security for the first time is taking from industry hundreds of millions of dollars, without pouring those funds back. And secondly, the Government is ceasing, at least as compared with the last few years, to spend money in excess of revenue - the old story of the deficit financing. If we treat the income, which is larger, coming from the General Fund, and the relief expenditures that we anticipate will be made, we have a further adjustment to be made. In these revenue forecasts that we are using for calendar year 1937, the forecast of eight billion, three hundred million is a take-off point.....

H.M.Jr: Say it again.

O'Donnell: Eight billion, three hundred million.

H.M.Jr: For when?

O'Donnell: For calendar '37. That's a reduction of some 700 million over what we have read directly from the charts.

H.M.Jr: I didn't - you've got to say it over again.

Bell: That's for corporations?

O'Donnell: That's corporation statutory net income, and that does not include inter-corporate dividends, which have not historically been a factor. Our adjustment for inter-corporates is made in the computation of the tax itself. This is a historically comparable figure with the estimates of 7.3 billion for last year and 5.1 billion, which is historically a figure for calendar year 1935.

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- H.M.Jr: Well, is this sheet here a summation of what....
- O'Donnell: That's a summary of the estimates.
- H.M.Jr: ...of what follows here?
- O'Donnell: Yes, sir. We are now dealing with Item Number Two on that sheet.
- H.M.Jr: No, I mean is everything on this sheet on these?
- Bell: These are the details of which this is the summary.
- O'Donnell: First a summary sheet of all the estimates.
- H.M.Jr: The figure we are interested in now is six billion, 77 $\frac{1}{4}$ million.
- Haas: That's right.
- O'Donnell: That's the one that is in the summation.
- H.M.Jr: That's the one we want to talk about.
- O'Donnell: And I am now discussing the question of corporation income.
- H.M.Jr: Before we get into that, this thing now is over - six billion, 77 $\frac{1}{4}$ - six weeks old.
- O'Donnell: That's right, made about August 20.
- H.M.Jr: Well, have you had another look at that since August 20?
- O'Donnell: We have, in the light of what has happened since, especially in the stock market, reexamined these estimates.
- H.M.Jr: That's what I want to know.
- O'Donnell: And, substantially, there is a possibility we might slightly change the income tax, due to the fact the stock market has gone down faster than we had anticipated, and therefore that portion of individual income

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represented by capital gains will be somewhat smaller than we had pictured.

H.M.Jr: How much?

O'Donnell: Well, we have not made a quantitative estimate of that, Mr. Secretary. I suspect that it might make a difference of - and this is just a rough opinion - perhaps 50 millions of dollars in the individual income tax. The only other item that the stock market would radically affect, except in so far as it affects the psychology of business men in making their plans, is the estate tax. But the estate tax characteristically - under the present law, the trustees or executors have a period of 15 months after death in which to file the estate tax returns; and we find by study that there is actually a lag on the average of about ten months. So that we don't anticipate for this fiscal year a very great depreciation in our estimate of estates.

H.M.Jr: Well, how much?

O'Donnell: Other than that... Well, I've made no quantitative estimates, Mr. Secretary, but I would stand on the present estimate. Our reexamination this past week leads us to believe that that is sufficiently conservative, so that....

H.M.Jr: You mean you wouldn't change that?

O'Donnell: We wouldn't change that, no. We would, however, change the fiscal 1939 estimates; but we're not concerned with that at this time.

Magill: Let me ask you this. Do you (H.M.Jr) mind?

H.M.Jr: That's what you're invited here for.

Magill: Now, I notice in the work relief message, on the estate tax you've got it down to 358, whereas the August is 391.

O'Donnell: Do you want me to explain why that is so? You may recall, Mr. Magill, last spring we had to estimate the remainder of fiscal year 1937 and also to estimate

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fiscal '38. The estimate for fiscal '37, as made in our division, was made with the thought that for the first time there was a period of three months when, if each individual who had an estate tax due had taken the limit of his period, there would have been no estate tax returns filed. In other words, under the preceding revenue law, the estate tax return had to be filed 12 months after death. The new law gave them 15 months after death. So in considering estimates for fiscal '37 we had two months of collections under the previous act and then a period in which, if everyone took the limit, there would have been no collections; then a pick-up again of seven months in which we would collect under the new law at higher rates.

Now, as I suggested a minute ago, people don't take the limit, on the average; they take about ten months. But we had estimated upon that basis and had a larger figure than was believed by yourself and, I believe, Mr. Helvering and the Conference, to be indicated in the fiscal '37 collections. As the fiscal '37 collections came out, they were exactly as we had forecast in the Division of Research and Statistics. And in view of the fact that you had reduced the fiscal '37 collections, we reduced in proportion the fiscal '38 collections. Now, with the experience in making this August estimate of having actual fiscal '37 collections, we have again revised the fiscal '38 collections in line with our judgment on that point.

Magill: I see.

O'Donnell: In other words, what you did in the July estimate previously was to just take an average from monthly collections, ignoring that lag of three months when we would not have received collections.

H.M.Jr: Well, I would say, Dan, just by rule of thumb, that certainly for this afternoon I would use the figure six billion, 700 million.

Bell: Well, six billion, 774 is in the summation.

H.M.Jr: Well, I wouldn't - I'd take off 75 million.

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Bell: That raises your deficit to about 550.

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

Driver: I think if we had a chance to do a third job we would knock off a little bit.

H.M.Jr: A little bit where? I'm knocking off 75 million.

Crum: I think the one place where the experience to date suggests that we may have overrun the estimate, is with respect to the individual income from capital gains and tax on that. Now, you (O'Donnell) think it may be 50 million dollars of tax. I think it might be somewhat more. But if the Secretary wants to leave off 75 million from our previous estimate, I think that's a fair allowance for that.

H.M.Jr: Is it enough?

Crum: I think it is, yes.

H.M.Jr: I'm not taking anything off on the estate.

Crum: No, we're assuming that the estate does not affect the '38 picture.

H.M.Jr: The 75 mentally I'm deducting from the....

Crum: Individual....

H.M.Jr: ...individual income tax.

Crum: I think that's safe. So far as we can see, the things which have happened this summer have confirmed our estimates in every respect except with respect to the effect of the stock market on capital gains, and I think that 75 million is a generous allowance on that account.

Bell: Didn't you decrease your estimates for October on the monthly sheet that comes up to me?

O'Donnell: For which item, Dan?

Bell: The total. I only noticed the total, but as I recall something was said about Social Security lag.

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- O'Donnell: I don't recollect exactly what that has to do with it, but I may interject this remark
- H.M.Jr: Do you mind just holding Mr. Bell's thought? Do you (Bell) mind?
- Bell: Not at all.
- H.M.Jr: Just hold that a minute. Going back - I just want to go back to this a minute, you see, if I may - how about corporate profits, profits of corporations?
- Crum: Our feeling about that basic figure on our estimate of corporate profits is that nothing has happened to date in the Federal Reserve Board index or in commodity prices which would lead us to write down that estimate from the figure we have in this report.
- H.M.Jr: I see.
- Crum: And in so far as that affects individual income, we think it is safe.
- H.M.Jr: So then if I take 75 million out of the individual incomes - I mean at that particular point reduce it by that - you think that that's enough.
- Crum: As far as I can see, that's enough. I am not taking into account the prospect that the Federal Reserve Board index or commodity prices might from now on turn much worse than our estimate. That's a point which I imagine you want to discuss with us. But the experience to date has been so much in line with our estimates that I personally feel confident that the remainder of our estimate for the calendar year is satisfactory.
- H.M.Jr: Do you mind if I continue this a minute? Well, you (Bell) go ahead.
- Bell: O'Donnell's got what I want.
- H.M.Jr: Well, clear up Bell.
- Bell: No, that's all right. Go ahead.
- H.M.Jr: Go ahead, O'Donnell.

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O'Donnell: I wanted to say this, Dan. On the annual basis there has been no change. It is my recollection that there was a change in the tax on carriers, which was largely a matter of regulations as to when they would be collected - not Social Security.

Bell: Maybe it was carriers.

O'Donnell: I think the regulations indicated that we wouldn't get the tax on carriers as we had anticipated back in July, because at that time the regulations had not been formulated. And of course, our first collection of a tax on carriers will be a very sizable one, because it will represent collections representing the accrual of liabilities dating from January first until the time when that first payment is made, and I believe that is to be made next month....

Bell: I see.

O'Donnell: ...for the first time. That's the difference.

Bell: I see.

H.M.Jr: Now let me just talk about commodities a minute. You're (Daggett) supposed to know something about that. What about the price of commodities?

Daggett: I think our estimate given here in the third column of this first sheet is reasonably satisfactory. I have been looking over the trend of general commodity prices during this period of stock market decline, and find that it has held remarkably stable. We have had a decline in sensitive commodities, which are pretty speculative commodities, which tends to obscure our view of the general commodity situation. I'm including a chart on that in this week's business review.

Commodity prices have held very close to this $87\frac{1}{2}$ level during September; $87\frac{1}{2}$ was the average for August. The decline in speculative commodities appears to have been pretty largely a liquidation of the accounts which were built up during March, during that spring rise. [^] see no reason whatever to change our estimate.

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- H.M.Jr: Let me ask you this. In relation to commodities - do you happen to know what is the inventory position of manufacturers in regard to commodities?
- Daggett: We have no accurate data on manufacturers' inventories. All we can do is to form judgments on the basis of trade reports. It appears that manufacturers are turning to a hand-to-mouth buying policy.
- H.M.Jr: Well, let me put it another way. Do you happen to know of any particular industry that is overloaded on inventory?
- Daggett: No, I don't. Textile industry was. But judging from trade reports recently, inventories have been pretty well worked off.
- H.M.Jr: Well now, the cotton estimate, of course, is out - 17½ billion bales - and the market took it damn well.
- Daggett: Took it very well; in fact, it is back to where it was before the report.
- H.M.Jr: Surprising. Is the corn estimate out?
- Daggett: Corn estimate should be out, I think, today.
- H.M.Jr: Well, there is nothing new - I mean there won't be anything surprising like that in cotton.
- Daggett: I can't - there could be in corn; it's hardly likely, though, at this late part of the season.
- H.M.Jr: And of course, wheat harvest is over. The only thing left really is corn, isn't it? You think that's going to be out today.
- Daggett: That's the 11th. It should be out today.
- H.M.Jr: Of course, my own feeling, which isn't a scientific one - it's just a hunch - my best guess is that commodities are scraping bottom; that's the way I feel.
- Daggett: That's my opinion.
- H.M.Jr: I mean that's just a hunch. I mean the fact that the

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cotton took the thing as well as it did, to me was just the most surprising thing, and encouraging. Huh?

Daggett: Yes, it is.

H.M.Jr: I mean I feel - do you agree?

Daggett: I agree with that absolutely.

H.M.Jr: I'm not living with this every hour. You are supposed to be. That's what you say in your figures here.

Daggett: Yes. I think commodities throughout this recession in stock prices and business have held remarkably well, and that if it hadn't been for the decline in speculative commodities this summer, the general index of commodity prices would have continued upward to new highs.

H.M.Jr: Of course, back - I want to just throw this out, and you people may or may not be familiar with it - we have in this country a tremendous potential buying power through these foreign balances. We've got over two billion dollars cash on deposit here belonging to foreigners. Now, they've got their choice of doing two things. They either can take it back in the form of gold or buy something. Now, that's theirs. And it's a tremendous reserve. I mean they've either got to take it out in the form of gold or they've got to buy something. And if they take it out in gold, we've got sufficient gold isolated that it has no effect on the country. So I can't see anything from the foreign side, from running the Stabilization Fund, that could affect us. If they take out the gold - if Switzerland, who has built up these tremendous balances - if they want it, all right. We don't feel it. Out she goes. But on the other hand, if she buys something, even if it is just a 90-day piece of paper - whatever they do, they've got to put the money to work. So I can't see any danger from any foreign capital flow.

I don't know whether you check, Wayne, or not. I think we are entirely insulated and isolated from it, as much as anybody can be.

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- Taylor: How it may go into our security market or go out of it - why, I am still not entirely happy about that. But you can't tell that in any case. It will be a continuation of whatever movement exists here, rather than an original movement of its own.
- H.M.Jr: But we're insulated as well as we can be, aren't we?
- Taylor: Better than we have ever been.
- H.M.Jr: And I'm looking for things that might come along and lower this thing. I'm just trying to think what else.
- O'Donnell: Of course, if you did something like changing the price of gold, that would ruin any forecasts.
- H.M.Jr: Change price of gold?
- O'Donnell: I say if you ever do, that would certainly upset any forecast that we make on this base.
- H.M.Jr: Well, the only thing I want to do is sit in this chair and help make good your forecast. I promise you I won't increase.....
- Bell: So you can hold your job.
- H.M.Jr: And you and I - to make you a good woman, why
- O'Donnell: It would have to be something far-fetched.
- H.M.Jr: I get the point.
- Haas: There are some times when the business outlook looks rather clear to me, I'd be willing to bet quite a little money on it. I don't feel that way now, for this reason: that I don't see the situation in the capital market clearly - how that's going to work out. And if it doesn't work out, I think the business situation might go a good deal lower. In other words, we took a very conservative figure; if we'd checked with anybody at the time in August, they'd have said, "You fellows have just gone too far the other way."
- Now, in my own mind I think there is a possibility which can't be measured as to what effect the capital market, restricted capital market, is going to have on the

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business outlook, and if it doesn't improve there is a cumulative snowball effect which runs all through industry, a general holding back. And just what weight to give that at this time, I don't know, except that I think from your point of view as Secretary of the Treasury you should keep in mind the reliability of these estimates. I think at this moment it happens to be a very difficult time to make an estimate, and I certainly would keep in mind and I think it would be unfortunate to have the President think that we've got one figure that we're willing to stake our lives on. I don't think - feel that way.

H.M.Jr: Well, this isn't one figure. It's a summation.

Haas: Well, I think the assumption is that you add up the total and there's your figure. I don't feel that way. I think there is a spread - perhaps should be five percent on each side of that; I don't know what it should be.

But I am apprehensive about that one element in the business outlook.

H.M.Jr: All right, now, let's evaluate it. How much would you knock off for that feeling? I've taken off 75 million. Does that take care of it, or would you take off another hundred million?

Haas: Well, you might fix it up and then probably the present figure might be low.

H.M.Jr: Pardon me?

Haas: It might be fixed up, and

H.M.Jr: What do you mean? What might be fixed up?

Haas: This restriction on the capital market.

H.M.Jr: All right, I'd a great deal better be low and say, "We figured low, we were too blue here," than to have them come along and if we say six billion seven now and find it was only six billion and a half.....

Haas: What do you think, Dr. Crum?

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- Crum: Well, I am more concerned about these factors you mention with reference to that portion of fiscal '38 revenue which will come in the first half of fiscal '38. I say again that I think it is difficult to see in the remaining months of 1937 so great a decline below the levels of our estimates, either in Federal Reserve index or in commodity prices, as to spoil our estimate of income....
- Haas: That's right.
- Crum:for calendar year '37. But I think it is quite possible that either in the Federal Reserve Board index or in the commodity prices, more especially the former, the picture in the first half of '38, or the first four or five months of '38, may be enough worse than what we have shown here to damage somewhat our estimates of miscellaneous revenues of certain sorts and our estimates of Social Security revenue, and that I think is a point we will have to attack before we feel convinced. But so far as the income estimates, either corporate income or individual income, for calendar year '37, with this subtraction of 75 million to allow generously for the capital gains revenue, I am inclined to think we are safe.
- Now, you might say about any estimate, "Well, we'd like to have a five percent margin one way or the other," and if we are disposed to take advantage of that before we get through, why, it's worth considering. I am wondering, however, whether such a broad marginal cushion shouldn't be applied to the whole estimate rather than to the income tax alone. Do you (Haas) feel different?
- Haas: No, I agree with you. I just didn't particularize on which tax might be affected.
- Magill: May I ask one question before the two of you..... Suppose that there were very much less dividends declared in December by corporations than were declared last year.
- Haas: I think that is a distinct possibility.
- Magill: Which I think is a very distinct possibility.

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Haas: O'Donnell has looked into that.

O'Donnell: Do you mean relative to earnings?

Magill: Right.

O'Donnell: Well, I could make this statement in general, on averages. If corporations were to retain money instead of paying it out, we would get..... Let me put it the other way around, so you can tie it into the undistributed profits tax. If corporations pay out money, of all dividends paid out by net-income corporations and no-net-income corporations, we collect slightly less than ten percent in tax, and that ~~includes~~ the corporation tax, the normal tax on corporations, plus the tax that we get from all individuals who receive dividends. Now, that may be a somewhat startling figure at first blush, because you must consider that a great many dividends paid out by corporations are lost in so far as the income tax situation is concerned. In fact, the deficit corporations are quite a sinkhole for dividends this year and we estimate next year. In other words, they will receive - I've forgotten the exact figure, but in the neighborhood of half a billion dollars in dividends in excess of dividends that no-net-income corporations pay out.

Then, of dividends paid by corporations, a large percentage go to non-taxable sources, both non-taxable individuals and non-taxable institutions. So that if we collect in the way of the undistributed profits tax anything in the second bracket of tax, the Federal Government on the average will be more than compensated.

Now, that does not hold for particular situations. For instance, if Henry Ford decides to pay an undistributed profits tax instead of paying an individual income tax, that situation will not hold. But it will hold for the averages of all corporations.

So I am not particularly concerned about corporations that are widely held withholding considerable amounts of money and paying us the undistributed profits tax. And in large measure, the more widely held the securities

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are, the better off the Federal Government is to have the corporation decide to pay the undistributed profits tax, for this reason: that a man has to have a fairly substantial income to have an effective rate of tax on his income of ten percent; and you will find that stockholders who are relatively small stockholders and who have relatively smaller other sources of income are paying, when the corporation retains the money, a far greater percentage on those earnings, than they would pay had the corporation distributed them. Now, the Government gain comes from the richer people into whose hands dividends are forced.

H.M.Jr: Well, to sum up for me - will you?

O'Donnell: Summing up, I don't think that it is a material factor that will tend to decrease our estimates in the aggregate. In other words, if corporations retain the earnings which we forecast they will have, rather than pay them out, then the Federal Government will receive, in my opinion, nearly as much money as though the corporations had distributed those dividends.

H.M.Jr: Do you (Magill) check on that?

Magill: I don't think I can check. I don't know how I can tell. It's a question pretty exclusively within O'Donnell's province as to how those rates actually work out. The great difficulty in estimates on the undistributed profits tax all the time is that you've got this option which is going to be exercised by directors of particular corporations in the way which will be most profitable for them. They always do that. And it is pretty hard to forecast in advance just exactly what is going to happen.

H.M.Jr: What's one percent of six billion seven?

Bell: 67 million.

H.M.Jr: What, 67?

Magill: 67.

H.M.Jr: It didn't look right.

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O'Donnell: Your 75 is still on the.....

Crum: We have earmarked that 75. Let's see if we can't call that a general margin.

O'Donnell: I don't intend to say, Mr. Magill - just so I'm clear on the record - that these two sets of rates do other than tend to compensate the Government. I don't think for a minute that in a particular case it is immaterial to the Federal Government whether or not the dividends are distributed. But I do say if we can collect from the corporations as much as ten percent on the retained earnings, on the average, that the Federal Government will be compensated in full for what it would have received had those dividends been paid out and gone through the individual taxpayers.

H.M.Jr: What he (O'Donnell) says is damn interesting. I want to talk to you some time on it. I wish you'd give me a memorandum on just what you said.

(Secretary leaves room for about 20 minutes and returns)

H.M.Jr: Somebody else take the leadership on this thing. For the moment I've asked all my questions. Professor Crum?

Crum: Well, I think perhaps you'd be interested in discussing the point which Mr. Taylor just raised, and Mr. Daggett was responding. Perhaps Mr. Taylor could....

Taylor: I was looking at past experience here of, let's say, the FRB index of approximately 118.

H.M.Jr: Where you looking?

Taylor: On the monthly business forecasts.

H.M.Jr: '37?

Taylor: Yes, first column. And your ELS index of approximately 88. And you get a standard statistics index of stocks there of somewhere - let's say between 124 and 129. I don't care what you take in there, but you've got, say, 118, 88, and 129. And you go down here through calendar year '38 and you take 117 approximately, then a little under 88 and you finally get a maximum of 88, and over

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here you have you standard statistics stock prices of 140, in other words a considerably higher relationship there.

H.M.Jr: Well, what conclusion do you draw on that, Wayne?

Taylor: Well, I was just asking if that relationship means anything.

H.M.Jr: You mean the 140?

Taylor: I'm thinking about the 140 as compared to, say, 126 or 127.

H.M.Jr: Well, where is that?

Taylor: Well, right there.

H.M.Jr: Oh, I see. You mean it should affect commodities or FRB?

Taylor: I am particularly looking at the 140.

H.M.Jr: You mean how they get that way?

Bell: He's stating, I think, that if the relationship is 117 to 127 in June, why is the relationship 117 to 140 in December?

Haas: It's the immediate thing in the outlook, Wayne. In other words, if you have an immediate situation where profits are at a certain level and the outlook is for an accelerated increase, then the relationship of your stock prices to your current level of business is one thing. Or if you have another situation, where the level is the same as previous, where you expect business to go along on a flat plateau, or decline, then your stock prices will be lower, then your level of industrial production is as though it was previous. I think that's what the boys had in mind.

Taylor: I'm still talking about the same thing.

H.M.Jr: Well, let me put it this way. The question that you raise in your mind - do you feel, if there is something to your question, we should lower the estimates? That's the thing I'm interested in.

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- Taylor: Yes. Lower it particularly in terms of whatever relationship this last figure has to the rest of them.
- Crum: Well, that pertains only to fiscal year '39, so I think perhaps you'd have to leave that as part of the '39 argument.
- Taylor: One thing. You don't think that is important in terms of the first six months?
- O'Donnell: Don't use it at all for that purpose, Mr. Taylor.
- Crum: We have already written down our estimate of standard statistics index for the first half and all of '38, in the light of experience to date. Now, that we end up at the end of '38 with a figure for standard statistics which looks to you out of line with what happened in the spring of '37, is a fact, but I don't think enough interpretation has been brought into the picture. We can not compare, as Dr. Haas implied, the specific months' level in the stock index with the specific months' level in industrial index. What we are interested in is the course of movement, and if the course of movement, actual or anticipated, in the FRB index is upward, let's say, stock prices will tend to run higher than if the course of movement, actual or anticipated, is downward.
- Taylor: You show practically no movement in either of those two other figures. That's why I wanted to
- Crum: Look at '38-'39. We show that anticipation of steadily rising industrial output in '39, and we assume that the stock market will have the same anticipation. Now, all of this, of course, is somebody's opinion. It is our opinion. That opinion may prove to be wrong. But as the matter stands, it is based upon that. If we had suggested for 1939 a leveling off of industrial production at 117, we should not be presenting you a figure of standard statistics index for December, '38, at 140, but a distinctly lower index, perhaps even lower than the 129 of last spring.
- Bell: In other words, the stock market will anticipate what you have anticipated over here in production and everything.....

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Crum: Yes.

H.M.Jr: If that is true, then of course the stock market is going down now because they're anticipating the Federal Reserve production of 106 in January.

O'Donnell: Absolutely true, Mr. Secretary.

H.M.Jr: What? Is that what it - I mean as it goes down it would be true. Also if it goes up, because I'd be willing to bet money that the thing doesn't hit 106 in January.

O'Donnell: I think it is a very conservative figure.

H.M.Jr: I think so too.

Crum: I don't think we're worried about the index through January '38.

H.M.Jr: I was surprised at the retail figures, which is a pretty good indication, isn't it?

Haas: Retail - not very sensitive; it has a lag. I mean if business goes down, the retail stuff holds up quite a while after.

H.M.Jr: The retail stores?

Haas: Yes.

O'Donnell: Depends a good deal on inventory situation and trend of prices.

H.M.Jr: Department store sales for September for the country are up six percent over last September. I was surprised.

Daggett: It seems to me that the significant thing is

H.M.Jr: Now, that's September. That's pretty Go ahead.

O'Donnell: That is especially encouraging with the depleted inventories that Mr. Daggett pointed out when you questioned him about any industries that have

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excess inventories, because if goods are moving into consumption, to the extent that those goods you mentioned are measurable in consumption it means those goods will have to be replaced by manufacturers. So it's better than the other.

- Daggett: It seems to me significant that the rate of retail sales has improved after a decline in August. Apparently retail activity turned up during September and has held its gain during the first part of October in spite of this decline in stocks and speculative commodities.
- H.M.Jr: You're surprised?
- Daggett: I say it seems an important business indicator.
- H.M.Jr: Well, the whole thing gets down - we can't be terribly scientific this morning, because Bell and I see the President at two, and the figures that we give him then - we can't go back on Tuesday morning and say, "Oh, Mr. President, I think that the figure should be six billion six." I think we better fix it right now.
- O'Donnell: In how much detail will you give the figures, Mr. Secretary?
- Bell: You mean in the summation, or give the President? We'll give the summary and Table One - Schedule One.
- O'Donnell: Will you give miscellaneous taxes by broad groups, like tobacco and alcohol?
- Bell: Yes, sir.
- O'Donnell: I was just thinking, if you were going to curtail any, whether you'd do it in horizontal fashion or approach each group.
- H.M.Jr: No, for the group I want a figure, don't you, Dan?
- O'Donnell: Aggregate figure.
- H.M.Jr: Certainly I wouldn't give him a figure after this conversation of above six billion seven. What I am

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asking is, how much below that do I want to go?

Crum:

I think I'd like to say something more on that, in light of just what has been said. When I spoke a minute ago, I suggested the possibility that if we were going to put in a margin of conservatism, we should perhaps apply it to the entire revenue estimate. Now, if this Table One is to be given the President, it may be well to apply it to the specific items like the income tax and the principal categories of miscellaneous revenue. On that basis, let me say again that I think, and I think the Division thinks, that the 6.7 is now the best estimate we can make. It makes an allowance of 75 million for the one aspect of the thing in which the developments to date are out of line with our expectation. Therefore, we regard the 6.7 as the most scientific estimate we can make at this time. Now, if we want to allow a margin of conservatism of something like three percent, which would run to 200 million dollars, that would bring you down to 6.5. Now, if you want to do that, why, we can consider it.

H.M.Jr: There would be no budget summation then. Am I right?

Bell: That's right.

H.M.Jr: What? Well, maybe we better not have one.

Haas: Well, that's a question.

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

O'Donnell: What will be its effect on business? Do you think that business in general anticipates a worse summation than we will be able to show with some such figures, or do they expect a better one? In other words, what is the purpose of a budget summation at this time?

Bell: Well, the main purpose of a budget summation is to let the country know what the financial condition of the Government is.

O'Donnell: How bad or good it is?

H.M.Jr: What it is.

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Bell: Whether it's good or bad.

O'Donnell: Following your remark that if it's 6.5, there won't be any, I just wondered if in general this was an idea of showing how good it is.

H.W.Jr: Seriously, my thought is - and I think Bell is in accord on this - that I have always felt since I've been here: tell the facts, whatever they are, and let the chips fall where they may. I think that's the purpose of the budget summation. I think one of the troubles today with the business man is that he is worrying about something that he can't evaluate. Now, one of the things is, how big is the budget deficit going to be this year? Now, let's tell them. And maybe it will be bigger, maybe it will be less; that isn't our concern. But at least let's tell them what your best estimate will be.

Bell: They're talking in terms of a billion dollars, generally speaking.

H.W.Jr: Whatever they think, let's give it to them, and we've got the policy, and I think the fact that we don't give it to them - if I was on the outside, I could only give it one interpretation: much worse than what we expected. But the idea is, at this time let's give to them what it is. But I - the term that I was thinking of - asked what one percent was - 67 million - whether for this afternoon we should lop off, say, another 50 million dollars, and let these fellows make it fit where it needed it the most.

Haas: Make it scientific.

H.W.Jr: Make it scientific. I mean whether we should take off - instead of 75, take off 125, and let these fellows kind of graft it on.

O'Donnell: All right.

Crum: I think we feel good enough about that 6.7 figure so that if you lop off another 50 million we'll feel as safe as one ever needs to feel on that kind of thing. This income tax thing doesn't worry us, let me say again.

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- H.M.Jr: If we lopped off another 50, you'd feel fairly comfortable.
- Crum: That would make it 6.65.
- Bell: 650.
- H.M.Jr: Yes, six billion, 650.
- Bell: Makes your deficit around 600 million. Getting pretty close to the billion.
- Magill: Is it desirable at all that we should take that precaution that you suggested some time ago of trying to get the Commissioner and his lady estimator over here and tie them in? I think almost certainly they will contend there's going to be more money than this estimate shows.
- Haas: We'll be happy, Ros, if that works out.
- H.M.Jr: What?
- Haas: We'd be happy if it works out.
- H.M.Jr: Well, you can bring them in on the scientific adjustment of this.
- Magill: What I meant was this. You remember six months ago, or whatever it was, the Commissioner apparently told the President our estimates were too high.
- H.M.Jr: Well, we've been right, haven't we? We're as right as he was.
- O'Donnell: Of course, he has seen this, Mr. Secretary.
- H.M.Jr: Has he?
- O'Donnell: He went over these in Mr. Magill's office and he thought we were conservative in the amount of money allocated to be received by the Bureau; in other words, that means all of this except the Customs. Now, what scientific basis there was for his opinion, I'm not sure.

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- H.M.Jr: Well, do you think if we take off 125 million I'm going too far?
- O'Donnell: I don't think so. All these things that have happened to the stock market have happened since Mr. Helvering saw these figures.
- H.M.Jr: I think it should have been done again, but they haven't. What about it, George? What about our taking off 125 million?
- Haas: I feel as Dr. Crum does, that as estimates go we should feel as comfortable about that as we can feel. But still, they are estimates. I mean that's the thing, and I think when you talk to the President I wouldn't stake your life on it, even after you cut it that way.
- H.M.Jr: Oh no, I wasn't - I mean after all
- Bell: Well, if we cut it 125 million for the first meeting, is there a chance of getting some of that 125 million back after the week-end, after you look it over?
- Haas: Get it back?
- Bell: Yes, coming back to this six billion seven.
- H.M.Jr: Dan is worried.
- Taylor: I think that's a good enough figure any time, Dan.
- Haas: Well, I'd like to see the outcome next spring work out where the receipts are above the estimates.
- H.M.Jr: Yes.
- Crum: That's what would make us feel really comfortable.
- H.M.Jr: I can stand the criticism much easier of having been conservative than of - that "Well, we didn't see this thing."
- What do you (Taylor) think about cutting 125?
- Taylor: I think if it comes out that you've got a 600 million deficit - I think that's all right. That's better

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than - I mean the main things that are going to be affected, as I see it - I mean that can change in this picture, are going to be your miscellaneous and other receipts for the first half of '38.

Haas: That's right.

Taylor: And those normally - they'd hold up, I think, a little better because retail sales and so on are all affected in that. Certainly if you've knocked off 75 already from your income tax and if you're knocking off a conditional amount to take care of the rest of it, I think you ought to feel all right about it.

H.M.Jr: Ros?

Taylor: But I'd certainly knock off the other piece there.

H.M.Jr: Ros?

Magill: I think so. I wouldn't - on the miscellaneous taxes it doesn't look to me as if there's much chance to lose very much from these estimates.

O'Donnell: I don't think so. Then you have a still further factor that there is a lag. We're always working, oh, two months behind, because the tax is not due until the end of the month following the time it accrues; then by the time it gets on the daily Treasury statement, where Dan can spend it, there's a two months' period lag.

Bell: I don't spend it.

H.M.Jr: Well, you're right, and I want a memorandum on that - about that withholding tax, you see - I mean the surplus tax. And the fact that - I think cutting 125 off of this thing ought to be pretty near the irreducible minimum, unless something..... I want to get Archie in here one minute, put him on the carpet.

Certainly when you gentlemen came in here you weren't talking about cutting this any, were you? I mean

O'Donnell: I would have been just as happy to have stood by my guns on it, except the income tax.

(Lochhead comes in)

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- H.M.Jr: Archie, I'm going to put you on the spot. We're talking about revenue for this year. Can you see anything that can happen outside of the United States that might affect the revenue of the Government - income tax, corporate tax - I mean anything happen worse than what's happened so far?
- Lochhead: I can't see how it would affect the revenue - from a revenue standpoint. You're having trouble on the other side in the stock markets, London and Amsterdam, and it may have some effect on profits on which you could collect; but I doubt, George, do you, that you'd be getting an awful lot from that source anyway.
- Haas: . No, I think the Secretary probably meant anything happening on the other side which would affect the general business situation here and therefore would affect revenue.
- H.M.Jr: That's right. I mean take the world commodities like rubber and tin and those things. How are they, Archie?
- Lochhead: I think they're in pretty good shape. There's been good rubber buying in the last week or two in this market.
- H.M.Jr: Has there?
- Lochhead: Yes. No, I can't say, as far as commodities go - any commodities are concerned, that there should be any general effect on our revenue. As far as international matters are concerned
- H.M.Jr: What I said was this, that as far as we could tell we are about as well insulated against anything due to Stabilization Fund as is humanly possible.
- Lochhead: That's right. As far as possible. Of course, we always have to have a hold-out on those. But I can't see of anything within our vision which would change it.
- H.M.Jr: Franc's a little better?
- Lochhead: A little better, gaining a little bit. Bear covering

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going on, but that's all it really is.

H.M.Jr: Thanks, Archie.

(Lochhead goes out)

Well, we can go around once more. I'd say it's -
I'd say six billion six seventy-five.

Bell: Six billion, six fifty.

H.M.Jr: Six billion, six fifty.

O'Donnell: No tears in your eyes.

Bell: Well, I accept it reluctantly, just like I accept
an increase in expenditures.

Crum: You can still hope to build it up by the end of the
week.

O'Donnell: I don't think we should save now.

Bell: Dan, I'd like to seriously - when you and I face the
President at two o'clock, I'd like to say that we
have had this meeting and that they made this estimate
August 20 and we have done this thing again in view
of what's happened. After all, it's a pretty safe
thing. We're taking off 125 million dollars.

Crum: About two percent.

H.M.Jr: What?

Crum: About two percent.

H.M.Jr: Yes, just about two percent, which is damn little.

Haas: And in addition, the estimates took into account
quite a substantial decline going down to 106 in
January.

H.M.Jr: I think we can take off two percent, and just adjust
your figures to that, will you (Bell)?

Bell: (Nods yes)

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H.M.Jr: And then, Professor Crum, you've got time to stay around long enough to help the boys?

Crum: Oh yes, I shall be here today and most of tomorrow.

H.M.Jr: I mean you came for something different than this.

Crum: Those - most of those things are postponed.

H.M.Jr: I mean could you make this thing.....

Crum: I'll look the papers over with Mr. O'Donnell.

H.M.Jr: Will you? What's our arrangement with you? Can we call you in on these things when

Crum: Yes, whenever Mr. Haas wants me, if I can arrange with the University, I can come down fairly quickly.

H.M.Jr: You can? That's fine.

Anybody - before we adjourn?

Crum: Do you want to say something about the miscellaneous, or do you

Haas: No, I think the 50 is supposed to take up the slack.

O'Donnell: We can dig into the particular items ourselves.

Crum: I think that's all right.

August 31, 1937

ANNUAL BUSINESS FORECASTS

Year	PRB Index, of Industrial Production: 1925-25 = 100		BLS Index of Wholesale Prices: 1925 = 100		NICB Index of the Cost of Living: 1925-25 = 100		BLS Index of Factory Payrolls: 1925-25 = 100		Index of Real Payrolls (Factory Payrolls + Cost of Living) 1925-25=100		Monthly Average Bank Debits in 140 Centers outside New York City \$1,000,000,000	Standard Statistics Index of 419 Stock Prices: 1925 = 100
	Calendar year	Fiscal year	Calendar year	Fiscal year	Calendar year	Fiscal year	Calendar year	Fiscal year	Calendar year	Fiscal year		
1929	119	117	95.5	96.2	98.4	98.3	109.1	107.2	110.9	109.1	\$27.7	190.3
1930	96	110	86.4	92.5	95.1	98.0	88.5	102.2	93.1	104.2	23.1	149.8
1931	81	87	73.0	79.0	85.7	90.4	67.4	76.7	78.6	84.8	18.1	94.7
1932	64	71	64.8	68.2	76.6	81.0	46.4	56.1	60.6	69.0	12.9	58.6
1933	76	87	65.9	62.9	73.6	73.1	49.4	42.2	67.1	57.7	12.0	63.0
1934	79	83	74.9	72.0	78.1	76.7	62.9	60.5	80.5	78.6	13.8	72.4
1935	90	82	80.0	78.0	81.2	79.8	71.3	65.5	87.8	82.0	16.0	78.3
1936	106	96	80.8	80.1	83.4	82.0	82.4	75.6	98.6	92.2	18.1	111.1
1937 est. ^{1/}	114	114	87	84.5	87	85.4	96	93.6	110.3	109.4	20.6	121
1938 est.	115	112	87.5	87	88	87	96	93	109.1	106.9	21.9	
1939 est.	120	118	92	89	92	90	105	101	114.1	112.2		

^{1/} 1937 fiscal year indexes are actual figures.

MONTHLY BUSINESS FORECASTS

Year Month	FRB Index of Industrial Pro- duction: 1923-25=100 (adjusted)	BLS Index of Whole- sale Prices: 1925=100	NICB Index of the Cost of Living 1923-25 = 100	BLS Index of Fac- tory Pay- rolls: 1923-25 = 100	Index of Real Payrolls (Factory Pay- rolls + Cost of Living): 1923-25=100	Standard Statistics Index of 419 Stock Prices: 1926 = 100	Stan. Stat. Index of 419 Stock Prices: Rev. 10/27
1937 Jan.	114	85.9	85.4	90.7	106.2	126.0	
Feb.	116	86.3	85.7	95.8	111.2	129.5	
Mar.	118	87.8	86.4	101.1	117.0	129.9	
April	118	88.0	86.8	104.9	120.9	124.5	
May	118	87.4	87.3	105.2	120.5	116.3	
June	114	87.2	87.4	102.9	117.7	113.6	
July	114	87.9	87.4	100.4	114.9	117.8	
Aug.	114 117	87.0	87.5	97	103.7	111.5	116.5
Sept.	113	87.0	87.0	94		108.0	114
Oct.	111	87.0	87.0	91		104.6	120.5
Nov.	108	87.0	87.0	85		97.7	116
Dec.	110	87.0	87.0	85		97.7	120
1938 Jan.	106	87.0	87.2	84		96.3	124
Feb.	109	87.1	87.4	88		100.7	126
Mar.	112	87.2	87.6	92		105.0	128
Apr.	115	87.3	87.8	96		109.3	130
May	117	87.4	88.0	99		112.5	
June	117	87.5	88.2	99		112.2	
July	117	87.5	88.3	99		112.1	
Aug.	117	87.6	88.4	99		112.0	
Sept.	117	87.7	88.5	99		111.9	
Oct.	117	87.8	88.6	99		111.7	
Nov.	117	87.9	88.7	99		111.6	
Dec.	117	88.0	88.8	99		111.5	146
1939 Jan.	117	88.6	89.3	100		112.0	
Feb.	117	89.2	89.8	100		111.4	
Mar.	118	89.8	90.3	102		113.0	
Apr.	118	90.4	90.8	104		114.5	
May	119	91.1	91.3	105		115.0	
June	120	91.8	91.8	107		116.6	
July	120	92.2	92.3	107		115.9	
Aug.	121	92.9	92.6	107		115.3	
Sept.	122	93.6	93.3	107		114.7	
Oct.	122	94.2	93.8	107		114.1	
Nov.	123	94.8	94.3	107		113.5	
Dec.	123	95.4	94.7	107		113.0	

August 31, 1937

MONTHLY BUSINESS FORECASTS

Year Month	FRB Index of Indus- trial Pro- duction: 1923-25=100 (adjusted)	BLS Index of Whole- sale Prices: 1926=100	NICB Index of the Cost of Living 1923-25 = 100	BLS Index of Fac- tory Pay- rolls: 1923-25 = 100	Index of Real Payrolls (Factory Pay- rolls + Cost of Living): 1923-25=100	Standard Statistics Index of 419 Stock Prices: 1926 = 100	Stan. Stat. Index of 419 Stock Prices: Rev. 10/57
37 Jan.	114	85.9	85.4	90.7	106.2	126.0	
Feb.	116	86.3	85.7	95.8	111.2	129.5	
Mar.	118	87.2	86.4	101.1	117.0	129.9	
April	118	88.0	86.8	104.9	120.9	124.5	
May	118	87.4	87.3	105.2	120.5	118.3	
June	114	87.2	87.4	102.9	117.7	113.6	
July	114	87.9	87.4	100.4	114.9	117.8	
Aug.	114 117	87.0	87.5	97	103.7	111.6	118.5
Sept.	113	87.0	87.0	94		108.0	114 120.5 121
Oct.	111	87.0	87.0	91		104.6	115 106.1 105
Nov.	108	87.0	87.0	85		97.7	116 108
Dec.	110	87.0	87.0	85		97.7	120 114
38 Jan.	106	87.0	87.2	84		96.3	124 116
Feb.	109	87.1	87.4	88		100.7	126 118
Mar.	112	87.2	87.6	92		105.0	128 120
Apr.	115	87.3	87.8	96		109.3	130 122
May	117	87.4	88.0	99		112.5	146 124
June	117	87.5	88.2	99		112.2	126
July	117	87.5	88.3	99		112.1	128
Aug.	117	87.6	88.4	99		112.0	130
Sept.	117	87.7	88.5	99		111.9	132
Oct.	117	87.8	88.6	99		111.7	134
Nov.	117	87.9	88.7	99		111.6	137
Dec.	117	88.0	88.8	99		111.5	140
39 Jan.	117	88.6	89.3	100		112.0	
Feb.	117	89.2	89.8	100		111.4	
Mar.	118	89.8	90.3	102		113.0	
Apr.	118	90.4	90.8	104		114.5	
May	119	91.1	91.3	105		115.0	
June	120	91.8	91.8	107		116.6	
July	120	92.2	92.3	107		115.9	
Aug.	121	92.9	92.8	107		115.3	
Sept.	122	93.6	93.3	107		114.7	
Oct.	122	94.2	93.8	107		114.1	
Nov.	123	94.8	94.3	107		113.5	
Dec.	123	95.4	94.7	107		113.0	

August 31, 1937

ANNUAL BUSINESS FORECASTS

Year	FRE Index of Industrial Production: 1923-25 = 100		BLS Index of Wholesale Prices: 1926 = 100		NICE Index of the Cost of Livings: 1923-25 = 100		BLS Index of Factory Payrolls: 1923-25 = 100		Index of Real Payrolls (Factory Payrolls + Cost of Living) 1923-25=100		Monthly Average Bank Debits in 140 Centers outside New York City \$1,000,000,000	Standard Statistics Index of 419 Stock Prices: 1926 = 100
	Calendar year	Fiscal year	Calendar year	Fiscal year	Calendar year	Fiscal year	Calendar year	Fiscal year	Calendar year	Fiscal year		
1929	119	117	95.3	96.2	98.4	98.5	109.1	107.2	110.9	109.1	\$27.7	190.5
1930	96	110	86.4	92.5	95.1	96.0	88.5	102.2	93.1	104.2	23.1	149.8
1931	81	87	73.0	79.0	85.7	80.4	67.4	76.7	78.8	84.8	18.1	94.7
1932	64	71	64.8	68.2	76.6	81.0	46.4	56.1	60.6	69.0	12.9	58.6
1933	76	87	65.9	62.9	73.6	73.1	49.4	42.2	67.1	67.7	12.0	63.0
1934	79	83	74.9	72.0	78.1	76.7	62.9	60.5	80.5	78.8	13.8	72.4
1935	90	82	80.0	78.0	81.2	79.8	71.3	65.5	87.8	82.0	16.0	78.3
1936	105	96	80.8	80.1	83.4	82.0	82.4	75.6	96.8	92.2	18.1	111.1
1937 est. ^{1/}	114	114	87	84.5	87	85.4	96	93.6	110.3	109.4	20.6	121
1938 est.	116	112	87.5	87	88	87	96	93	109.1	106.9	21.9	
1939 est.	120	118	92	89	92	90	105	101	114.1	112.2		

^{1/} 1937 fiscal year indexes are actual figures.

Confidential

Comparison of August 1937 revision of estimated fiscal year 1938 revenue receipts with fiscal year 1938 estimates contained in the Budget Message and April Work Relief Message 1/

Summary Table

General and special accounts (On the basis of the daily Treasury statement, unrevised)	Budget message January 1937	Work relief message April 1937	August estimate	Increase	Percent increase	Increase or de-	Percent increase or
				or decrease August over budget	or decrease August over budget	crease August over April 1937	decrease August over April 1937
1. Internal revenue:							
(1) Income tax:	\$3,265,300,000	\$2,975,300,000	\$2,865,500,000	\$-499,800,000	-14.9	\$-89,800,000	-1.0
(2) Miscellaneous internal revenue taxes:							
Capital-stock tax	\$ 142,000,000	\$ 142,000,000	\$ 142,000,000	-	-	-	-
Estate tax	464,100,000	358,300,000	391,800,000	\$-72,300,000	-15.6	\$33,500,000	9.4
Gift tax	75,000,000	25,000,000	25,200,000	-49,800,000	-66.4	200,000	.0
Alcoholic beverage taxes	643,700,000	643,700,000	666,570,000	22,870,000	2.0	12,870,000	2.0
Tobacco taxes	599,347,000	599,300,000	546,105,000	-53,242,000	-9.7	-21,195,000	-3.7
Stamp taxes	83,075,000	83,100,000	73,810,000	-9,265,000	-11.2	-9,290,000	-11.2
Manufacturers' excise taxes	448,510,000	448,500,000	463,520,000	15,010,000	3.3	15,020,000	3.3
Sundry taxes	82,600,000	82,600,000	130,270,000	47,670,000	57.7	47,670,000	57.7
Total miscellaneous internal revenue taxes	\$2,528,332,000	\$2,352,400,000	\$2,431,775,000	\$-77,557,000	-1.1	\$78,975,000	1.4
(3) Other internal revenue taxes:							
Taxes upon carriers and their employees	-	\$150,200,000	\$158,200,000	\$158,200,000	-	\$ 8,000,000	5.3
Social security taxes	\$774,800,000	774,800,000	605,535,000	-169,265,000	-21.8	-169,265,000	-21.8
Tax on unjust enrichment	-	10,000,000	5,000,000	-5,000,000	-50.0	-5,000,000	-50.0
Total other internal revenue taxes	\$774,800,000	\$735,000,000	\$768,735,000	\$-6,065,000	-0.8	\$-166,265,000	-17.8
Total internal revenue	\$6,648,432,000	\$6,242,700,000	\$6,065,510,000	\$-582,922,000	-8.8	\$-177,130,000	-2.8
2. Customs	\$465,000,000	\$465,000,000	\$426,900,000	\$-38,100,000	-7.9	\$35,900,000	7.8
3. Miscellaneous revenues and receipts	\$182,000,000	\$200,000,000	2/ \$210,000,000	\$28,000,000	15.4	\$10,000,000	5.0
Total receipts, general and special accounts	\$7,293,432,000	\$6,905,700,000	\$6,774,410,000	\$-519,022,000	-7.1	\$-131,250,000	-1.9

Treasury Department, Division of Research and Statistics.

1/ Collections for credit to trust funds are not included.

2/ This estimate is carried forward from 1937 actual collections. The final estimate of these items will be made in the Bureau of the Budget.

General and special accounts (in the basis of the daily Treasury statement, unclassified)	Budget Message January 1937	Work relief message April 1937	August estimate	Increase or decrease (Amount from July estimate)	Percent increase or decrease (from July estimate)	Increase or decrease from April 1937	Percent increase or decrease from April 1937
Internal revenues:							
1) Income taxes:							
Corporate, surtaxes 1/	\$1,255,300,000	\$1,268,100,000	\$1,172,000,000	\$ -93,000,000	-7.3	\$ -116,100,000	-9.3
Individual, surtaxes 1/	1,879,000,000	1,417,200,000	1,389,000,000	\$ -89,000,000	-4.7	\$ -28,200,000	-1.9
Surtax taxes	225,000,000	225,000,000	275,000,000	50,000,000	22.2	50,000,000	22.2
Excise-profits tax	5,000,000	5,000,000	20,000,000	15,000,000	300.0	15,000,000	300.0
Total income taxes	\$1,365,300,000	\$1,915,500,000	\$1,596,000,000	\$ -319,500,000	-16.7	\$ -368,300,000	-26.9
2) Miscellaneous internal revenue:							
Capital-stock tax	\$142,000,000	\$142,000,000	\$142,000,000	-	-	-	-
Surtax tax	464,100,000	358,200,000	393,800,000	35,600,000	7.8	35,600,000	7.8
Gift tax	75,000,000	75,000,000	75,000,000	-	-	-	-
Total	\$681,100,000	\$575,200,000	\$610,800,000	\$ 35,600,000	6.1	\$ 35,600,000	6.1
Alcoholic beverage taxes:							
Distilled spirits (imported) (excise tax)	\$ 24,000,000	\$ 27,000,000	\$ 17,400,000	\$ -10,000,000	-37.0	\$ -10,000,000	-37.0
Distilled spirits (domestic) (excise tax) 1/	267,000,000	267,000,000	274,700,000	7,700,000	2.9	7,700,000	2.9
Fermented malt liquors (beer) 1/	310,000,000	310,000,000	303,700,000	\$ -6,300,000	-2.0	\$ -6,300,000	-2.0
Wines (domestic and imported) (excise tax) 1/	6,100,000	6,100,000	7,150,000	1,050,000	17.2	1,050,000	17.2
Surtax on wine	11,300,000	11,300,000	13,040,000	1,740,000	15.4	1,740,000	15.4
Surtax on liquor dealers, and manufacturers of stills (special taxes)	7,500,000	7,500,000	7,540,000	40,000	0.5	40,000	0.5
Flavor wines (Liquor Taxing Act, 1934)	11,200,000	11,200,000	12,040,000	840,000	7.5	840,000	7.5
Surtax on stills and distillers (special taxes)	4,100,000	4,100,000	4,000,000	\$ -100,000	-2.4	\$ -100,000	-2.4
All other	2,000,000	2,000,000	1,110,000	\$ -890,000	-44.5	\$ -890,000	-44.5
Total alcoholic beverage taxes	\$643,700,000	\$643,700,000	\$625,740,000	\$ -17,960,000	-2.8	\$ -17,960,000	-2.8
Tobacco taxes:							
Cigars (large) 1/	\$ 15,300,000	\$ 15,300,000	\$ 12,300,000	\$ -3,000,000	-19.6	\$ -3,000,000	-19.6
Cigarettes (small) 1/	492,000,000	492,000,000	474,000,000	\$ -18,000,000	-3.7	\$ -18,000,000	-3.7
Snuff	7,000,000	7,000,000	6,710,000	\$ -290,000	-4.1	\$ -290,000	-4.1
Tobacco (chewing and smoking)	55,800,000	55,800,000	53,020,000	\$ -2,780,000	-5.0	\$ -2,780,000	-5.0
Cigarette tax and surtax	1,300,000	1,300,000	1,110,000	\$ -190,000	-14.6	\$ -190,000	-14.6
All other 1/	147,000	147,000	165,000	18,000	12.3	18,000	12.3
Total tobacco taxes	\$681,547,000	\$681,547,000	\$649,195,000	\$ -32,352,000	-4.7	\$ -32,352,000	-4.7
Stamp taxes:							
Issues of securities, and transfers, and surtax on conveyances	\$77,000,000	\$77,000,000	\$74,000,000	\$ -3,000,000	-3.9	\$ -3,000,000	-3.9
Stock transfers	36,400,000	36,400,000	32,300,000	\$ -4,100,000	-11.3	\$ -4,100,000	-11.3
Sale of produce (future delivery)	3,000,000	3,000,000	3,300,000	300,000	10.0	300,000	10.0
Silver-sulfur sales or transfers	175,000	175,000	10,000	\$ -165,000	-94.3	\$ -165,000	-94.3
Fishing cards	4,500,000	4,500,000	4,200,000	\$ -300,000	-6.7	\$ -300,000	-6.7
Total stamp taxes	\$121,075,000	\$121,075,000	\$118,110,000	\$ -2,965,000	-2.4	\$ -2,965,000	-2.4
Manufacturers' excise taxes:							
Lubricating oils	\$59,000,000	\$59,000,000	\$ 31,500,000	\$ -27,500,000	-46.6	\$ -27,500,000	-46.6
Drummers' surtax, mail, etc.	900,000	900,000	900,000	-	-	-	-
Matches	7,200,000	7,200,000	7,150,000	\$ -50,000	-0.7	\$ -50,000	-0.7
Gasoline	24,000,000	24,000,000	21,000,000	\$ -3,000,000	-12.5	\$ -3,000,000	-12.5
Electrical energy	28,400,000	28,400,000	26,100,000	\$ -2,300,000	-8.1	\$ -2,300,000	-8.1
Tires and inner tubes	37,000,000	37,000,000	44,250,000	7,250,000	19.6	7,250,000	19.6
Toilet preparations, etc.	15,300,000	15,300,000	17,500,000	2,200,000	14.4	2,200,000	14.4
Articles made of fur	7,000,000	7,000,000	6,900,000	\$ -100,000	-1.4	\$ -100,000	-1.4
Jewelry, etc.	-	-	-	-	-	-	-
Automobiles, trucks	8,100,000	8,100,000	5,300,000	\$ -2,800,000	-34.6	\$ -2,800,000	-34.6
Passenger automobiles and motorcycles	58,200,000	58,200,000	63,500,000	5,300,000	9.1	5,300,000	9.1
Parts and accessories for automobiles	9,300,000	9,300,000	7,900,000	\$ -1,400,000	-15.1	\$ -1,400,000	-15.1
Radio sets and phonograph records, etc.	7,500,000	7,500,000	8,800,000	1,300,000	17.3	1,300,000	17.3
Mechanical refrigerators	11,100,000	11,100,000	9,900,000	\$ -1,200,000	-10.8	\$ -1,200,000	-10.8
Sporting goods, cameras and lenses	8,050,000	8,050,000	7,000,000	\$ -1,050,000	-13.1	\$ -1,050,000	-13.1
Firearms, shells and cartridges	3,300,000	3,300,000	3,340,000	40,000	1.2	40,000	1.2
Chewing gum	900,000	900,000	470,000	\$ -430,000	-47.8	\$ -430,000	-47.8
Total manufacturers' excise taxes	\$448,510,000	\$448,510,000	\$427,520,000	\$ -20,990,000	-4.7	\$ -20,990,000	-4.7
Dairy taxes:							
Telephones, telegraph, radio and cable (excise):							
Issue wires, etc.	\$ 26,000,000	\$ 26,000,000	\$ 26,000,000	\$ 0	0.0	\$ 0	0.0
Transportation of oil by pipe lines	11,000,000	11,000,000	11,240,000	240,000	2.2	240,000	2.2
Leases of safe deposit boxes	2,000,000	2,000,000	2,000,000	-	-	-	-
Admission to theaters, concerts, circuses, etc.	20,800,000	20,800,000	19,600,000	\$ -1,200,000	-5.8	\$ -1,200,000	-5.8
Club dues and initiation fees	7,400,000	7,400,000	6,440,000	\$ -960,000	-13.0	\$ -960,000	-13.0
Disinfectants, etc., including special taxes	2,500,000	2,500,000	2,650,000	150,000	6.0	150,000	6.0
Coconut and other vegetable oils processed 1/	11,200,000	11,200,000	10,520,000	\$ -680,000	-6.1	\$ -680,000	-6.1
Processing tax on crude petroleum	1,000,000	1,000,000	700,000	\$ -300,000	-30.0	\$ -300,000	-30.0
Miscellaneous mail tax	-	-	3,000,000	3,000,000	100.0	3,000,000	100.0
Sugar Act of 1937	-	-	800,000	800,000	100.0	800,000	100.0
All other, including repealed taxes	1,000,000	1,000,000	1,000,000	-	-	-	-
Total dairy taxes	\$50,200,000	\$50,200,000	\$48,720,000	\$ -1,480,000	-2.9	\$ -1,480,000	-2.9
Total miscellaneous internal revenue taxes	\$1,726,875,000	\$1,726,875,000	\$1,644,755,000	\$ -82,120,000	-4.7	\$ -82,120,000	-4.7
Total internal revenue exclusive of processing taxes, railroad employees retirement taxes, Social Security taxes, and tax on unjust enrichment	\$3,092,175,000	\$3,642,375,000	\$3,240,755,000	\$ -401,620,000	-11.0	\$ -401,620,000	-11.0
3) Other internal revenues:							
Tax upon services and their employees	-	\$ 150,000,000	\$ 150,000,000	\$ 150,000,000	100.0	\$ 150,000,000	100.0
Social Security taxes (Public Law 271, Sec. 14, 1937) 1/	\$ 621,500,000	\$ 621,500,000	\$ 529,000,000	\$ -92,500,000	-14.9	\$ -92,500,000	-14.9
Employment tax (Title VIII)	243,000,000	243,000,000	243,000,000	-	-	-	-
Tax on employees of S or more (Title IX)	\$ 774,500,000	\$ 774,500,000	\$ 625,575,000	\$ -148,925,000	-19.2	\$ -148,925,000	-19.2
Total social security taxes	\$ 1,639,000,000	\$ 1,639,000,000	\$ 1,397,575,000	\$ -241,425,000	-14.7	\$ -241,425,000	-14.7
Tax on unjust enrichment	\$ 714,250,000	\$ 714,250,000	\$ 714,250,000	\$ 0	0.0	\$ 0	0.0
Total other internal revenue taxes	\$ 1,353,250,000	\$ 1,353,250,000	\$ 1,111,725,000	\$ -241,525,000	-17.8	\$ -241,525,000	-17.8
Total internal revenue	\$4,445,425,000	\$5,001,625,000	\$4,352,480,000	\$ -649,145,000	-12.9	\$ -649,145,000	-12.9
4) Customs	\$451,000,000	\$451,000,000	\$428,250,000	\$ -22,750,000	-5.0	\$ -22,750,000	-5.0
5) Miscellaneous payments and credits	\$150,000,000	\$150,000,000	\$ 210,000,000	\$ 60,000,000	40.0	\$ 60,000,000	40.0
Total receipts general and special accounts	\$5,046,425,000	\$5,652,625,000	\$4,780,730,000	\$ -871,895,000	-15.4	\$ -871,895,000	-15.4

Source: Department, Division of Research and Statistics.

1/ Contributions for credit to trust funds are not included.

2/ This estimate is derived from 1937 actual collections. The final estimate of these items will be made in the Budget of the Budget.

August 1957 revision of estimated fiscal year 1958 revenue receipts and very preliminary estimates of fiscal year 1959 revenue receipts 1/ (In dollars)

General and special accounts	Actual 1957	Estimated 1958	Increased or decreased		Estimated 1959	Increased or decreased		Increased or decreased	
			1958 over 1957	Percent increase or decrease 1958 over 1957		1959 over 1958	Percent increase or decrease 1959 over 1958	1959 over 1957	Percent increase or decrease 1959 over 1957
I. Internal revenue:									
(1) Income taxes	2,457,526,981.33	2,865,500,000	707,973,018.67	28.8	3,150,200,000	284,700,000	10.3	1,002,673,018.67	46.5
(2) Miscellaneous internal revenue taxes									
Capital stock tax	137,423,245.53	142,000,000	4,576,754.47	3.3	145,000,000	3,000,000	2.1	7,576,754.47	5.5
Estate tax	261,655,903.21	391,800,000	110,144,016.79	42.1	401,800,000	10,000,000	2.6	130,144,016.79	12.1
Gift tax	23,911,783.26	25,200,000	1,288,216.74	5.4	26,800,000	1,600,000	6.3	2,888,216.74	12.1
Alcoholic beverage taxes	593,831,352.37	656,570,000	62,738,647.63	10.6	670,760,000	14,190,000	2.1	76,928,647.63	11.0
Tobacco taxes	551,972,580.32	548,105,000	-3,867,580.32	-0.7	562,390,000	14,285,000	2.7	11,067,419.68	2.0
Stamp taxes	69,819,336.11	73,810,000	3,990,663.89	5.8	81,410,000	7,600,000	10.3	11,490,663.89	16.4
Manufacturers' excise taxes	450,581,314.74	463,520,000	12,938,685.26	2.9	470,830,000	7,300,000	1.6	20,248,685.26	4.5
Miscellaneous taxes	73,432,736.77	130,370,000	56,937,263.23	77.4	156,730,000	26,360,000	16.3	76,797,263.23	10.4
Total miscellaneous internal revenue taxes (collection basis)	2,188,735,064.91	2,431,375,000	242,639,935.09	11.1	2,515,810,000	84,435,000	3.5	327,074,935.09	14.9
Adjustment to daily Treasury statement basis (unrevised)	7,517,268.87	-	7,517,268.87	-	-	-	-	7,517,268.87	100.0
Total miscellaneous internal revenue taxes	2,196,252,333.78	2,431,375,000	235,157,666.22	10.7	2,515,810,000	84,435,000	3.5	334,592,203.96	15.3
(3) Processing taxes (Agriculture Adjustment Administration)	2,501.14	-	-2,501.14	-100.0	-	-	-	-2,501.14	-100.0
(4) Other internal revenue taxes									
Taxes upon carriers and their employees	286,303.55	158,200,000	157,913,696.45	55,040.6	124,800,000	-33,400,000	-21.1	124,513,696.45	43,396.9
Social security taxes	265,458,404.29	505,575,000	240,116,595.71	128.1	632,401,000	126,826,000	4.4	366,942,595.71	138.2
Tax on unjust enrichment	5,073,351.02	5,000,000	-73,351.02	-1.7	10,000,000	5,000,000	100.0	3,926,649.98	77.4
Total other internal revenue taxes (collection basis)	271,818,058.86	768,775,000	496,956,941.14	183.0	767,201,000	-1,534,000	-0.2	495,387,341.14	182.3
Adjustment to daily Treasury statement basis (unrevised)	-13,425,894.88	-	13,425,894.88	-	-	-	-	13,425,894.88	100.0
Total other internal revenue taxes	258,392,163.98	768,775,000	510,382,836.02	197.5	767,201,000	-1,534,000	-0.2	508,813,236.02	197.0
Total internal revenue	4,597,140,102.49	5,065,510,000	468,369,897.51	10.2	5,443,211,000	377,700,000	7.0	1,046,070,897.51	22.8
2. Duties	210,341,532.82	210,000,000	-341,532.82	-0.2	210,000,000	-341,532.82	-0.2	-341,532.82	-0.2
3. Miscellaneous revenues and receipts									
Total receipts, general and special accounts	5,017,821,168.13	5,275,510,000	257,688,831.87	5.1	5,653,411,000	375,900,000	6.7	1,045,592,364.69	20.4

Treasury Department, Division of Research and Statistics

1/ Collections for credit to trust funds are not included. The final estimate of these items will be made in the Bureau of the Budget. This estimate is carried forward from 1957 actual collections.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 11, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHL. W. KnobeBANK OF ENGLAND.

Mr. Hawker, in the absence of Mr. Bolton, called today at 12:16 p. m. The French elections, he said, which at least so far had shown practically no movement to the Left, leaving the position of the parties very much unchanged, had had a very good effect on sentiment. At the same time, news had come out of a new Swiss loan to the French railroads in the amount of Swiss francs 200,000,000 two-year 4% bonds, at 99, to be signed tonight. There had been no confirmation from official sources. Reuter had been responsible for the announcement and Cariguel, in his talk with Hawker, had not denied it.

As a result of these two developments, the franc was much better today and Cariguel had managed to take in a good deal of sterling, probably in the neighborhood of £4,000,000. Very few dollars, on the other hand, had been offered to him, which, Hawker thought, was a confirmation of Bolton's recent opinion that the flight of French capital had been almost exclusively into sterling. I inquired whether, in his opinion, today's firmness of the franc was due to a beginning of repatriation or whether it was just another short covering movement. Hawker replied that there was no indication whatever of repatriation.

I inquired whether there was anything to rumors that the French railroads were also trying to raise money in Holland. Hawker replied that he had heard of these rumors ^{but} in the light of last year's refusal on the part of Amsterdam banks, he questioned the accuracy. I asked whether there was any connection between the new Swiss loan and the maturing British credit. Hawker said he did not think so, at least not at the moment.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 11, 1927.

CONFIDENTIAL FILE

SUBJECT: TELEPHONE CONVERSATION WITHL. W. KnobeBANK OF ENGLAND.

- 2 -

Negotiations apparently were still going on between the group of British banks and the French Government with regard to a renewal of the sterling loan. At present the market did not seem very favorably disposed towards such a renewal but it was really too early to have any opinion as to the outcome of these negotiations.

I asked how the London gold market had acted on receipt of better news from France. Hawker replied that the hoarding demand continued, but not quite as large as heretofore; it had possibly been reduced to something like one-half of the original amount. So far, there was no sign of its diminishing further.

With reference to my previous conversations with Bolton about Japanese gold shipments, I mentioned that we had just learned that a shipment of about \$5,000,000 had left Kobe for San Francisco on October 4 and that quite possibly another one of a similar amount would follow shortly. This, then, I said was probably the reason for today's reports from London that dollars had been heavily offered by Japanese banks. Hawker acted surprised at this statement because, as he said, he had certainly had no evidence of such offers and questioned the correctness of the report.

He referred to the renewal by us of the order to sell further 600,000 ounces of gold and said that in all probability they would be able to do quite a considerable amount for us today.

Hawker then referred to the report that Dr. Riefler had left the Treasury and asked whether that had any significance. I replied that

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 11, 1937.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

- 3 -

I had read about it in the press, that it had been my understanding that Riefler would work in Washington during the academic vacation period and would return to Princeton at the beginning of the new semester. This, he had done and it certainly seemed to me that his discontinuing his temporary work at the Treasury had no significance whatever.

LWK:KMC

RECEIVED
OCT 11 1937
FEDERAL RESERVE BANK
OF NEW YORK

October 11, 1937.
11:21 a.m.

Operator: Mr. Jones

H.M.Jr: Hello

J. Jones: Hello

H.M.Jr: Jesse, I just wanted to say I saw on the ticker that you are going to see the President.

J: Yes

H.M.Jr: And I want to make plain my position on this thought that you had about selling RFC securities and giving the Treasury the net receipts.

J: Yes

H.M.Jr: Well, I just want to say I have had time to think about that over the weekend, and - and I wouldn't care to go along on that program.

J: I wouldn't mention it - I didn't intend to mention that.

H.M.Jr: Well, I just wanted to make sure.

J: Oh, no.

H.M.Jr: Because we've got really - I mean while I appreciate your offer but that isn't in

J: Well, I'm not - I hadn't any notion of mentioning that.

H.M.Jr: All right

J: Just some general things

H.M.Jr: I just want - on that basis, I don't - I couldn't go along.

J: That's all right.

October 11, 1937
4:40 p.m.

Jesse
Jones: Can I sell you some sugar?

HMJr: Well it all depends on the price.

J: Well I've got almost any quality you want or any color, anywhere from six cents up to nine.

H.M.Jr: Well, I'll take one bale. I'll let you name the price.

J: Well - we had one bale once, I don't know whether you remember that or not.

H.M.Jr: Very well.

J: Some years ago.

H.M.Jr: Very well.

J: Well now, the - this thing that I mentioned to you, it was not at all serious - I've always been it was only if it would help.

H.M.Jr: Well, the only reason I called you was, Danny said that you mentioned it to him last night.

J: Well, I called him - trying to get you, don't you see. He answered and then I just had a visit with him.

H.M.Jr: I'll tell you, Jesse, the President is being so magnificent about balancing this budget, see, that I feel that this is the time he wants to do it - I think the time has come - anything like taking one agency to sell its securities to take the place of receipts. While it would be helpful - I think at this time if we could really show the public we want to balance the budget we shouldn't miss the opportunity, now that sums up the whole thing.

J: Well, I'm for that one hundred per cent.

H.M.Jr: I thought you would be.

J: Yes.

H.M.Jr: So that's the whole picture.

-2-

J: Well - we are up to the closing point with this agency.

H.M.Jr: Well, I'll tell you what happened, - I was with him. The President turned the thing over to Dan. Dan was just back one day and wasn't familiar with it.

J: Yes.

H.M.Jr: And he asked for twenty four hours to familiarize himself with it. And I think you'll find that Dan will call you tomorrow.

J: All right.

HMJr: See?

J: All right, well, Ickes and we are in agreement and -

H.M.Jr: Well, Dan simply told the President he had just got back and he wasn't familiar with it.

J: Yes.

H.M.Jr: So I think you'll hear from Dan tomorrow.

J: All right, fine.

H.M.Jr: What else?

J: I think that's about all.

H.M.Jr: Thank you.

J: And the market went up again today.

H.M.Jr: Laughs.

J: What did Governments do?

H.M.Jr: Governments were off one or two thirty-seconds, that's all.

J: Well, that isn't much.

H.M.Jr: No.

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J: They'll probably go back up if everytning else goes down.

H.M.Jr: Oh. Yeah.

J: Huh?

H.M.Jr: You were joking about the market being up?

J: Laughs. Why sure.

H.M.Jr: Yeah.

J: Oh my God, yes.

H.M.Jr: Yes. No, the Governments are off one or two thirty-seconds - the way Governments have behaved I think that it's - it's simply fine.

J: A fellow called me from Montreal - he wanted to know 'what to hell' was the matter with the market down here.

H.M.Jr: Yeah - well there's nothing really the matter.

J: That's the first call I've had from out of the country.

H.M.Jr: Ha -

J: I've had plenty of them in the country.

H.M.Jr: I'll betcha -

J: All right, thank you.

H.M.Jr: Goodbye.

October 11, 1937
4:40 p.m.

H.M.Jr: Hello

Operator: Admiral Waesche. Go ahead.

H.M.Jr: Hello

W: Hello, Mr. Secretary.

H.M.Jr: Yes

W: I'm in Mr. McReynolds' office right now, I wonder if you could give me about two minutes.

H.M.Jr: No, but I can listen to you on the phone for a minute.

W: I - Dr. Stefanson the Arctic explorer who is going to send an expedition up in the Arctic to look for these Soviet flyers along with the Soviet Government wants to know if you could give him a few minutes tomorrow, if he could come down here, and he wants the Coast Guard to help out on this search by sending three men and a radio station to set up there on the Arctic shores, the Army will have their station at Point Barrow. I believe the Soviet Government is going to make a request to the State Department for this thing, I -

H.M.Jr: Oh you handle it, Admiral, I'm just up to my neck - I'm -

W: If it's all right with myself and Mac to help ^{them} out on this thing will be all right with you.

H.M.Jr: Well, I think it's a crazy scheme, if you ask me.

W: Well - the Army is going to give them a hand, and the Soviet Government have already got four four motored planes up there

H.M.Jr: I'll leave it in your hands. I'll leave it - whatever - you do will be O.K. with me.

W: All right.

H.M.Jr: What more do you want.

W: Nothing more.

- 2 -

H.M.Jr: Well, listen, wait a minute - I'm going up with the President Tuesday night and I'd like to have Burke standing by at New Hackensack from two o'clock on.

W: Two o'clock Tuesday.

H.M.Jr: Tuesday - I mean Wednesday, two o'clock, New Hackensack.

W: I'll wait for word from you then.

H.M.Jr: Yes, wait for word from me.

W: All right, Burke will be in Hackensack at 2 p.m. on Wednesday, and will wait there for further word from you.

H.M.Jr: And if for any reason he can't come the only way you'll be able to reach me is through the office.

W: All right, sir.

H.M.Jr: I mean, if they can't do it, they'll have to reach me through the Treasury.

W: Yes. All right, thank you.

October 11, 1937.

H.M.Jr: Hello

Operator: Mr. Ransom - Go ahead.
Ronald
Ransom:

H.M.Jr: How do you do.

R: I'm fine. I told you I'd bring you up to date after I saw Douglas in Trenton this morning. They had nothing very pressing on their minds, just - I think their visit perhaps was the result of a good deal of pressure which may be all damp from a great many sources -

H.M.Jr: Yes

R: And they wanted to discuss the whole theory of margins with us.

H.M.Jr: I see.

R: They had had a conference with the Board, but the happens to be about a month ago.

H.M.Jr: Yes

R: And this was more a follow up. They have an idea in which I myself completely in accord and on which I had been working myself for some time, namely that we ought to get back to something more like the statutory formula which would give the - automatic elasticity to these margins.

H.M.Jr: Well, listen old man, you're coming over for lunch tomorrow, aren't you.

R: Uh

H.M.Jr: Coming over for lunch tomorrow.

R: Yes.

H.M.Jr: Well, why don't you talk about it then.

R: I'll do that with pleasure. What time one o'clock?

- 2 -

H.M.Jr: One o'clock. Do you want to bring anybody with you, or not.

R: Well, now would you like me to bring Doug

H.M.Jr: No, no. The only reason was the last time I wanted some technical information.

R: All right, I'll just come myself.

H.M.Jr: O.K. Fine.

October 12, 1937
9:35 a.m.

H.M.Jr: Hello
R.
Doughton: Hello

H.M.Jr: Hello, Bob, how are you?

D: I'm fine Henry, how are you getting along
go back at you the same way.

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

D: How are you.

H.M.Jr: Oh, I'm fine.

D: That's fine. Well, I tell you, Mr. Vinson, head chairman of our - your sub-committee on Internal Revenue taxation, Dr. Magill and myself are in a little conference here about procedure in tax matters, and we'd like to talk with you, this afternoon, if it meets with your approval and be convenient.

H.M.Jr: Is Magill with you.

D: He's right here now. Would you like to speak with him.

H.M.Jr: Oh, no, - he's like an old shoe, I see him every day.

D: Well, that's so, but I -

H.M.Jr: Well, I tell you -

D: I could see him twice a day with pleasure and benefit too.

H.M.Jr: Well, that's all right. Now, we have to have Cabinet, but if you gentlemen would be free around 11 o'clock, I'd be delighted to see you.

D: At 11 o'clock.

H.M.Jr: Yes.

D: This morning.

H.M.Jr: Yes sir. I have Cabinet this afternoon.

D: Well, the boys will be there, and as far as I know, I'll be along with them.

- 2 -

H.M.Jr: You'd better come.

D: Well -

H.M.Jr: I want to know how things are going down in North Carolina.

D: Well, like what the darkie said about his mules.

H.M.Jr: What -

D: Like what the darkie said about his mule, they recommended trading him you know, what a good worker he was, how safe he was, and what a good puller he was. They asked him about his saddling qualities, how he saddled, - he said well just to be frank with you and honest they would like to see the man they said he's just not as swift himself.

H.M.Jr: He's not what.

D: Not as swift.

H.M.Jr: Not as swift.

D: Not as swift himself.

H.M.Jr: I see.

D:

H.M.Jr: Well, if you gentlemen come down at eleven I'll be delighted -

D: Well, we want
All right, we'll be down at eleven o'clock. Thank you very much.

H.M.Jr: O.K.

D: Goodbye.

CA

Gray

PARIS

Dated Oct. 11, 1937

Recd 5:50 p.m.

Secretary of State,
Washington.

1423, October 11, 4 p.m.

FOR THE TREASURY

The favorable impression made by the first published results of the cantonal elections led to a fair demand for francs on the exchange market today and the fund according to our market contact has been able to recuperate about 3,000,000 pounds sterling at rates varying between 150, the unofficial opening quotation this morning, and 149.17 which is the present rate. The dollar rate is around 30.10.

On the security market rentes gained from (?) centimes to one franc. International securities lost ground.

The financial press points with particular satisfaction to the apparent failure of the high pressure campaign of the Communists to secure a substantial lead in the elections of yesterday but in this respect late reports received on the Bourse this afternoon indicate that the Communist and Socialist gain is more substantial than that reported this morning.

Other factors which are providing grounds for cheerfulness are indications from Switzerland that the rumored negotiations for a substantial loan have been successfully

concluded

CA --2--Paris 1423, Oct 11, 4 p.m.

concluded by the French Government and reports that Jouhaux (Chairman of the General Confederation of Labor) as well as certain Socialist leaders are beginning to take a more reasonable attitude with respect to possible changes in the recent social laws and especially as concerns the forty hour law but no real evidence that this is the case has thus far been noted.

A loan of 5,000,000 pounds for the electrification of the Polish railways will be granted by a group of British financiers according to the LONDON FINANCIAL TIMES of today. One of the points outstanding in the amount to (?) in cash and that to be imported in British electrical machinery, it is stated.

WILSON

SMS NPL