December 2, 1937.
3:57 p.m.

HMJr: Hello.

Walter Cummings: Hello, Henry this is Walter.

HMJr: Yes. I don't hear you awfully well.

C: Oh, hello, Henry, this is Walter Cummings.

HMJr: Yes.

C: Hear me now?

HMJr: Yes.

C: Henry, our first choice on that would be, of course, to issue all bonds.

HMJr: What?

C: Our first choice would be to have you issue all bonds.

HMJr: All bonds.

C: Yes, I'll tell you why. You've got four hundred and fifty five million due in March.

HMJr: Yes.

C: Like to have you clear there to be in a position to issue notes there because we know that they will take, next March and that wouldn't compete with any demands for capital.

HMJr: I see.

C: That would be my first choice.

HMJr: First choice, all bonds.

C: All bonds, eight year bonds at two and a half.

HMJr: Uh-huh.

C: Now if - if you decide that that isn't the wisest thing to do Henry, then I would offer for cash in exchange the new issue, the five year one and three quarter note eight year two and a half per cent bonds and let it fall wherever it would.

HMJr: I see.

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C: You see then you'd be - you'd be dead sure, you know that the entire offer would be accepted.

HMJr: Yes.

C: And to show you how I feel about those bonds, as far as our bank is concerned, we would subscribe the limit and be glad to get them, and I think the bond issue would go over very good right at this time and I'd rather have the - placed in bonds now when we're pretty sure they'll take it rather than take a chance next March.

HMJr: I see. But your bank would take the limit on the bonds.

C: Yes. We'd take the limit on the bonds. Happy to get them.

HMJr: How many - under your limit how many could you subscribe to?

C: Forty five million.

HMJr: How much?

C: Forty five or fifty million. Forty five million we can take.

HMJr: Uh-huh.

C: I'm sure that out here in this country that that offer would be - that their bond issue would go over good.

HMJr: Have you talked to any of your correspondent banks?

C: Yes, we're in touch with them all the time. Practically every day. Had one of them - well we have them every day, we've been talking this thing for two weeks, Henry.

HMJr: Yes. And that's the concensus of opinion?

C: Yes, that is out here.

HMJr: Well would other banks do the same thing out there?

C: I - I can't - I can't answer for them. I don't know. But I'm sure that this would go - the bond issue would go over very good. You see, you have

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no maturities then, you know, in 1945.

HMJr: Yes.

C: Looking ahead you've only got one maturity -

HMJr: Yes.

C: Due at that date of a million four hundred thousand.

HMJr: Yes.

C: What I'm concerned particularly Henry, is looking ahead to March.

HMJr: Yes.

C: You know the notes will go fine.

HMJr: You mean -

C: Put those out any time and you'd have no trouble next March on that four hundred and fifty five million and nobody could say that the Government was competing with industry or anybody else for money.

HMJr: Well -

C: That's my real reason.

HMJr: Could you talk to some of your friends and call me back tomorrow afternoon and let me know whether they feel the same way?

C: Yes, I'll sound out a few more Henry, and call you tomorrow.

HMJr: Will you do that?

C: Yes, I'll do that.

HMJr: Thank you.

C: All right. Goodbye.

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Prepared by Mr. Daggit

INTER OFFICE COMMUNICATION

DATE Dec. 2, 1937.

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Is this an opportune time for a cotton sales promotion campaign?

Conclusions:

An analysis of the cotton situation indicates that this would be an opportune time for Federal cooperation in stimulating activity in the textile industry, since (1) the industry appears to have nearly completed its adjustment to the overproduction of last spring, and with the aid of this year's large crop it should be among the first to improve in 1938; (2) cotton prices appear to have reached a level from which an upturn can be expected, particularly in view of plans for an acreage reduction program next spring.

Analysis of the Cotton Situation:

A curtailment in cotton mill activity since mid-summer, brought on by an earlier period of overproduction, has been an important factor in the current business recession. The prices of raw cotton and cotton products have at the same time declined severely, in part because of the production of a record large crop, which has further contributed to unsettlement in the industry.

Since cotton is the most important cash crop to farmers, normally contributing more direct cash income than all grain crops combined, and since the cotton industry is the most important single industry from the standpoint of industrial employment, any effective assistance which the Federal Government could give to stimulate activity in the cotton industry should be of direct benefit to industrial activity as a whole. Increased cotton consumption, furthermore, would tend to raise cotton prices and improve farm incomes. It would be of direct financial benefit to the Government through decreasing its expenditures for unemployment relief, increasing its tax revenues, and reducing its liabilities on cotton held as security for loans.

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Federal assistance to the cotton industry may be directed: (1) Toward increasing mill activity and thereby improving general business activity and employment; (2) toward improving prices and thereby improving farm purchasing power. An effective program would in some degree achieve both objectives. The effectiveness of any program, however, would depend in part upon its timing. An attempt to raise prices too soon might require great effort to accomplish small results, and likewise an attempt to increase mill activity prematurely might be unproductive. We have therefore analyzed the textile situation statistically, to determine how soon an upturn could ordinarily be expected.

Adjustment may be completed by end of January

During the crop year just past, the consumption of American cotton by United States mills established a new record of 7,768,000 bales. Part of this, however, was due to speculative influences, as a result of which an indeterminate amount of goods remains in trade channels unsold. The same influences have also affected textiles other than cotton. We have attempted to estimate the actual movement of textile products into consumption, to compare with recent production trends and thereby determine the extent of overproduction in the textile industry. Periods of overproduction, according to this study, are characteristically followed by periods of rapid adjustment such as the one which began last July following the overproduction of last spring. Judging from previous experience, this adjustment should soon be completed, probably by the end of January, which should place the industry in position for increased activity early in 1938. The effect of the unusually large crop of cotton now being harvested should also tend to stimulate consumption next spring and summer. We believe, therefore, that the present is an unusually opportune time for beginning a campaign designed to increase mill activity.

Price outlook appears favorable

To the extent that the campaign may be directed toward raising prices, it is also our opinion that the present time is an opportune one. We base this on our analysis both of the price situation with respect to raw materials in general, and of the particular situation with respect to cotton. While the general commodity price trend continues downward, we believe that the continuation of the decline from this point will be confined more largely to finished products that have

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not yet been adjusted to the decline in raw materials. Prices of sensitive commodities, including cotton, were first to decline last spring, and should be first to reflect buying in anticipation of a business rise.

In cotton there are additional grounds for expecting a rising price trend from present levels. (1) The heavy marketing movement, with its attendant pressure on the futures markets, passed its peak a month ago. (2) Prices recently have been working upward against declines in other markets, and in spite of private estimates indicating a further increase in the cotton crop. (3) The prospect of a materially smaller crop next year as a result of the proposed acreage reduction program should soon bring buying into the market in anticipation of a rising price trend. A campaign begun at this time would have the price situation largely in its favor.

The present low cotton prices would eventually result in a stimulation of consumption and mill activity, but the textile industry has in the past been rather slow to respond to cheap cotton, probably in part because of consumer inertia. Low prices in any one season have usually affected cotton consumption over a period of several seasons. This may have been due partly to the development of new uses when cotton was cheap, which were retained even at higher prices. The record American crop of 1926, for example, was followed by three years of record or near-record consumption. Increased by 15 percent to allow for the increase in population, the figures for those three years would be equivalent at present to 7,902,000 bales, 7,515,000 bales, and 7,795,000 bales, respectively. In view of this experience, we feel that the consumption of 7,768,000 bales during the season just past, although establishing a new record, may be exceeded when the present low prices have had time to react upon consumption. Government efforts might well be expended at this time toward speeding up this reaction.

A huge sales promotion campaign, having as a keynote the celebration of this year's bumper crop with the resulting unusual bargains in cotton goods, would seem the best means of stimulating textile activity. A sales campaign would tend to overcome consumer inertia and to increase mill activity during the present business recession, when it would do most good, instead of at some later time.

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December 3, 1937.
11:55 a.m.

HMJr: Hello.

Operator: Dr. Burgess. Go ahead.

HMJr: Hello.

Dr. Burgess: Oh hello, sir.

HMJr: How are you?

B: I'm well.

HMJr: I hope that you took those boys and filled them full of apple jack last night.

B: Oh, we had a good time.

HMJr: Well I won't ask for the details.

B: You'd better not.

HMJr: All right.

B: How'd you make out with Aldridge?

HMJr: Well, Dan and I just got through, and -

B: Yes.

HMJr: We never worked harder in our lives, and - and he - he - we sorta worked him up any way, and he went out actually smiling. I never saw a fellow so depressed in my life.

B:

HMJr: Well, he went out of here in a much better humor - on general conditions and on the present.

B: Yes. They were all for notes weren't they?

HMJr: Yes, they said that they've got thirty five million of the February's there.

B: But they -

HMJr: They weren't all for notes, but the main thing was make it a success.

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B: Yes.

HMJr: Make it a success.

B: That's all right.

HMJr: Yes.

B: Yes, but I'm all for the Morgenthau plan this morning.

HMJr: What is it?

B: Two hundred and fifteen and two hundred.

HMJr: Uh-huh.

B: Give the other boys a choice.

HMJr: Uh-huh. Uh-huh.

B: That - we talked it over a little on the train coming home.

HMJr: Uh-huh.

B: I think those boys came around to that.

HMJr: Uh-huh.

B: And Matty's all for it. The more I think about it the better I like it.

HMJr: Uh-huh. Along about four I'll give you another ring.

B: Well -

HMJr: You don't go home until five, do you?

B: I very seldome get home then.

HMJr: Well, I'll call you up just as soon as Rentschler leaves.

B: All right. Now don't let - don't let this fellow Leffingwell sell you a bit of goods this noon.

HMJr: What's he going to sell me?

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B: He's going to sell you an easy money program.

HMJr: I see.

B: He always does that.

HMJr: Uh-huh. Well, where's - where is the Federal Reserve?

B: Well, he'll tell you it'll be sterilized by the gold, or something.

HMJr: Oh he will, will he?

B: Yes. Or stop sterilizing, anyway he'll tell you that.

HMJr: Well, we want -

B: Well, he - he just - I don't want to give the wrong impression. He's a damned capable fellow, and you'll like him, he's -

HMJr: What end of the business does he do in JPN anyway?

B: What's that?

HMJr: What end of the business does he look at?

B: Oh he's kind of their general philosopher.

HMJr: Oh, I see.

B: You know he was Under Secretary of the Treasury and Assistant Secretary, back in the war.

HMJr:4 Yes.

B: And he did a fine job. He's a great fellow.

HMJr: Yes.

B: But he has got a little leaning toward the - toward the inflationary side.

HMJr: Uh-huh. Well, that's all right.

B: Sure.

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HMJr: I can't only associate with conservatives like yourself.

B: Well, I'm not a conservative.

HMJr: I see.

B: As a matter of fact, in the beginning of the great depression Russell and I were right together on speeding things up.

HMJr: Good. Well, seriously, I think it's - I like to - see get a cross section.

B: Yes, of course, I think it's a fine thing to do.

HMJr: Yes. Well, I'll be calling you back at four.

B: O.K.

HMJr: Thank you.

B: Goodbye.

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December 3, 1937.
2:33 p.m.

HMJr: Hello.

Operator: Mr. Cummings.

HMJr: Thank you. Hello.

O: We're ready.

HMJr: Hello.

O: Secretary Morgenthau?

HMJr: Yes.

O: One moment. Chicago. Go ahead please.

Walter Cummings: All right. Hello.

HMJr: Hello, Walter?

C: Yes, Henry. How are you today?

HMJr: Oh, I'm all right.

C: Henry, I've been giving some thought to this and while I'd like to have all the bonds put out, you might not want to do that, but on the amount that we could take out here in Chicago on a straight bond issue and we've canvassed our people quietly, you know.

HMJr: Yes.

C: We could - you could bank on this district alone of a hundred and fifty million subscriptions.

HMJr: A hundred and fifty million.

C: Yes.

HMJr: - For bonds.

C: Now of course if you split the issue, you know.

HMJr: Yes.

C: Give the notes and the bonds.

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HMJr: Yes.

C: Why that would be much higher. Our own bank could subscribe double the amount, you know. We'd put it on half of each subscription.

HMJr: I see.

C: But the general impression out here is that the bonds would go fine.

HMJr: Uh-huh.

C: No question about that.

HMJr: Uh-huh.

C: But I know you've got to take care of both parts of the country.

HMJr: That's right.

C: I was thinking you might give this some thought - you might have done it - you'd - as we said yesterday, just issue the bonds and notes, we say half each of the four fifty.

HMJr: Yes.

C: And then on the exchange let them pick out whatever they would, wherever they fall.

HMJr: Yes.

C: That would be - might be a happy solution, but you can just bank that the bonds would all go, Henry.

HMJr: But you mean divide the four fifty in half.

C: That was my - it might be, from your point of view, that you might want to do it. You've got four fifty new money -

HMJr: That's right.

C: Divide them up. Half bonds and half notes.

HMJr: That's right.

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C: Then on the exchange let them take their pick, whichever they go to.

HMJr: Yes.

C: You'll find out that the big part of that exchange will go to bonds.

HMJr: Yes. Well, we're not very far apart, Walter.

C: Uh-huh. But, Henry, I hope - I'd like to see the bonds go and I wouldn't like to see a longer time than eight years. I want it to be a big success. They would be at that at two and a half per cent.

HMJr: Yes there'd be a one point premium in it.

C: Yes, there'd be - they'd go about to a hundred and one.

HMJr: Yes.

C: The notes - they ought to go to about a hundred in five days.

HMJr: That's right.

C: Yes. But you can just bank out here in the middle west that - that they'll be subscribed. Of course the bonds - you can be dead sure on the bonds - safe good subscription.

HMJr: Yes.

C: Make it the other way, of course, it's just that much bigger.

HMJr: Yes. Walter?

C: Yes.

HMJr: Let me ask you a foolish question. How much longer is this/thing going to last?

C: I don't think it's going to last so long, Henry. I didn't have a chance - didn't want to worry you, but that was a peach of a talk you made over there, that helped us a lot.

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HMJr: Uh-huh.

C: In fact it made all the news now - is coming out is pretty good.

HMJr: Uh-huh.

C: Dan Roper was out here with his advisory committee. They gave him a dinner, we had a great crowd of business men here.

HMJr: Yes.

C: Representatives from all over.

HMJr: Yes.

C: And, you know the crowd.

HMJr: Yes.

C: And the feeling was much better. They really think that everything from now on in Washington is constructive to help business.

HMJr: I see.

C: They didn't feel that way a month ago, Henry.

HMJr: They didn't.

C: Oh, no. They think that - our boss is taking a little different view of it, now.

HMJr: I see.

C: This - the tax message which you started, and which later on Pat Harrison came out in a clear statement.

HMJr: Uh-huh.

C: That's all helpful.

HMJr: Uh-huh.

C: The railroad officials figure that they're going to their

HMJr: Uh-huh.

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C: And that Housing program that's been launched is all to the good and the thought on that is it's going to be a little slow to get that started.

HMJr: Yes, I think that's right.

C: But there's been quite a change out here, Henry. All to the good.

HMJr: Uh-huh. Well -

C: The feeling is really much better. They think that everything that's been pending now is going to help business.

HMJr: Well thank you very much.

C: All right, Henry.

HMJr: Hold your thumbs for me.

C: Yes. All right, sir. Goodbye.

HMJr: Thank you.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 3, 1937

TO Secretary Morgenthau

FROM Mr. Seltzer

The accompanying memorandum suggests one or two considerations that do not affect the essential character of the contemplated financing operation, but that do merit some attention in connection with the form of the offering.

Regraded Unclassified

Prepared by: Lawrence H. Seltzer,
Assistant Director of
Research and Statistics;

Assisted by: Henry C. Murphy.

NT

COMMUNICATION

DATE December 3, 1937

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Treatment of Exchange Subscriptions to Proposed Note Issue of December 15

1. The present program contemplates the offering of notes in the amount of approximately $450 millions for cash, plus such additional amounts as are subscribed by tender of the notes maturing on February 1.

It is suggested that a more conservative and safer procedure from the Treasury's standpoint would be to offer approximately $727 millions of notes for public subscription, with preferential allotment in full for the exchange subscribers, and with the balance of the offering allotted to cash subscribers.

2. The advantage of the latter form of offering is that the Treasury is virtually assured indirectly of the full refunding of the maturing notes, regardless of the decisions of the holders of the maturing notes. The amount of the new notes that is not taken by the holders of the maturing notes would be sold for cash, thereby providing the funds for the retirement of the unexchanged notes on February 1.

3. This form of offering appears to be particularly desirable at this time because of the technical position of the February 1 notes. The interest accruing on these notes between December 15 and February 1 amounts to 11/32. In view of the fact that the true interest on a 6-weeks' Government obligation at this time is virtually zero, the holding of these notes from December 15 to maturity, assures the holder of what is essentially a premium of 11/32. Hence, the note holder is not provided with an adequate incentive to make the exchange unless (1) the anticipated premium on the new issue is at least 11/32; or (2) he is given a compensatory interest adjustment.

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In other words, on a strictly rational basis, if the holders of the maturing notes are offered the new notes at par without interest adjustment, they are being asked to turn in instruments worth 100-11/32 for the same notes which are being offered at par to cash subscribers.

4. A method that we have often used in the past to overcome similar difficulties has been to offer an interest overlap or some other interest adjustment to exchange subscribers. Mr. Taylor is strongly averse to doing this at this time, both because of the desire to eliminate premiums on exchange subscriptions and because of the current market strength.

(a) If it were desired to ~~make the~~ new notes fully as attractive to exchange subscribers as to cash subscribers, this could be done by allowing a full interest overlap between December 15 and February 1, which would mean a cash payment of about $3.42 for each $1,000 maturing note tendered in exchange. This would approximate $950,000 for the entire issue.

(b) An adjustment limited to the difference between the rate of 1-3/4 percent on the new notes and the rate of 2-5/8 percent on the maturing notes for the period between December 15 and February 1, would amount to about $1.14 for each $1,000 note, or approximately $300,000 for the whole issue.

5. If, however, we make no such concessions to the holders of the maturing notes, it would seem to be all the more desirable that the Treasury safeguard itself against the effects of any substantial undersubscription by holders of the maturing notes; and this can best be done by the form of offering recommended above.

6. It is true, of course, that the Treasury's cash position and the flexibility of the bill program will insure against any inconvenience to the Treasury in any event. Something, however, could be said for the psychological advantage of having the entire issue of $727 millions oversubscribed, regardless of the proportion accounted for by exchange subscriptions, as compared with an oversubscription limited to the $450 millions of the cash offering coupled with any substantial undersubscription by the holders of the maturing notes. The only apparent disadvantage of the form of offering that is here proposed is the fact that cash subscribers would be on somewhat less certain ground in deciding how much to pad their subscriptions.

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7. The Treasury 2 percent notes maturing September 15, 1942, closed on Friday to yield 1.56. The new 5-year note issue with a 1-3/4 percent coupon would command the ample premium of 23/32 if it sold on a yield basis of 1.60 percent; and the adequate premium of 15/32 if it sold on a 1.65 percent basis. It may be noted, however, that the premium on the latter yield basis affords a margin of protection of only 4/32 over the 11/32 that may be realized by holding the February notes to maturity.

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H.M.Jr: Hello.

Operator: Dr. Burgess. Go ahead.

H.M.Jr: Hello.

Dr. Burgess: Oh hello, sir,

H.M.Jr: How are you?

B: I'm well.

H.M.Jr: I hope that you took those boys and filled them full of apple jack last night.

B: Oh, we had a good time.

H.M.Jr: Well I won't ask for the details.

B: You'd better not.

H.M.Jr: All right.

B: How'd you make out with Aldridge?

H.M.Jr: Well, Dan and I just got through, and -

B: Yes.

H.M.Jr: We never worked harder in our lives, and - and he - he - we sorta worked him up any way, and he went out actually smiling. I never saw a fellow so depressed in my life.

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B: But he has got a little leaning toward the - toward the inflationary side.

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B: Yes, of course, I think it's a fine thing to do.

H.M.Jr: Yes. Well, I'll be calling you back at four.

B: O. K.

H.M.Jr: Thank you.

B: Goodbye.

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H.M.Jr: Hello.

Operator: Mr. Cummings.

H.M.Jr: Thank you. Hello.

O: We're ready.

H.M.Jr: Hello.

O: Secretary Morgenthau?

H.M.Jr: Yes.

O: One moment. Chicago. Go ahead please.

Walter Cummings: All right. Hello.

H.M.Jr: Hello, Walter?

C: Yes, Henry. How are you today?

H.M.Jr: Oh I'm all right.

C: Henry, I've been giving some thought to this and while I'd like to have all the bonds put out, you might not want to do that, but on the amount that we could take out here in Chicago on a straight bond issue and we've canvassed our people quietly, you know.

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H.M.Jr: Uh-huh.

C: Dan Roper was out here with his advisory committee. They gave him a dinner, we had a great crowd of business men here.

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C: Representatives from all over.

H.M.Jr: Yes.

C: And, you know the crowd.

H.M.Jr: Yes.

C: And the feeling was much better. They really think that everything from now on in Washington is constructive to help business.

H.M.Jr: I see.

C: They didn't feel that way a month ago, Henry.

H.M.Jr: They didn't.

C: Oh, no. They think that - our boss is taking a little different view of it, now.

H.M.Jr: I see.

C: This - the tax message which you started, and which later on Pat Harrison cameout in a clear statement.

H.M.Jr: Uh-huh.

C: That's all helpful.

H.M.Jr: Uh-huh.

C: The railroad officials figure that they're going to their

H.M.Jr: Uh-huh.

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C: And that Housing program that's been launched is all to the good and the thought on that is it's going to be a little slow to get that started.

H.M.Jr: Yes, I think that's right.

C: But there's been quite a change out here, Henry. All to the good.

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

C: The feeling is really much better. They think that everything that's been pending now is going to help business.

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

C: All right, Henry.

H.M.Jr: Hold your thumbs for me.

C: Yes. All right, sir. Goodbye.

H.M.Jr: Thank you.

Regraded Unclassified

December 3, 1937.
3:45 p.m.

H.M.Jr: Hello.

Operator: Dr. Burgess.

H.M.Jr: Thank you.

O: Go ahead.

Dr. Burgess: Hello, sir.

H.M.Jr: Well, now, Randolph.

B: Yes.

H.M.Jr: Out of the Morgan crowd I got nothing.

B: Yes.

H.M.Jr: All they wanted is success.

B: Yes.

H.M.Jr: I mean anything we do as long as it's successful will be helpful.

B: Yes.

H.M.Jr: But, here's the important thing. They don't contemplate getting out any more issues till after the first of the year.

B: Yes.

H.M.Jr: Which is important.

B: Yes, yes.

H.M.Jr: I mean they're going to sit tight until the first of the year.

B: Well, I think they would.

H.M.Jr: So, but they say they don't care as long as it's a success.

B: Yes. Well, that's just what - just what the other fellows - told us.

H.M.Jr: Yes. Walter Cummings called back and he said that his bank in Chicago would take a hundred and fifty million of the eight year bonds.

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H.M.Jr: But, if he was in my shoes he'd make it a bond to the note.

B: He would. Well, that's very good.

H.M.Jr: Yes, he'd make it a bond to the note.

B: Yes.

H.M.Jr: And give February the option.

B: Yes.

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

B: Yes.

H.M.Jr: Gordon Rentschler left here and he was so full of Henry Ford he didn't have much time - he didn't - your action - bond or a note, either one would go. They'd take either one or they'd take both.

B: Yes.

H.M.Jr: He was kind of in a hurry, but - we talked about other things other than that but either one would go.

B: Yes. Well, I think -

H.M.Jr: Wait a minute, he just said this that he did think we ought to - he was - he thought we ought to , as he put it not leave the note fellows sitting high and dry.

B: Yes. I think that's pretty important.

H.M.Jr: Yes.

B: Have you heard from Parkinson yet?

H.M.Jr: No, he hasn't called me.

B: He hasn't.

H.M.Jr: I thought I'd wait until I hear from him.

B: Yes. Well, I know pretty well what he'll say. He'll say bonds, I'm pretty sure.

H.M.Jr: Yes.

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B: However, I've checked on a lot of people today.

H.M.Jr: Yes.

B: Both directly and indirectly, and they're about two for one, no three for one in favor of the bonds.

H.M.Jr: Three for one.

B: Yes, something like that.

H.M.Jr: Yes.

B: There's a few note fellows, but I'm of the same opinion I was this morning.

H.M.Jr: Uh-huh.

B: I would - I'd follow your program of splitting it, two hundred and fifty and two hundred, then you've got satisfied customers. Everybody can get just what he wants.

H.M.Jr: They could walk a mile and be satisfied.

B: That's right.

H.M.Jr: Yes.

B: Yes. And there's another point in that too.

H.M.Jr: Yes.

B: There's less disorganization of the market.

H.M.Jr: Uh-huh.

B: Because you're giving people what they want, they don't have to go out and sell it and then buy what they want.

H.M.Jr: I see.

B: Which I think is helpful.

H.M.Jr: Uh-huh.

B: So it's a safer program. I just talked, a minute ago, with George Davidson, our director, you know. He's all for it. Now -

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H.M.Jr: For what?

B: If he's all for anything, it must be pretty good

H.M.Jr: He's - he's all for anything?

B: If he's - I say if he's all for anything, why it must be pretty good.

H.M.Jr: Well, is he?

B: Yes, he's all for it. He thinks that's all right. Thinks that's a wise program, he said.

H.M.Jr: Which one?

B: Splitting it.

H.M.Jr: Oh, splitting it.

B: Oh, splitting it. I told him that was the way my mind was running.

H.M.Jr: Well, I'll talk to you between ten and eleven tomorrow. I'm pretty well jelled on this thing.

B: Yes.

H.M.Jr: The market behaved well again today, the stock market.

B: Yes, very well.

H.M.Jr: Of course the New York Times index which we figure here ourselves for Sunday, this coming Sunday, will be off three and a half points.

B: That's not so good, is it?

H.M.Jr: No. But that's for the week ending November 27th.

B: Yes.

H.M.Jr: But it's the one that they'll publish Sunday.

B: Yes.

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

B: Well, I think people are expecting that.

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H.M.Jr: Yes, well we - we estimate it here, we always come within a -

B: Yes.

H.M.Jr: Decimal or so ahead of them.

B: Yes, yes.

H.M.Jr: So that won't make them feel any better.

B: No, but I don't think any worse, because I think they're expecting it.

H.M.Jr: Huh. Everybody that's been in though feels a letter bit better. Even when Winston Baldwin felt a little bit better.

B: Did he really?

H.M.Jr: After he got through talking to Dan and me.

B: Well, that's a triump, anyway.

H.M.Jr: I thought so. Well, let's let her ride. I feel pretty good.

B: Oh, I wanted to ask you one very important question. What did Mr. Wong think about whether two wongs make a wight or not.

H.M.Jr: He thought that was wight.

B: (laughs) Tell him?

H.M.Jr: No, he - no, no.

B: Well, that's too bad.

H.M.Jr: No, - I don't know him that well. Anyway his wife is in China.

B: I see. Well that wouldn't do then.

H.M.Jr: No. All right.

B: All right.

H.M.Jr: Cheero. Goodbye.

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Treasury Department

1937 DEC 3 PM 5 56

TELEGRAPH OFFICE

13PO PX TWS PAID 3 MINS

PELF NEWYORK NY 538P DEC 3 1937

HON HENRY MORGENTHAU

SORRY MY TELEPHONE CALL TOO LATE. LIFE COMPANY CASH APPROXIMATELY SEVEN HUNDRED AND FIFTY MILLION. NOT ENTHUSIASTIC ABOUT NOTES YIELDING LESS THAN TWO PERCENT BUT WOULD BUY EIGHT TO TEN YEAR TWO AND ONE HALF TO TWO AND THREE QUARTER BONDS. SUGGEST OFFERING EQUAL AMOUNTS NOTES AND BONDS ALLOWING HOLDERS OF MATURING NOTES AS WELL AS SUBSCRIBERS TO MAKE CHOICE.

THOMAS I PARKINSON

554P

Regraded Unclassified

Treasury Department

TELEGRAPH OFFICE

1937 DEC 4 AM 8 38

1PO M TWS PD 3 MINS .... DUPLICATE OF TELEPHONED TELEGRAM

PLF NEW YORK NY 538P DEC 3 1937

HON HENRY MORGENTHAU

SORRY MY TELEPHONE CALL TOO LATE. LIFE COMPANY CASH APPROXIMATELY SEVEN HUNDRED AND FIFTY MILLION. NOT ENTHUSIASTIC ABOUT NOTES YIELDING LESS THAN TWO PER CENT BUT WOULD BUY EIGHT TO TEN YEAR TWO AND ONE HALF TO TWO AND THREE QUARTER BONDS. SUGGEST OFFERING EQUAL AMOUNTS NOTES AND BONDS ALLOWING HOLDERS OF MATURING NOTES AS WELL AS SUBSCRIBERS TO MAKE CHOICE

THOMAS I PARKINSON

832A

Regraded Unclassified

The Secy

Sent by hand to Mr Hamilton at 11:00 AM today

HO

December 3, 1937

Dear Mr. Hamilton:

Confirming our telephone conversation ~~this~~ morning concerning the necessity for quick action if the publicity campaign in connection with cotton is to be undertaken at all at this time, I appreciate your advising me that, in your opinion, this undertaking is not authorized by the charter of the Commodity Credit Corporation and under the legislation relating thereto. I have so advised Secretary Morgenthau.

Sincerely yours,

Mr. Claude E. Hamilton
General Counsel
Reconstruction Finance Corporation
Washington, D. C.

HO:s Typed 12/3/37

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: December 3, 1937

TO Secretary Morgenthau

FROM M. A. Harris

	Market Basis	Estimated Premium
1-3/4% Treas. notes 12/15/42 (5 years)	1.62	20/32nds
2-1/2% Treas. bonds 12/15/45 (8 years)*	2.35	1 point 2/32nds

* It is quite possible that such a bond might sell at a price to yield the same as the outstanding 2-3/4s of 1945/47 which are callable in September, 1945. The 2-3/4s are currently 103 8/32nds bid, which gives a yield of 2.29 percent. The 2-1/2s would have to reach 101 1/2 to show the same yield.

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December 3, 1937
Friday

The Secretary of the Treasury discussed the Chinese financial situation with Ambassador Wang last evening; Mr. Taylor and Mr. Lochhead also being present.

The Secretary informed Ambassador Wang that he had decided to make bids to the Chinese Treasury for a further 50,000,000 ounces of silver, these bids to be spread over a period of ten weeks and to be made at the price prevailing at the time the bids were made. Ambassador Wang indicated that he would prefer that the bids be made in lots of 10,000,000 ounces each, and it was agreed that the first bid would be made on December 15, 1937, the second at the end of December, and subsequent bids to be made at the middle and end of the succeeding months until a total of 50,000,000 ounces had been bid for.

Ambassador Wang asked if it would be agreeable to the Secretary that he notify his Government that the United States Treasury had entered into this commitment and the Secretary agreed to this notification.

AL

Regraded Unclassified

December 3, 1937 - 2:30 P.M.

Notwithstanding the fact that I have just been handed a memorandum showing that this week's New York Times index will be off three and one half points, I have for the first time begun to get just a slight tickling in my bones that we are approaching the bottom of the present downward turn.

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Mr. Knoke

243

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 3, 1937.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH DE NEDERLANDSCHE BANK.

FROM L. W. Knoke

Mr. de Jong called me at 10:24 today. They were wondering, he said, whether, when on next Tuesday we converted $50,000,000 into gold for earmark at the Federal reserve bank for his account, this transaction would be published in the United States. I replied that it had been, and continued to be, our policy, in any announcements dealing with the increase or reduction in the total of gold held by us under earmark for foreign account, never to mention the name of the foreign central bank involved. I added that whether or not, in the case of the $50,000,000 next Tuesday, an announcement would be made by us at all would depend upon whether the gold would be taken from the monetary stock or from the stabilization fund. In the former case, we would report a loss to monetary stock and an increase in gold held under earmark, without stating for whose account; in the latter, no announcement would be made by us. Mr. de Jong seemed greatly relieved to know that, under no circumstances, would the name of his bank or, for that matter, that of the Dutch Exchange Equalization Fund, be mentioned.

He referred to our telephone conversation of December 1 and the exchange of cablegrams of December 1 and December 2 and stated that the promptness with which their request had been attended to and complied with was greatly appreciated by them.

LWK:KMC

Regraded Unclassified

MS

GRAY

London

Dated December 3, 1937

Rec'd 3:53 p. m.

Secretary of State,

Washington.

750, December 3, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

Activity in the city has reached a rather low ebb this week; the only happening worthy of note is that three investment trusts were able to obtain in the issue market about 4,000,000 pounds.

In recent weeks the financial press in particular and the London press in general have been increasingly critical about American developments. Some weeks ago British cabinet ministers in their public speeches were denying the possibility of late trade recession. Now with evidence of some recession at hand they are denying the likelihood of a slump. But at the same time they are shaping their course so that should one materialize they will be in a position to fix the blame firmly upon the United States. The concluding portion of the leading editorial in today's TIMES is quoted below as indicative of such a trend: "So far these announcements have had little effect upon

security

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LMS 2-No. 750, December 3, 7 p. m., from London.

security prices on the stock exchange which may be regarded as a barometer - though a very erratic barometer - of business confidence. (END SECTION ONE)

JOHNSON

WWC

Regraded Unclassified

sms

PLAIN

London

Dated December 3, 1937

Rec'd 4:12 p.m.

Secretary of State,

Washington.

750, December 3, 7 p.m. (SECTION TWO)

That is not surprising for both the President's housing plans and his economy proposals have still to run the gauntlet of Congress and no one cal tell whether or with what modifications they will be accepted. At the best it will be months before the housing scheme ban bring orders into the market. Any effect on the immediate position therefore must be more psychological than material. Professor Sprague who for years has been urging the importance of reviving building construction believes that the recommendations in the housing message should give the average business man confidence which of course is the most urgent need of the moment. Various causes have contributed to the present recession in the United States. In this country financial authorities in close touch with American affairs attribute it mainly to the action taken by Mr. Roosevelt to check the rise in commodity prices which he

considered

Regraded Unclassified

sms 2 - No. 750, December 3, 7 p.m. Section 2 from London

considered was getting out of hand even though, as a matter of fact, they had not reached the level of 1926 which was his own declared objective. Friends of the President attribute it largely to the comulative effect of the incessant attacks accompanied by predictions of disaster made by leading business men upon Mr. Roosevelt's policy during the past four or five years. Certainly resentment over Government interference with business and uncertainty over the effect upon future profits have made people with money reluctant to risk it in luanching new enterprises or in extending old ones. The new direction given to the President's policy is an effort to overcome this reluctance and to bring out the money now in the banks awaiting investment, setting it to work again providing employment and wages on profitable terms."

END OF MESSAGE

JOHNSON

wwc

Regraded Unclassified

LMS

GRAY

Paris

Dated December 3, 1937

Rec'd 4:50 p. m.

Secretary of State,

Washington.

1697, December 3, 8 p. m.

FOR TREASURY.

Transactions on the exchange market here today were again on a very limited scale. While the dollar remained steady around 29.47 the fund is said to have acquired between 700 and 800,000 pounds at around 147.09.

The security market was more cheerful and slight gains were recorded except as concerns rentes which closed almost unchanged after early advances of 30 to 50 centimes.

The issue of the new loan seems to have been fairly well received in the French financial press, although it is considered here that the Government might have attempted a less costly operation. The issue also caused some surprise here in view of the statement made before the Chamber by Bonnet on November 18 that Treasury requirements for the remainder of 1937 and for the early part of 1938 were provided for (See the Embassy's telegram No. 1632 of November 19).

A fairly

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LMS 2-No. 1697, December 3, 8 p. m., from Paris.

A fairly representative example of French press comment is that expressed by the TEMPS which points out that while the operation is a costly one the Government was well advised in deciding to raise funds through a loan issued rather than to have recourse to the advance account at the Bank of France which would have meant inflation of the currency. This paper predicts success for the issue on account of its attractive terms.

The London view according to the LONDON FINANCIAL TIMES is that by offering such generous terms the French Government is just as likely to disturb as to inspire confidence and furthermore that the offer indicated that the French Treasury was more desperately in need of funds than had been imagined.

According to published statements the Minister of Finance has been asked to approve further increases in railway fares and an increase of 24 percent in freight rates after January 1, next. This it is feared may tend to reduce traffic and in any case strengthen the upward tendency of prices.

Extracts from the advance report of the Chamber Finance Committee on the budget indicate that the railways

in 1938

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LHS 3-No. 1697, December 3, 8 p. m., from Paris.

in 1938 will involve a total burden on the budget and on the Treasury of 10,000,000,000 francs, which would be reduced to 8,000,000,000 if the rate increases are approved. Furthermore the financial problem of the railways will be added to by the prospective wage increase in conformity with that granted to all government employees.

BULLITT

SHS:RGC

Regraded Unclassified

December 4, 1937.
10:42 a.m.

H.M.Jr: Ros, where are you?

Magill: I'm up on the Hill.

H.M.Jr: I mean where are you talking from?

M: I'm talking from a booth here in the committee, I guess there's nobody around here right now.

H.M.Jr: I'd like to read to you the statement that Herbert Gaston has written for me to give out, in regard to that Professor Myers business.

M: Yes.

H.M.Jr: And I'll read it slowly and get your reactions.

M: Yes, sir.

H.M.Jr: 'Investigation of income tax returns of prominent persons seems so often to evoke surprise and concern amongst those who are ignorant of the essential routine of federal tax collections. If there are persons of a suspicious turn of mind and the individual whose return has been investigated and the political opponent of the administration they'd once conclude that persecution is involved. This is illustrated by a statement attributed by today's newspaper to Professor William Starr Myers of Princeton University as to investigation of the tax returns of former President Hoover. I do not know whether Mr. Hoover's tax returns have been investigated within the last four years, but it would be a surprising omission if they had not been. A high proportion of the returns of persons having taxable incomes have been investigated in that time. The Revenue Agents of the Treasury Department investigate many thousand returns annually. All returns showing net income of more than twenty five thousand a year are regularly sent to the field for examination and verification. This is true also of all returns showing large transactions whether there is tax liability or not, and returns showing unusual feature. In addition there is investigation of many smaller additional taxes' I don't know, small or something he's got here. 'There is infrequently'

Regraded Unclassified

He's all capitals, it's hard to read.

M: Yes.

H.M.Jr: 'There is frequently found in these returns in many cases they would result in assessment of additional taxes. In others are adjustments that favor the taxpayer. In only a small minority of cases is any willful concealment of income or attempt to evade taxes discovered. There is no stigma whatever attached to the mere investigation of the taxpayer's return, nor is there any harassment of the taxpayer involved. It is merely a necessary thought of the business machinery of collecting the taxes. I do not understand if Mr. Hoover himself claimsthat he has been persecuted or unfairly treated. If he believes that he has been he need only report the facts to me and I will cause a most searching investigation to be made promptly. If I find that there has been persecution I shall see that the persons responsible for it are dismissed from the Government service. The same opportunity is extended to any taxpayer whether prominent or obscure.'

M: Yes, I think that's good. Now I think - I like the idea of giving out something like that.

H.M.Jr: Yes.

M: At the very - just as a matter of the wording of it, at the beginning -

H.M.Jr: Yes, well now if you want to do that, how can I get help from you, I mean how can I get this to you so that you could go over it word by word?

M: Well I think you could send it up here Henry, you want to -

H.M.Jr: I'd like to - I'm having a Press conference at noon so I'd like to get it out.

M: Well if you could send it right up here I could go over it in the back of the room.

H.M.Jr: All right.

M: All I would suggest, as a matter of fact, I think Herbert could do very quickly, where - at the

Regraded Unclassified

beginning there he uses a term 'investigation' two or three times, I wonder it wouldn't - if you could use a little softer word?

H.M.Jr: Well, suppose I send somebody from Gaston's office and let them come right up to see you.

M: I think that would be fine.

H.M.Jr: But you think it should be done?

M: Well, I'm inclined to think so, don't you?

H.M.Jr: I do, and especially in view of Pegler's column today.

M: I didn't see Pegler's column.

H.M.Jr: Well he takes it that somebody's objecting to our going in, and then he brings up the President, Jimmy and my own return again.

M: Oh Lord.

H.M.Jr: And the inference being that ours was not audited.

M: Yes.

H.M.Jr: I - Herbert thinks that this is a grand opportunity to answer this question of persecution.

M: Well I think it is - I think it is too. I think - if they don't want to be done, they ought to keep silent on it.

H.M.Jr: I'll send somebody up. You're in the Ways -

M: I'm in the Ways and Means Committee hearing room in - in the new House Office Building.

H.M.Jr: All right.

M: And they can get me there all right.

H.M.Jr: And I'll let him wait and bring it right back.

M: That'll be fine.

H.M.Jr: Thank you.

M: Thank you.

Regraded Unclassified

December 4, 1937.
11:01 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Sen. McAdoo: Hello, Mr. Secretary.

H.M.Jr: Hello Senator McAdoo.

M: How are you this morning?

H.M.Jr: Oh, pretty well.

M: How's the old shop going.

H.M.Jr: It's going all right.

M: That's fine. I wanted to ask you a question.

H.M.Jr: Please.

M: I'm getting some reaction from a published statement - pardon me a moment.

H.M.Jr: Pardon me.

M: Just a moment. - I'm getting some reaction from a statement published in the papers that you are issuing some new regulations about income taxes requiring people to furnish a list of their investments - make a statement of their assets and liabilities and so forth.

H.M.Jr: That's right.

M: I don't know whether there's anything in it or not, but I feel - I mean they are writing me about it and I just wanted to ask if any such regulations have been issued.

H.M.Jr: Oh yes.

M: Or if they contemplate it.

H.M.Jr: Well, they've gone out.

M: They have gone out.

H.M.Jr: Oh yes.

Regraded Unclassified

M: I see.

H.M.Jr: Oh yes.

M: Well now, would you be good enough to send me a set of those regulations?

H.M.Jr: Sure. I'll have Mr. Helvering do it.

M: Well, I'd be very much obliged.

H.M.Jr: Surely.

M: I'd like to know just what it is so I can answer intelligently.

H.M.Jr: Yes. I'll have Mr. Helvering send you full explanation.

M: I'll be obliged.

H.M.Jr: Not at all.

M: All right. Goodbye.

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RE DECEMBER 15 FINANCING

December 4, 1937
9:30 a.m.

Present: Mr. Taylor
Mr. Bell
Mrs Klotz
Mr. Lochhead
Mr. Harris
Mr. Seltzer
Mr. Murphy

p.300

H.M.Jr: (After reading paper entitled "Costliness to Treasury of an 8-Year 2½ Percent Bond," copy attached)

Well, I don't think that that's a fair way to argue at all. On that basis, why ever sell anything long? I mean you fellows get some of the most cock-eyed things. I mean here I've seen the cream of the finance people and there isn't anybody that thinks it's that way. I mean I - maybe you fellows figure that way, but I have yet to find anybody else that does. Why ever sell a long-term bond?

(On phone) Hello. (Conversation with Earle Bailie follows:)

Regraded Unclassified

December 4, 1937.
9:32 a.m.

H.M.Jr: (aside) Hello.

Operator: Mr. Bailie.

H.M.Jr: Hello.

Earle Bailie: Hello, Henry.

H.M.Jr: Hello. Good morning.

B: Good morning Henry, how are you?

H.M.Jr: I'm all right.

B: Good.

H.M.Jr: Well, how do you feel about the Government financing now?

B: Well, I don't feel a bit different than when I saw you.

H.M.Jr: Uh-huh.

B: It seems to me that you can do - the deal that we talked about with comfort and assurance of getting away with it.

H.M.Jr: I see.

B: And do it very nicely.

H.M.Jr: Uh-huh. I mean there's nothing - the situation in the Street is neither better nor worse.

B: Well, I don't - it certainly is not any worse.

H.M.Jr: Uh-huh.

B: I don't think it's enough better to change the views that I had.

H.M.Jr: Uh-huh.

B: I think you could get away with all or either one.

H.M.Jr: Yes.

B: But I wouldn't if I were you.

H.M.Jr: Uh-huh. No, I don't see the sense of taking that risk.

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B: I don't think so either, there's - there's only one argument that I've been able to think of in having the two.

H.M.Jr: Yes.

B: And that is that you have two of the small issues. Now that - that doesn't bother me for this reason. If you want to build them up -

H.M.Jr: Yes.

B: You can - the next time if too many things went well you could give opportunity to people to go into one of the old ones, say the eight.

H.M.Jr: Yes.

B: And give them a new one, so that the people who don't like old issues wouldn't have to take just one.

H.M.Jr: Yes.

B: See what I mean?

H.M.Jr: I see, sure.

B: And it seems to me that that irons out the only objection that I can see to the picture.

H.M.Jr: Well the chances are that in the future those issues are going to be smaller anyway.

B: I hope they will be.

H.M.Jr: Yes. See? I think - I think the chances are they'll be smaller anyway.

B: But, if - if you do want to build them up, you can always give a double offer, one new one to the trader fellow and one old one to build up.

H.M.Jr: Yes.

B: That wouldn't bother me.

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

B: O.K. old fellow.

Regraded Unclassified

H.M.Jr: Goodbye.

B: Goodbye.

Regraded Unclassified

(Bell comes in)

H.M.Jr: Let somebody else answer that. Do you (Bell) want to answer that argument of Seltzer's? I mean I don't see that it makes any sense. Why every sell a long-term Government? You can write it down and ...

Seltzer: This is what you're paying for three extra years. It's not a long-term bond.

Murphy: It isn't an absolute matter, Mr. Secretary. It's a matter of the slope of the curve. Be different in different circumstances.

H.M.Jr: Oh Christ! - if you don't mind - you come in here always on a Saturday morning with these suggestions, and the idea that people should wear a yellow shoe because a black shoe is black, is something - I mean you've got a market, and you always - I never get anything out of you, and it just upsets my thinking, that's all.

Taylor: Well, this is just an argument against doing the 8-year bond, isn't it?

Seltzer: Yes.

Taylor: Yes. And I think you'll find that people - quite a few people will figure things the way that they do it there.

H.M.Jr: And then what?

Taylor: They'll like the 2½ 8-year bond. I mean they'll ...

H.M.Jr: You mean they won't buy it?

Seltzer: They'll ...

Taylor: Sure they'll buy it.

H.M.Jr: Well, what's the purpose of that memorandum?

Seltzer: The purpose of this is to argue that a five-year note is a lot cheaper for you.

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H.M.Jr: Well, I know that; I'm not a God-damn fool.

Seltzer: I don't mean cheaper in absolute terms. I mean that you don't get enough for the extra three-year maturity to pay the additional price, particularly in view of your concentrations of maturities in that period.

H.M.Jr: When are there concentrations?

Seltzer: You've got a raft of them.

H.M.Jr: When?

Seltzer: In '45.

H.M.Jr: You haven't got anything that's coming due in '45 that you have to pay.

Seltzer: One and three-fourths billions.

H.M.Jr: That you have to pay?

Seltzer: That you have to pay December 15, '45.

H.M.Jr: You have to pay it by then.

Bell: Well, it's October 15th, and you have two years to call it. That's '43; it's callable in '43 - the 1,441 million.

Seltzer: That's right. But you've got four billion four hundred million callable in that period.

H.M.Jr: Well, the great trouble is this: I've spent the last two and a half days talking to the ablest people in America. You haven't had that advantage.

Seltzer: Right.

H.M.Jr: Now, I've just been through all that, and I've got a record, if I may say so, of the most successful financing during the past four years behind me, that any Secretary of the Treasury has had; I won't take second place to anybody. And I've just been through two and a half days of talking to the ablest people

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in the United States - a cross-section; there are no abler people. And we can give them something, but that doesn't - I can force this thing down their throat this time, but where would I be next time. Where would I have been last September?

Seltzer: But I thought the other day everybody agreed that everyone would take a five-year note.

Bell: That's right.

H.M.Jr: Sure.

Bell: They still maintain that, Larry. There is no question about that. But everybody has been frank enough with the Secretary, I think, in his conferences to tell him that the bond will cost more money to the Treasury on this basis than a note. That is true of many bonds that you put out.

There is one thing I think you have left out of here, and that is the tax-exempt features of a note as compared to a bond.

Seltzer: The point there, though, is ....

Bell: Of course, you're looking at it from the standpoint of a corporation. I realize that. But if they are this attractive, then they are going into the hands of individuals, in which case you would have to take in consideration the tax exemption. That would cut down your yield a little.

Seltzer: Of course we'd rather individuals went into the corporate bond market or into the outstanding Government bonds.

H.M.Jr: Well, I'm not so sure about that altogether. You'd like to have some individuals in the Government market, wouldn't you?

(On phone) Mr. Parkinson, please.

This argument they use - to starve the bond market - see; everybody says that's crazy, see? - that the people want a bond, that you don't want to load up

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your banks all the time; that the insurance companies are the only customers I've had that have stood by me for the past year. Now, why not do something for them? The banks have sold us down the river to a tune of a billion and a quarter. They're willing to let the Government go to hell. And the only people that'll take the God-damn things are the insurance companies. If you've got a fellow who treats you right when things are bad, why not do something for him? I mean they're the only people that would buy Governments, and they bought almost to a dollar what these God-damn banks sold. Now, why not do something for them when things look a little better? I mean you can't just say, "Well, the hell with these insurance companies; let them - why do anything for them?" Well, if it hadn't been for the insurance companies this last year, where would we be? You know they bought all the stuff. Well, you can't ....

Seltzer: Of course, they're buttering their own bread in doing it, too; they had no alternative.

H.M.Jr: That's all right, but they're the only people that did buy the United States Governments, and the rest of the people wouldn't buy them. Now we're feeling a little better and we say, "Oh, the hell with the insurance companies. We're not going to give them what they want. And the banks - let the banks take it." Well, I believe if a customer has seen you through hard times - all right, do something for him. I've got a line of customers the way any other merchant has got. I've got to keep them satisfied.

I've got to keep the Government bond dealers - all right, say we shouldn't have Government bond dealers. The answer is, the only thing that's been any good is the Government bond market. And look what's happened to the stock exchange. No one can rely on them to do anything. The thing is so thin, it can go up five or ten points any day and it doesn't mean anything. Now, I've got a group of satisfied customers and I want to keep them. And you can't work that out on a statistical basis. I mean that doesn't show up. Whoever figured the Bethlehem Steel and Pure Oil - they figured not only wrong once, they figured wrong twice. And look what they lost.

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Now, the thing in this business is, when you've got people to buy, don't take the stuff away from them and say, "No, things are all right now; I'll have a five-year 1-3/4, and the hell with insurance companies."

And then the other argument. If you stick it all in the five-year, you're piling up your short maturity, and then that worries them more than to sell a bond. A bond is bullish. They all say so. If the Treasury does a bond - as a matter of fact, both the Discount Corporation and Devine, who are the two most successful, have begged me, and say they'll put every nickel in the world that they've got on it if we'll do a bond exclusively.

Seltzer: I don't blame them. They're getting a very juicy yield.

H.M.Jr: This is the first time in nine months we've been able to sell anything over four years and a half. When did we sell anything over five years?

Murphy: In March. It's a year since we've sold anything alone for cash.

H.M.Jr: Here's the first time the market is ready. And how does anybody know that the Government is ready to sell something over a five-year note if we don't do it? If I turn around and offer a five-year, they say, "My God, what's the matter with Morgenthau? He must be really scared."

And these are all - the whole thing - what's the matter today? It's all psychological. You can't ... The earth's surface is there, the people are there, we've got the finest crops we've ever had, we've got good relations with the rest of the world on a monetary basis. The whole thing is mental.

I don't want you to "yes" me, but I'm trying to tell you how I feel. I mean I don't expect you to "yes" me. Now, the memorandum you (Seltzer) sent me last night was good. The only complaint I had was earlier, and I'm going to make a shift on that. And Iwant you

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to figure - I want these February fellows to have the same net interest rate all through; that is, I want them to have 2-5/8, so we pay them 2-5/8, so that they have 2-5/8 until the notes mature, so that when they subscribe they don't have a disadvantage of 10-32ds compared to an outsider. Now, have you (Harris) had a chance to think that out?

Harris: I have some figures on it. The difference between a 1-3/4 and a 2-5/8 for a month and a half amounts to about three and one-half 32ds; so that would be all it costs the Treasury.

H.M.Jr: Say that again.

Harris: The difference between the interest on a 1-3/4 and a 2-5/8 for a month and a half - that is, from December 15 to February 1 - the difference between those two amounts to, in 32ds, about three and one-half 32ds.

H.M.Jr: But how about on the 2-1/2?

Harris: On the 2-1/2 it's so small, you couldn't ...

H.M.Jr: I hold some Februarys. Now, they made the statement here yesterday - you (Seltzer) made the statement too - that if I hold the Februarys, which are 2-5/8s, and subscribe to the 1-3/4 and lose that, see, that I'm at a disadvantage of ten 32ds.

Harris: No, you're at a disadvantage of only about three and one-half 32ds.

Seltzer: All depends on what you figure. If you figure money for six weeks is worth nothing, but holding your February notes to maturity the interest that you collect can be regarded as a premium, that will amount to eleven 32ds between December 15 and February 1. They've got that premium in the bag. They don't have to ask you for anything. They've got that just by ...

Bell: If they sell it.

Murphy: If they hold it, collect it too.

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Seltzer: Three and a half or four 32ds will do the trick, but if you take what they've got in the bag, it amounts to eleven; and if you offer them only the same terms that you offer to cash subscribers, you're asking them to turn in something which is worth eleven 32ds over and above what the others turn in, in return for the same thing. Now, you can chisel them a bit for this reason. You are giving them a bid - giving them full preferential allotment, and that's why you don't have to give them the full eleven. Might give them eight.

Harris: Yes, but when they turn it in in February, probably have to pay a premium that's greater than the interest for that period.

Seltzer: That's all right. Just the same, right at February 1 they can collect eleven 32ds.

Harris: I think you should give them the difference between 1-3/4 and 2-5/8, but I don't think you should give them the whole interest on the 2-5/8 for that period. That's ten 32ds difference there.

H.M.Jr: (On phone) No, it isn't that important. I got a telegram last night from them. - Please.

Taylor: Whatever way you figure it, it's just going to amount to a full interest adjustment, isn't it?

Harris: That's all.

H.M.Jr: What I had in mind was this. I want the February noteholder to get his full 2-5/8 to maturity.

Harris: Well, that will just cost the Treasury three and one-half 32ds.

H.M.Jr: Pardon me?

Harris: That will just cost the Treasury three and one-half 32ds.

Bell: On the notes. Cost you about two cents on the bond.

Harris: Cost you one-half of one 32d on the bond.

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H.M.Jr: Doesn't cost us anything, because if we didn't call them, the fellow would get 2-5/8.

Harris: That's true too.

H.M.Jr: (On phone) Hello (Conversation with Burgess, also between Bell and Burgess, follows:)

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December 4, 1937.
9:48 a.m.

Dr.Burgess: wasn't here before this morning.

H.M.Jr: Pardon me.

B: Sorry I wasn't here when you called before.

H.M.Jr: That's - it's just as well. Two things, have you talked to Eccles, given him the markets?

B: No, I haven't.

H.M.Jr: Uh-huh.

B: I will, if you think it's a good idea.

H.M.Jr: I wish you would and then within a little while I'll call him.

B: Yes.

H.M.Jr: But I'd like you to give him the market you see.

B: All right. I think that's a good hunch.

H.M.Jr: Now, because if I talk to him he'll immediately start talking about notes and no bond. I want him to get the feel of the market.

B: Yes, I see.

H.M.Jr: Now the only thing - Hello.

B: Yes.

H.M.Jr: That I've changed since last night is this. I'm working right now, I - I think I want the February note holders -

B: Think what?

H.M.Jr: I want the February note holders to have their full coupon.

B: Oh!

H.M.Jr: Their full two and five eighths.

B: You don't need to.

H.M.Jr: I know. I know. In other words I think the way Bell said it worked out, I mean if they subscribe - they

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get - I want them to have net two and five-eighths until February 1.

B: Oh, just the difference between the coupons.

H.M.Jr. Yes, I mean so that they will have net.

B: Well, that is if they take a bond.

H.M.Jr: Yes.

B: You'd give them one-eighth.

H.M.Jr: One-eighth extra.

B: That's awful small for - for a little over a month. That's less than a thirty second you know.

H.M.Jr: Yes, but how about on the note.

B: Well on the note it's about a thirty second or something - small.

H.M.Jr: No, I mean - no, it's between one and three quarters and two and five-eighths, they figure ten thirty seconds they tell me.

B: Well, but that's only a period of six weeks.

H.M.Jr: Yes. Well, somebody -

B: Less than a thirty second.

H.M.Jr: Now, well, somebody was in here yesterday and said that - that there's ten thirty seconds disadvantage to a note holder - February note holder if he takes a one and three-quarters note, figuring his money and so forth.

B: Well that isn't true Henry.

H.M.Jr: What?

B: That isn't true.

H.M.Jr: It's not.

B: No. All he loses is the difference between the coupon of the obligation he takes and the - and the two and five-eighths. All he loses is the difference, and he very much more than makes that up in premium

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-piece of paper, he gets his worth. It's only a question of one or two thirty seconds.

H.M.Jr: Well, in September one or two thirty seconds looked awfully big.

B; Oh well, - honestly that - that isn't at all necessary, Henry and to be considered I think - a little afraid of it or something.

H.M.Jr: Well, I don't know, there's - let me ask Bell - he said it was Green of the Chase. Green.

B; Yes. Well, he just had some notion. He does that - he gets a notion.

H.M.Jr: Wait a minute, let me have Dan talk to you a minute.

B: Yes.

H.M.Jr: After all, Green's nobody's fool. Let Dan talk to you a minute.

B: All right.

D. Bell: Doc, he was figuring on a basis on the present premium. The man's already got his money. I mean if he's a holder of a note he can sell it on the market today or twenty, what is it, twenty some thirty seconds.

B: Well, but if he doesn't -

Bell: He, in effect, is losing the interest on his money between December 15 to February 1.

B: Oh no, if he takes - if he takes one of our offers he's simply losing the difference.

Bell: Might be, it's technical but then he's got a point.

B: There's the coupon we give him.

Bell: I don't think many people pay much attention to it, but I do think he has a point.

B: Oh, I don't think he has Dan.

Bell: Don't you?

B: I don't really think he has at all, no. We've very

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seldom done it, you know. We've only done it when it covered a period - a longer period of time, We did it three months ahead or something.

Bell: Well, you have to admit that the man is losing - Doc, you have to admit that the man is losing interest on his money if he can go out the market today and make himself whole, which he can do.

B: Yes, but the fellow who exchanges doesn't lose the interest between that period.

Bell: Well, of course he gets it back, but what he gets is about equivalent of his premium he can get today.

B: As a matter of fact, late last night, these rights went up.

Bell: That's right.

B: Showing that these fellows are going to benefit very largely from it, and we're giving these fellows more than an even break by giving them the rights in full.

Bell: That's right.

B: There's been a lot of people who think we shouldn't even give them that.

Bell: Well, you give them quite a bit of gravy too and the premium -

B: Yes. You've given them a lot of gravy.

Bell: The preferential rights and the additional gravy will more than take care of the - what this man is talking about.

B: On not only more but several kind.

Bell: That's right.

B: That is the difference between the coupons is only - thirty seconds.

Bell: Well actually it's only ten cents on the notes and about two cents on the bonds.

B: Yes. That's right.

Bell: That's right. Well, that's the point he made. I

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think he's got a point, but I don't think many people think about it.

B: Oh well, I don't think it's important enough to pay any attention to. These rights are valuable now, they went up five thirty seconds last night.

Bell: Yes.

B: On - on the belief of the market - that they'd get a chance at the bonds.

Bell: Well, I agree they're going that way.

B: So that this - this noteholder hasn't got any complaint in the world.

Bell: I won't argue with you.

B: Not the slightest.

Bell: Yes. All right, Doc. He wants - the Secretary wants to talk to you.

B: Yes.

H.M.Jr: Let me ask you this question. You remember when - hello.

B: Yes.

H.M.Jr: Remember when - that year, over the weekend that Hitler went in the

B: Yes, you bet I do.

H.M.Jr: Well, that was a half a point. Well, let's say that this Colonel of the Marines that went in yesterday, told the Japs to get out, supposing that fellow had gotten shot.

B: Yes. Well, that's all right, we've got lots of leeway. This is even almost a little too rich.

H.M.Jr: Well, now, that's the point. I mean -

B: Yes.

H.M.Jr: Have we got a half a point leeway?

B: Oh, easily.

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H.M.Jr: What?

B: Easily. On the bond, you - this thing is worth a premium of a full point on the bond.

H.M.Jr: Uh-hun.

B: With five-eighths on the note.

H.M.Jr: Well, five-eighths isn't a half a point.

B: Yes, but by distributing it between the two issues you're practically safe on that. You only have a little weight on each one. That's - that's one good argument for doing the two, the split issue. It seems to be just about as near hundred per cent safe as you can get.

H.M.Jr: Well, now -

B: I slept like a baby last night.

H.M Jr: Well I didn't. - The Federal Reserve System - what are they going to do with their eighty million?

B: Oh, well, we'll swap. I haven't talked to the others. My - my recommendation would be to swap about fifty fifty or perhaps a little more on the note.

H.M.Jr: Oh, my God! Well, then we'd better - we'd better cut down on the note.

B: Oh -

H.M.Jr: Yes. What's the matter with you fellows up there anyway?

B: What do you want us to do, take all bonds?

H.M.Jr: What?

B: What do you want us to do, take all bonds?

H.M.Jr: Oh, I wouldn't - I couldn't stand that.

B: What do you mean?

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H.M.Jr: Well, I mean it would be such a shock.

B: (laughs) -

H.M.Jr: Be such a shock. What about these gestures to the capital market? 'I think - I think if the Federal Reserve took all bonds, why the country might believe that even the Federal Reserve thought that we were going to come out of this all right. Well, -

B: I haven't talked to the other boys, I don't know how they feel.

H M.Jr: Well, I'd - I'd like, next time I talk to you, why you might let me know because the bond is going to be so rich, I suppose that -

B: We're doing this for the profit you know.

H.M Jr: Yes, I know. I know. Well, of course there's a profit motive there and I just wondered whether you were going to resist it.

B: I think we'd resist it to about half, about the tune fifty per cent or something.

H.M.Jr: Uh-huh.

B: That's my general notion, the way they -

H.M.Jr: Well, no - what I thought - I have it written on a piece of paper, I would have said that you'd put - take fifty fifty.

B: Yes.

H.M.Jr: I never dreamt that you'd take less than half of the bonds.

B: Yes, I see.

H.M.Jr: But -

B: Well, I - I haven't the amount yet, I don't know.

H.M.Jr: But seriously, think about it and then when you talk to me next time, let me know. It might make a difference on how - on how I offered the notes, how I -

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B: All right, when I talk with Eccles, I'll ask him.

H.M.Jr: Yes, if you call him now I'll call him a little - within a half an hour.

B: All right. Fine.

H.M.Jr: All right.

B: Yes. Good.

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Taylor: Don't want them taking any bonds.

H.M.Jr: Oh, Dan and I had this last night - we thought we'd do a little kidding, you see.

Bell: Might be a good thing if they sold them out and let the other people get the bonds.

H.M.Jr: Well, that isn't - that wouldn't be the worst thing either.

And Mr. Rentschler made what wasn't a novel suggestion - it was new as to this time. He'd like to see us buy five hundred million dollars or a billion dollars worth of the Federal Reserve portfolio from the Stabilization Fund.

Bell: Sterilized gold.

H.M.Jr: Sterilized gold. And then - he said, "Put the Federal Reserve portfolio in the kind of shape it should be in" - then if something happened, they could do something. So I said, "Well, I've got myself in a beautiful position, all cash, the way I'd like to be personally and am not, and you want me to lose that position and put the Fed in that position."

"Well," he said, "the best thing that could happen is for you to take five hundred million to a billion dollars."

And I want you people to think it over back there. That is, use the gold and buy the Fed's - buy their stuff and then put them in the position that they are supposed to be, so that if something goes wrong, why, then they've got some cash to operate with. And he says that would make sense. It's a very interesting suggestion.

Seltzer: Surely.

H.M.Jr: I said it isn't novel, but it is - no one has suggested it in the last month or two.

Lochhead: Suggested it about three or four months ago.

H.M.Jr: I said month or two.

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Taylor: We have suggested that.

H.M.Jr: Oh boy, you fellows will have to work on me, though, to give up my nice cash position; because supposing we took a billion dollars and left the Fed with a billion and a half of securities; then things go wrong and I've got to go down on my knees and crawl around, beg these fellows to buy something.

Seltzer: You've got this big Stabilization Fund, you've got lots of silver, you've ....

H.M.Jr: But Larry, write me a memorandum on it, take plenty of time, give me the pros and cons.

Seltzer: O.K.

H.M.Jr: Because I understand it would have no effect on the excess reserves one way or the other - doing that. But write a memorandum on it, you see, on both sides.

Seltzer: Right.

H.M.Jr: Now, do you want to argue with these fellows on your ten 32ds?

Seltzer: There are three points involved, three different figures involved, and they are technical and it doesn't pay to mention them even if you're going to give a premium of one full point. That will float anything. You don't have to give the Federal noteholders anything in the way of interest overlap or any interest concession if you offer a point premium.

H.M.Jr: You don't have to.

Taylor: No.

Bell: Really more than a point premium, isn't there, Larry, on the bonds?

Seltzer: That's what I mean. But if you confined this to notes where the premium might have been only 15 32ds, then you would have had a margin of safety only of

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about 4 32ds so far as these noteholders are concerned; then I would have been in favor of giving them a liberal interest concession. But if you give them the option of a juicy bond, they don't need anything else.

H.M.Jr: Well now, listen, we're going to give them a bond. Now, having made that decision, are you still worried about it?

Seltzer: Is it an eight-ten?

H.M.Jr: It's a flat eight.

Seltzer: Gosh, that premium is going to be terrific, isn't it?

Bell: One and a half eventually.

Murphy: So rich it will have the gout.

Harris: Might sell anywhere from one point premium to one and a half.

Lochhead: What you want just now ....

H.M.Jr: We're sitting around talking here - let's say 250, 275, 400 million dollars, see? Now, what's an eighth on 400 million dollars for eight years? One eighth - what's an eighth? Harris, you figure it too.

Bell: Five hundred thousand a year.

H.M.Jr: What's an eighth? If we dropped it, it would be an eighth, wouldn't it?

Murphy: Four million dollars.

H.M.Jr: How much?

Murphy: Four million dollars.

H.M.Jr: A year?

Murphy: No, in eight years.

H.M.Jr: Four million dollars.

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Bell: Five hundred thousand a year.

Seltzer: You know, it's hard to see how that bond could sell at a premium of less than a point and a half.

Lochhead: Eventually, Larry; probably not right away, though. It won't sell that way right away.

Seltzer: Well, see here, you've got these 2-3/4s of '45 to '47 that have a two year longer maturity and with the low coupons, so they are not likely to be called. They are yielding 2.30.

Lochhead: Larry, we agree in the end they'll sell that way, but the market doesn't discount these things immediately. There's a higher coupon rate, in the first place. Same way, you've got your 2-1/2 ....

Seltzer: Well, if you figure things out, your 2-1/2 bonds should not have been selling anywhere near where they are; but they do.

Lochhead: Eventually the thing will work out, but ...

Seltzer: Just the same, I'm going to be surprised if that bond doesn't sell at a premium of one and a half.

H.M.Jr: You all were wrong in September. There wasn't a man who wasn't wrong on the premium.

Seltzer: Look at what you had. You had a market going like that.

H.M.Jr: We have had that plus two and a half months on top of that. Every one of you was wrong in September. You all had it figured and she scraped just two, three - didn't she get down to 3 32ds?

Harris: (Nods yes)

H.M.Jr: And then we had to put a stop order not to let it go beyond 3 32ds. We had an order to take everything at 3 32ds. I mean this thing has been good for one week and it's been bad for three months. Now, I can't believe that that isn't still honeycombed. You can't take a bond market that's been bad, when there

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isn't a single company - you can't sell anything, nothing has been sold; and when it's been bad for two and a half months, suddenly, because it's good for one week .....

Seltzer: Oh, your bond market has been pretty good now since you put that gold in.

H.M.Jr: You have an incident on Monday in Shanghai and all this stuff goes right down.

Seltzer: Correct.

H.M.Jr: What's four million dollars to guarantee - all right, let's say the worst, four million dollars sugar to guarantee a 750 million dollar issue; I'm willing to say publicly I'll pay four million dollars extra to guarantee a 750 million dollar issue.

Murphy: I only wanted to call your attention to the five-year and ten-year maturity class, which is a class that has been pretty strong since September.

H.M.Jr: Well, try and sell five million of them any one day.

Murphy: I wouldn't undertake it.

H.M.Jr: Try and sell five million of them any one day. Try and sell one million dollars worth. I mean try to sell - there hasn't been but two times in two and a half months that you could sell a million dollars in one day of 2-7/8s. Is that right?

Harris: That's right.

H.M.Jr: It's just been twice.

Seltzer: That's your longest bonds.

H.M.Jr: I know, but I'm just talking about the condition of the market.

Seltzer: This section of the market is a lot firmer than the other.

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H.M.Jr: Sure.

Well, if these fellows say it's so sweet, make it 50-50; make it 225 of each instead of 200 and 250.

Seltzer: If you're going into the bond for the public effect and so on, why, then, the more bonds you have the better. After all, you have a psychological reason.

H.M.Jr: All right. Sure.

Lochhead: I think if it was purely selfish, from the Treasury view, I would still say ...

H.M.Jr: What?

Lochhead: From a purely selfish standpoint, I like just the note. On the other hand, Mr. Morgenthau has met all these men here and they say they want - very firmly want something else. That's the price you pay to please your customers. That's frankly what it is. From the point of view of the Treasury cash position, I still stand on a five-year note. On the other hand, if we must satisfy the customers' demand, that must be a point too.

H.M.Jr: I don't say the howling success of a Government bond issue will turn the corner of this whole situation, because that would be silly. But let it be a failure and then the Government would go in the dog-house.

And I think that if it's a four million dollar - and figuring an eighth, because I think if I call up Burgess and say I was going to do 2-3/8, he'd just throw up his hands, wouldn't he? -

Lochhead: Oh yes.

H.M.Jr: Well, let's say it's a full eighth - I mean let's say it's a full eighth too rich. What would it be - 2-3/8 - an 8-year?

Bell: Well, taking the year basis, be about a half.

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H.M.Jr: How much?

Bell: Probably run between four-tenths and a half premium.

H.M.Jr: Four-tenths.

Bell: Yes, sell about 10 32ds, maybe.

Harris: It should only carry a premium of around 6 or 7 32ds.

H.M.Jr: So if I figure an eighth ....

Bell: . .. on the '45-'47s ....

Seltzer: It would be a matter of length of maturity. That is, if instead of making it straight eight, you make it an eight-ten, something like that, you reduce the sweetness.

H.M.Jr: Well, you've got a '45-'47 now, haven't you?

Bell: That's the bad feature about that.

Seltzer: Well, that whole period is just full of callables and maturities.

H.M.Jr: You've got a '45-'47, so it really isn't much more than two million dollars. I'd have to say a sixteenth. I may be paying a sixteenth too much. You couldn't sell a 1-3/8, could you?

Harris: 2-3/8.

H.M.Jr: You couldn't sell it, could you?

Harris: No.

H.M.Jr: So I'm paying a sixteenth too much, which is two million dollars. I say it's cheap. I'm paying a sixteenth extra, which is two million dollars. I say it's cheap. And it may not - give me an incident in Shanghai on Monday, and that extra sixteenth will put the thing across.

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Murphy: Well, which do you think would be more effective with an incident in Shanghai, the five-year note or an 8-year bond?

H.M.Jr: I think a couple battleships.

Now, don't forget, when you give two pieces of paper, each bank - if a bank could subscribe 25 million dollars to one issue, it could subscribe 50 million dollars to two issues, but he can't do it unless you give him two pieces of paper. When you do that, he can subscribe his full capital reserve twice, and that's the advantage and that's one of the reasons I'm doing it. I mean I want the extra things so that banks can subscribe twice, and each time they can subscribe, you see, their capital reserve to one piece of paper. Give them two pieces and they can do it on each one the limit.

And so I come back and say, "All right, five-year note and something else." And what's the something else? Two million dollars is what I'm paying.

Seltzer: Well, I don't think you're taking much risk with a 2-1/2 8-year bond. Very nice juicy premium.

H.M.Jr: Am I taking any risk?

Seltzer: I don't see it.

Bell: You probably could put the whole issue in the 2-1/2 8-year bond.

H.M.Jr: But I don't want to do it.

Bell: Because you've got customers that want the note and it's cheap money.

H.M.Jr: And on the other hand, they say, "Don't starve your note customers; give your note customers something."

Bell: That's right.

H.M.Jr: The last time we sold a bond was March?

Murphy: Last time for cash, December.

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Harris: December 2-1/2s.

Murphy: Last time was December.

Seltzer: The long 2-1/2s were December.

H.M.Jr: That's a year.

Seltzer: In December we sold 2-1/2s, '49 to '53.

H.M.Jr: Dan, if we offer 2-1/2 bonds 50-50, what's your guess on the noteholders that would go into bonds, out of the 277?

Bell: That's a hard guess, but I should say the longer portion would go into bonds.

H.M.Jr: Well, we'll get in 250 if we have any luck at all ....

Bell: Right.

H.M.Jr: ...out of the 277. What proportion of the bonds? Say 150?

Bell: I should say 150 to 175 million.

Taylor: 200.

H.M.Jr: What?

Taylor: 200.

Lochhead: I would say that if the original .....

H.M.Jr: Well, be between 400 and 450.

Bell: That's right, be between 400 and 450.

H.M.Jr: Which would make a nice little issue. And if I've got to have a small issue, I'd rather have a small issue in a note than a bond. What?

Bell: That's right.

H.M.Jr: Well, you (Taylor) have listened to this for 45 minutes, plus 45 minutes before, which is an hour and a half. What do you think?

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Taylor: I think no interest adjustment.

H.M.Jr: I'll go along on that.

Taylor: What?

H.M.Jr: I'll go along on that.

Taylor: I think that I would split it 50-50 and then give the option to the other one.

H.M.Jr: Why, Wayne?

Taylor: Because I think you're making whatever gesture that you want to maketowards the long-term market in making it 50-50 and that you're going to get such a big percentage of your bonds on conversions and that you'll pick - you'll save part of that, whatever it is that you are giving away, by stepping up the notes by just that amount.

H.M.Jr: 25 million.

Taylor: 25 million.

H.M.Jr: Well, is that worth the difference of letting the world know that I think that ....

Taylor: If you let them know at all, and then the ....

H.M.Jr: But by saying 250 and 200 I'm saying that I've got that much extra confidence in the bond.

Taylor: I don't think you say that.

H.M.Jr: Don't I?

Taylor: No.

H.M.Jr: Harris, when I make it 250 ....

Harris: Yes, I think so.

H.M.Jr: What am I saying when I say 250 bonds and 200 notes?

Harris: Means you'd rather see the people go into the bonds than the notes.

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Taylor: There isn't enough difference in the two maturities.

Bell: But your bond is sweeter.

Taylor: Yes.

Bell: And I think I'd be inclined to put more in the bonds, even though you get 450, which is a nice thing. And the people that talked to you, I think, favored a bond.

H.M.Jr: More of it.

Bell: That's right. And for that reason I think it's a good gesture.

Harris: Percentage of allotment will probably be around five percent subscription.

Bell: Probably very small.

H.M.Jr: Be wonderful, be wonderful.

Lochhead: The idea of putting more on the bonds - I don't think it's generally interpreted the way you (Harris) interpret it. I think it's interpreted that the Secretary believes more people will go into the bonds.

H.M.Jr: Yes. The way I interpret it is, when I say 250 of bonds and 200 of notes, I'm saying I think the people want bonds more than they want notes. And that's just what I want to say. That's what I want to say.

How do you (Mrs Klotz) react to 250 of bonds?

Klotz: I'd rather see you put 250 into bonds.

Taylor: Well, the reason I say split 50-50 is, I'm sure that the market itself, in its turn-ins of the notes, is going to say that twice as hard as you can say it.

H.M.Jr: Well, let's say it twice. Let me say it and let them confirm it.

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Taylor: I don't feel very strongly about it at all, but I think you can go 50-50 and say all that you want to say.

H.M.Jr: Herbert? As to 250 and 200, or 225 and 225.

Gaston: Well, judging from what is said here about it, I think plainly your offering a larger amount of bonds means that you think there is a greater demand for the bond. I think that would have a good effect.

H.M.Jr: (Reading ticker clippings) "Very good tone to the market opening. 2-5/8s, February, quoted 27, bid of 4 32ds." What?

Harris: Really looks like they want them to exchange them.

Seltzer: They've gotten to you on the bond offering.

Taylor: The boys have heard about that 2-1/2.

Harris: About 7 32ds of that is interest; the rest is premium placed on the privilege of exchange.

Bell: They're going after bonds. The market is all fixed.

H.M.Jr: I sold yesterday over the phone - I sold 150 million of these bonds in Chicago, and there were two men in here the other day that took 75 million.

Taylor: You're not short, are you? That's why he wants that extra 25.

Bell: Really too bad. You had 250 before.

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

Harris: Why not do the March notes then?

H.M.Jr: Well, that wouldn't be so dumb either.

But this - this farm boy that doesn't know anything about financing is going to make a great success of this thing on Monday.

Well, let's see if Marriner has been prepared.

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Bell: You pretty well set on no interest adjustment?

H.M.Jr: Do you think so?

Bell: I go along with that. I don't think ....

H.M.Jr: Which way?

Bell: Straight exchange on December 15, giving them the new coupon rather than 2-5/8 to February.

H.M.Jr: The way we wrote it last night.

Bell: That's right. Because the bond is sweet.

H.M.Jr: Well, the way you did it last night.

Bell: That's right.

H.M.Jr: I mean the fellow who has a 2-5/8 note maturing in February has to give that up on February 15.

Bell: Has to give it up on December 15 for whatever he exchanges it for.

H.M.Jr: And the Government will save the difference.

Gaston: That is, he gets the interest up to December 15 on his note.

Taylor: Yes, when he turns it in.

Seltzer: You offer them this juicy bond. You've given him everything he can ask for. You're giving him preferential allotment for it. He doesn't deserve another thing.

H.M.Jr: That isn't what you wrote me last night.

Seltzer: Look at the difference. When I wrote that, we were considering an issue confined to a five-year note issue in which the expected premium might be half a point or less. Well, in that case your noteholders were in a much worse position than your cash subscribers, from the standpoint of what they had to give up. They had to give up 11 32ds of sure premium to come in. There, I think, you really had to give them

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an interest overlap. But when you give them this alternative, a point and a half premium, certainly a point premium, they don't require anything else.

Harris: Well, that 11 32ds premium, Larry, is only there until December 15; with the privilege of exchange they place that on the market.

Murphy: No, not the 11 32ds premium, Mr. Secretary; that's in the bonds.

Seltzer: Right inside the February notes. You can't take it away.

Harris: That's not premium; that's just interest.

Seltzer: Can't take it away from them.

Lochhead: Of course we can't take it; can't make them give it up.

Seltzer: That's why you have to give them something extra.

Lochhead: Let them hold it until maturity.

Seltzer: I'm going to call up Burgess after we get through and show him ....

H.M.Jr: Don't call him up ....

Seltzer: Oh no, I'll do this privately.

H.M.Jr: Yes, but don't upset him now. Let Burgess alone until Monday, see?

Seltzer: O.K.

H.M.Jr: Have your argument with him on Monday. I mean seriously.

(On phone) Chairman Eccles.

Bell: Of course, if this bond were not in the picture, your notes would not be selling at any such premium; they'd be down to the 1-3/4 basis.

Murphy: The 11 32ds is mechanical; has nothing to do with the new issue.

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Bell: That's your interest. Can't take that out of the picture so long as people are willing to buy obligations and get nothing on them for 45 days.

Taylor: Henry (Murphy), get out that fine pencil of yours and figure full allotments and a premium as against five percent allotments and see where you come out.

Murphy: Well, we're just analyzing the facts separately so they could be compared.

Taylor: Try the other way and see what you're giving those noteholders.

Murphy: Oh, they have no complaint. But we wanted to analyze the different factors separately so you could compare and contrast them. We say freely that when you take that other factor, no.

Seltzer: But even then, if your margin was only 4 32ds, you weren't so safe. I take you up on that. I think I could show you.

Taylor: All right, get out your pencil on a five percent allotment for cash - that's what you've got, haven't you - as against what you have in the notes, and figure it.

H.M.Jr: Well, they're trying to find Eccles.

Klotz: I never knew a man to get lost more often than he does.

Taylor: Just early in the morning. He's a slow starter.

Lochhead: Probably met somebody in the hall.

Klotz: He turned the blankets, so he's lost.

Bell: I was just going to say something, but I won't.

Lochhead: He met somebody in the hall probably.

H.M.Jr: Your (Bell) thing is all set as we talked last night, isn't it?

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Bell: Lawyers are working on it now. It's all been written and they're going over it now. Probably almost ready.

H.M.Jr: (On phone) Hello. (Conversation with Eccles follows:)

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December 4, 1937.
10:26 a.m.

H.M.Jr: Hello.

Operator: Chairman Eccles is not in his office, she is going to try to locate him.

H.M.Jr: Well, it's important, I mean - get him wherever he is.

O: All right.

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December 4, 1937.
10:28 a.m.

H.M.Jr: Hello.

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello.

Marriner Eccles: Hello.

H.M.Jr: Marriner?

E: Yes, Henry.

H.M.Jr: Are you at your office?

E: No I'M not, I'm home.

H.M.Jr: All right.

E: Going out and play golf.

H.M.Jr: Good. Are you on the golf links?

E: No I'm not, I say I'm going out.

H.M.Jr: Oh, good for you. Well, I just wanted to tell you - the decision I've come to on our financing which is different from what we had when we met Wednesday.

E: Oh, yes.

H.M.Jr: And the reason is just that I've seen a lot of people, and I've changed around. Now what we're proposing to do is this. On the cash offering you know -

E: Yes.

H.M.Jr: We're proposing to offer two hundred million of five year one and five eighths notes, and - one and three quarter notes, and two hundred and fifty million dollars of eight year two and a half bonds, and give the February note holders the right to convert into either one of those pieces of paper.

E: Uh-huh. Well, then, what you've done instead of taking all notes you've split it.

H.M.Jr: I've split it.

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E: Uh-huh.

H.M.Jr: The insurance companies who have been our stand-by for the last year need a bond very very badly, and they have stood by us, and by offering two pieces of paper it would give the banks a chance to subscribe twice to their capital and their reserve, and we haven't sold a bond for a year now.

E: There's only one - what do you think that'll do to your two and a halfs that are now out?

H.M.Jr: Well whatever adjustment would take place took place in the last two days was practically nothing.

E: Uh-huh.

H.M.Jr: I mean that they've more or less known -

E: You think the market discounted it?

H.M.Jr: I think it's been fully discounted, and as a matter of fact, we have a very strong bond market today.

E: Uh-huh.

H.M.Jr: See. And I've worked very intently on this and what I want to do is to make it a great success, and the only criticism may be that I'm pricing these bonds one-sixteenth too high, which means two million dollars over eight years to the Government. I couldn't sell them at two and three-eighths, there isn't enough in it, so I'd have to -

E: What is the - how much premium will that give, -

H.M.Jr: Well, well, there'll be a point at least.

E: A point. You'll get a heavy subscription won't you?

H.M.Jr: Yes, but I mean if - if I priced it at two and three-eighths they wouldn't go.

E: Yes.

H.M.Jr: Well, I'm giving them a sixteenth extra of sugar which means two million dollars.

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E: Well, it'll be a good experiment anyway. I - there isn't enough involved to make very much difference.

H.M.Jr: No, the main thing I want to do is to make it a great success and this insures us against - well let's say the Japanese shooting an American soldier Monday, or something like that.

E: Well, this will go over, there isn't any question -

H.M.Jr: Well, I mean -

E: The other would have to, I don't think there's any -

H.M.Jr: I think it would also, but I'm just making it a little extra sweet all along the line against some incident in Europe or China.

E: You're sticking to the - you're sticking to the one and three quarter five year note though for half of it.

H.M.Jr: Well, we're - no, two hundred million for that and two fifty of the bonds.

E: Well, then the right to convert it to either.

H.M.Jr: The right to convert it to either.

E: That's what I say, so you're - before it was - you took it to four fifty for the note with the right to convert only into the note.

H.M.Jr: That's right.

E: So what this amounts to is a split.

H.M.Jr: That's right.

E: But on the question of conversion I imagine there'll possibly be more of the bonds taken than the notes, 'cos they're sweeter.

H.M.Jr: They should, but I was kidding with Burgess this morning. Your system holds eighty million, and he said well he hadn't talked to you. Your first reaction was that they would take more notes than they would bonds.

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E: Well, I - of course our situation is different, we're - from an investment standpoint, I'd take bonds.

H.M.Jr: Yes.

E: From a standpoint of an open market operation you've - you've got to keep a lot of your short term stuff there.

H.M.Jr: Yes.

E: Because the short term market, of course there's always an easier market to act in.

H.M.Jr: Yes.

E: The - and we've got in bonds, got in bonds seven to eight hundred million in total that we consider more or less as a sort of a meal ticket or a bank lock.

H.M.Jr: Uh-huh.

E: And really what we'd like to do, if there was a real strong bond market, would be to shift some of the bonds we've now got into shorter maturities, so we'd be in a position later to shift shorter back in the bonds again.

H.M.Jr: Well, of course -

E: But we won't - we won't do anything of that sort now, but what I mean is that if the bond market was overly strong where we could shift from bonds into notes. In other words if these insurance companies ever
and bonds. More strong for bonds than they would be for notes or bills and we would be better off, not decreasing, of course, the portfolio, but to shift because at some time or other there may be another weakness.

H.M.Jr: Well, there will be.

E: Well, if there is I'd like to be in a position to sell when the bond market is awfully strong and buy when it's weak.

H.M.Jr: Well you'll most likely end up by taking fifty fifty of this, if the premium of the bond is -

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E: Well, I would think this, that if - if the market wants the bond, and they're strong for it.

H.M.Jr: Yes.

E: I think we'd be better to take the note. If, on the other hand, there's any question about the bond why then of course I don't think it would make a lot of difference.

H.M.Jr: Well -

E: There'd also be this, if we - you won't have any trouble, this going over, the main thing will be if there's a secondary market.

H.M.Jr: Yes.

E: And if there's a secondary - I'd sooner shift into the notes and then if there's a secondary market that has to be supported then take the bonds in a secondary market.

H.M.Jr: Well, you'll have - you'll have several days to think it over.

E: When are you going to announce it?

H.M.Jr: Well, I mean that's

E: Yes. Oh yes.

H.M.Jr: I mean we wouldn't -

E: We haven't of course discussed it at all, because we just -

H.M.Jr: No, well I mean we'll announce it Monday morning, but I mean as to what you do, we wouldn't close our books on the February notes before Wednesday night anyway.

E: Yes. Well, we'll - we'll discuss the thing Monday.

H.M.Jr: So I mean you'd have -

E: We haven't discussed it with anyone.

H.M.Jr: So you'd have Monday or Tuesday or even Wednesday to decide what you want to do with your February notes.

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E: Yes, that's right.

H.M.Jr: You can get - you can get a twenty seven thirty second premium on your February notes right now.

E: Twenty what?

H.M.Jr: Twenty seven thirty second premium.

E: Yes. Subscription right now.

H.M.Jr: Yes, worth twenty seven thirty seconds.

E: Yes, whoever bought - went out and bought those notes certainly got some gravy, didn't they?

H.M.Jr: Yes. You might even want to sell some of them.

E: Well, that would reduce our total portfolio.

H.M.Jr: Uh-huh.

E: The trouble is that we sold and reduced our portfolio, that would reduce excess reserve.

H.M.Jr: I see.

E: And we wouldn't want to do that because right now we likely - we're more likely to do it to increase them because they're going off. They'll be going off in the next two or three weeks.

H.M.Jr: Uh-huh.

E: On account of the increase in currency.

H.M.Jr: Well you fellows - what you do with your eighty million, you've got Monday and Tuesday to decide that, but after this particular form of offer you're perfectly happy about it, aren't you?

E: Well I would have preferred the notes, as I expressed it -

H.M.Jr: I know.

E: At the same time you've gone into it.

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H.M.Jr: Very thoroughly.

E: More than I have, and it isn't - I feel all right about it. I don't think it really makes much difference.

H.M.Jr: All right, that's all I want to know.

E: All right then, thanks for calling.

H.M.Jr: Thank you.

E: Goodbye.

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H.M.Jr: "ell, I tell you what you fellows do. You can all go out and come back here again. I'll see the market average at 11:15. I'd like to wait for that. So be back here at about 11:15. In the meantime you (Bell) have got your telegrams under way. You (Gaston) can set up your press release on the basis of what you have heard and we'll make a final check at 11:15. How's that?

Gaston: Yes.

H.M.Jr: How's that?

Bell: Fine.

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11:15 a.m.

Bell: Mr. Broughton was hurt last night in an automobile accident.

Klotz: I heard that.

Bell: And a girl by the name of McReynolds. He's in the hospital. Cops chasing rum-runners or somebody, and the smoke screen was laid down and through the excitement this girl turned into the taxicab in which Mr. Broughton was riding. Quite a collision. Injured in the chest some.

H.M.Jr: (To Mrs Klotz) Send a note from me to Broughton.

Bell: May I take up one question before you go into it - I mean it's on the financing.

H.M.Jr: Anything.

Bell: You know, we have this case before the Supreme Court - Taft case on call bonds.

H.M.Jr: Yes.

Bell: And the Treasury sent some sort of a statement to Reed about how important this call provision is. And of course, there is no provision in here and I think we should have said in the statement that the amount was the guide on which we based a call; we wouldn't call a five hundred million dollar issue but we would call a billion dollar issue. Now, what we want to do is put something in this press statement that in view of the small size of the issue and the short term, it is not necessary to put in a call feature, thinking maybe that Justice might read the papers.

H.M.Jr: All right.

Bell: I see no objection to it and I think it might do some good.

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H.M.Jr: You've already put it in, haven't you?

Bell: "e have it written, yes. It's on the last page.

H.M.Jr: Very good. All right.

Well now, let's go round the room and tell me why we shouldn't do what we're proposing to do.

Bell: I have no objection to what we're proposing to do. I think it's a good move.

H.M.Jr: Perfectly content. Anything else?

Bell: No.

H.M.Jr: Harris?

Harris: I agree with it, and I don't think we should make any interest adjustment.

H.M.Jr: Well, I don't - I'm not counting on that. That's out. Anything else?

Archie?

Lochhead: Taking everything in consideration, I think no objections.

H.M.Jr: Murphy?

Murphy: I would prefer a different set-up, but I wouldn't question the success of the issue at all.

Seltzer: I have no objection, other than the kinds I voiced in the morning.

H.M.Jr: Well, do you think this issue will go?

Seltzer: I certainly do. It ought to go out the window.

H.M.Jr: You mean have wings.

Seltzer: It has wings. You've put lot of wings on it.

Murphy: Very long wings.

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H.M.Jr: Out the window. But I want to see it fly.

Taylor: Suits me.

H.M.Jr: All right.

Gaston: I don't know enough about it to say. I don't even know what the rate on the note is, or the term.

Klotz: Me too, Mr. Gaston.

H.M.Jr: (On phone) Dr. Burgess.

Well, incidentally - I don't know whether you people heard it or not - Mr. Eccles has approved it.

Klotz: We heard the conversation.

H.M.Jr: I see.

Harris: Incidentally, they're buying up about 6 32ds.

H.M.Jr: (On phone) Hello. (Conversation with Burgess follows:)

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December 4, 1937.
11:16½ a.m.

H.M.Jr: Hello.

Operator: Dr. Burgess. Go ahead.

Burgess: Hello.

H.M.Jr: Well now, we're all sitting around here and as far as we know we're all set.

B: All right, sir. I feel the same way, and the market this morning is confirming our judgment.

H.M.Jr: Uh-huh.

B: Because the rights have gone up still a little further, and the notes are firm, and the bonds are holding very nicely.

H.M.Jr: Uh-huh. Well now, how about your last minute conversation.

B: Well they've just

H.M.Jr: Uh-huh.

B: I talked a few minutes ago with Ronald Ransom and told him the whole story. I wasn't able to get Eccles.

H.M.Jr: I was.

B: You talked to Eccles, did you?

H.M.Jr: Yes. He's all right.

B: He's all right, is he?

Well I thought Ransom was. He said he would talk to Eccles. I guess he has.

H.M.Jr: Well I got Eccles. He was all right.

B: Yes. But everything is all right here.

H.M.Jr: Well I guess we shoot the works. We'll have a 12:15 Press conference for Monday morning release.

B: Fine.

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H.M.Jr: And the only worry around here. Some people think it's too sweet, but -

B: The only worry is what?

H.M.Jr: They think it's a little bit rich - the bonds.

B: Well, that's a good fault.

H.M.Jr: It is this time, but -

B: Yes I think so.

H.M.Jr: And -

B: It is a little rich, but it won't hurt it any.

H.M.Jr: I know it. Well I figure it this way, to make it come about right we'd have to drop it a sixteenth.

B: Yes, that's just it. You can't do that.

H.M.Jr: It's a sixteenth too good and a sixteenth on four hundred million for eight years is two million dollars.

B: Yes, that's right.

H.M.Jr: Well -

B: That's very cheap insurance.

H.M Jr: I think so.

B: Yes.

H.M.Jr: I think so.

B: Yes.

H.M.Jr: That's about - figures it right, isn't it?

B: Yes, that's right.

H.M.Jr: Well, thanks for all the advice.

B: All right, sir. It's been lots of fun.

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H.M.Jr: Well, I don't - well maybe that's the name for it. But that's all right.

B: Well, I rather enjoy it, I confess.

H.M.Jr: All right.

B: Nice problem.

H.M.Jr: All right.

B: All right, Henry. Good luck to you.

H.M.Jr: Thank you. Goodbye.

Regraded Unclassified

H.M.Jr: Well, let the machinery go to work. And will you (Bell) be back here at about 12:10 - press conference at 12:15.

Bell: Yes.

H.M.Jr: And the only rush I'll take now - oh here, I'll do this quickly, and Taylor, I'll do your speech now as soon as I've done this.

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COSTLINESS TO TREASURY OF AN 8-YEAR 2½ PERCENT BOND

If a 5-year note can be sold with a 1-3/4 percent coupon, the appraiser of an 8-year 2½ percent bond might figure as follows:

What will be the cost to him of the 8-year bond at the end of 5 years? It would be par minus the extra 3/4 of 1 percent interest annually that he has received for 5 years, which amounts to 3-3/4 points. In other words, he could figure that at the end of 5 years he would have a 2½ percent Government obligation at a cost of 96¼. This would mean a yield to him for the remaining 3-year period of 3-3/4 percent per annum.

The longest Treasury bond now outstanding -- the 2-7/8's of 1955-60 -- is selling to yield only 2.77 to call date, and 2.79 to final maturity.

The figures cited above understate the true actuarial advantage to the investor of the 8-year bond, because no allowance has been made for the fact that the investor will receive part of his return -- the extra interest during the first 5 years -- in advance.

Regraded Unclassified

December 4, 1937.
11:04 a.m.

H.M.Jr: Hello.

Operator: Mr. Helvering isn't coming in his office this morning, she doesn't know where he is.

H.M.Jr: Let me talk to his secretary.

O: All right. Go ahead.

H.M.Jr: Hello.

Miss Bruch: Yes, Mr. Morgenthau.

H.M.Jr: Who is this please?

B: This is Miss Bruch.

H.M.Jr: Miss Bruch?

B: Yes.

H.M.Jr: How do you spell it?

B: B-R-U-C-H

H.M.Jr: Oh!

B: May I help you?

H.M.Jr: What?

B: May I help you?

H.M.Jr: Yes. Senator McAdoo just called up and wanted to know whether there was any truth in the - what he had read in the newspapers about our sending out questionnaires for people making out their net worth, you know.

B: Yes.

H.M.Jr: Over a hundred thousand. I said yes, it was absolutely so.

B: Yes.

H.M.Jr: And he said would we please send him up the necessary information about it so he could answer letters which he's receiving in regard to the same.

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B: Yes.

H.M.Jr: So I said I'd get in touch with Commissioner Helvering and have the Commissioner give him whatever necessary information he wants.

B: All right. We'll get that over to him right away, or do you want it to come through your office?

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

B: All right.

H.M.Jr: Direct from Mr. Helvering.

B: All right, sir.

H.M.Jr: Can I forget about it?

B: I'll get it over to him right now.

H.M.Jr: Thank you.

B: All right.

Regraded Unclassified

December 4, 1937. 311
11:16 a.m.

H.M.Jr: Hello.

Operator: Secretary Hull is tied up, he can't talk to you now. He'll most likely call you.

H.M.Jr: Well, give me Herbert Feis.

O: All right.

H.M.Jr: Hello.

O: Dr. Feis. Go ahead.

H.M.Jr: Hello.

Herbert Feis: Good morning.

H.M.Jr: Good morning. I just tried to get Mr. Hull and they say he's tied up, now as I understand it from Wayne Taylor, the State Department has no objection to my extending to the Chinese Central Bank the privilege to borrow foreign exchange for another year from us against gold on deposit here.

F: That means renewing the first arrangement.

H.M.Jr: For one year.

F: On the basis of my participation in that discussion yesterday, as I became acquainted with the nature of the set up -

H.M.Jr: Yes.

F: I - all reservation dropped from my mind -

H.M.Jr: Well, have you had a chance to -

F: I haven't had a chance to talk with Hackworth. Can I talk with him?

H.M.Jr: Well you can try him. I - I'd like very much to -

F: Get an answer this morning.

H.M.Jr: Yes.

F: I'll -

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H.M.Jr: Well, I'd like Mr. Hull to know about it.

F: I'll talk with Hackworth, I'll get a joint memorandum, I'll get it down before Mr. Hull and if possible I'll try to see if he won't telephone you.

H.M.Jr: Will you do that?

F: I will. Sure.

H.M.Jr: Thank you.

F: Right.

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THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

1201-S

CLASS OF SERVICE

This is a full-rate telegram or Cablegram unless its deferred character is indicated by a suitable symbol above or preceding the address.

WESTERN UNION

(59)

R. H. WHITE
PRESIDENT

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. C. WILLEVER
FIRST VICE-PRESIDENT

SYMBOLS

DL = Day Letter
NL = Night Letter
LC = Deferred Cable
NLT = Cable Night Letter
Ship Radiogram

Filing time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination.

Received at 708 14th St., N. W. Washington, D. C.

1937 DEC 5 PM 3 02

WP 209 5 GOVT COLLECT=MIAMI FLO 5 216P

313

HON HENRY MORGENTHAU JR=

2211 30 ST NORTHWEST=

LETTER HAS BEEN APPROVED=

LIEUT MCKAY.

2211 30

THE QUICKEST, SUREST AND SAFEST WAY TO SEND MONEY IS BY TELEGRAPH OR CABLE

Regraded Unclassified

FORM 5619
TREASURY DEPT.

U. S. COAST GUARD

ADDN	SECRETARY TREASURY
FROM	AIDE TO SECRETARY TREASURY
INFORM	
PRIORITY X	
ROUTINE	
HEADING VE11DM	T Z QUAT V Q7T P GR6

TEXT

0005 LETTER HAS BEEN APPROVED 1355

Phoned 1423 Dec 5th

TOD 1406 NM WD
5 DEC 1937 FH 11

OPERATOR'S RECORD AND DATE

OFFICIAL INITIALS
S

Regraded Unclassified

ANDARD FORM No. 14A
APPROVED BY THE PRESIDENT
MARCH 10, 1925

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

TREASURY DEPARTMENT
WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Contingent Expenses
(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE 9—12117

DECEMBER 4, 1937.

COL. MARVIN H McINTYRE
ASS'T. SECRETARY TO THE PRESIDENT OF U. S.
MIAMI BILTMORE HOTEL
MIAMI FLORIDA

LIEUTENANT McKAY OF COAST GUARD WILL ARRIVE MIAMI FIVE THIRTY SUNDAY MORNING WITH IMPORTANT LETTER STOP I HAVE INSTRUCTED HIM TO GET IN TOUCH WITH YOU AS SOON AS PRACTICABLE

Initialed by MCK for Sam gmc

H. MORGENTHAU JR
SECRETARY OF THE TREASURY

Regraded Unclassified

December 4th, 1937.

Dear Mac:

This will introduce Lieut. D. H. McKay of the Coast Guard who is carrying a confidential communication from me to the President which it is necessary for him to read and approve before arrangements for our Monday's financing can be concluded. I should like Lieut. McKay to bring the letter back with him after the President has endorsed his approval thereon. As soon as the President has given it his approval, Lieut. McKay will wire me to that effect.

If you can conveniently do so, I should like arrangements to be made for Lieut. McKay to return to Washington on the President's train.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Col. Marvin H. McIntyre,
Ass't. Secretary to the President,
Miami, Florida.

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December 4, 1937.
11:29 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Herbert Feis: Herbert Feis.

H.M.Jr: Yes, Herbert.

F: Sorry to trouble you. Look here advise me. Hackworth, legal advisor, left town immediately after that conference yesterday. He's up in New York. We can't reach him by telephone. When I go to Mr. Hull, he's going to ask me at once what Hackworth thinks.

H.M.Jr: That's - I'll take a chance and do it Monday forenoon.

F: Monday.

H.M.Jr: I'll - I'll have to, that's all.

F: Well, the other alternative is, I've spoken with Opper.

H.M.Jr: Yes.

F: Who has given me a report of what Hackworth said.

H.M.Jr: Yes.

F: But - I know Hackworth well enough to know that he's never given an unveiled opinion in his whole damn life.

H.M.Jr: Uh-huh.

F: And I want him on record for my own protection.

H.M.Jr: I do too.

F: All right.

H.M.Jr: I'd rather - I'd rather lose out, I mean if that certain thing happened over the weekend. But that's all right. It doesn't make any difference, we could extend it anyway.

F: I think I'll re- - if I can get to the Secretary.

H.M.Jr: Yes.

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F: I think I'll report to him anyway, this morning, on what's happened.

H.M.Jr: All right. I - Herbert?

F: Yes.

H.M.Jr: I understand the circumstances. If anything should happen there'd be no recrimination.

F: The - All right. The last news from the Far East, Henry, is less sensational than the newspapers make it out.

H.M.Jr: Yes.

F: It's true that the reports aren't up to date yet, but let me give you, for example, the calm wave which the damned things reported from Shanghai.

H.M.Jr: Yes.

F: Following an incident this afternoon the Japanese military, now controlled approximately twenty five city blocks in the crowded Nanking road area, the settlement, and prevented all movement of traffic. Some of their sentries were extended in the American sector, but were withdrawn after representations by the commanding officer for United States Marines.

H.M.Jr: Yes.

F: That's - that's as much as they make of it.

H.M.Jr: I see.

F: But this incident completely confirms the opinion repeatedly expressed, the Japanese forces should not enter the area south of the

H.M Jr: Uh-huh.

F: And so forth. It cannot be too strongly urged that the Japanese Government issue positive instructions to its military commanders to keep their troops outside the areas protected by the foreign neutral forces until the return of normal conditions. As this telegram is being prepared a report has been received that the Japanese troops will be withdrawn from the areas concerned.

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H.M.Jr: Uh-huh. Well that sounds a bit more peaceful.

F: It - yes, it sounds as if - or except they'll - they tried it out - they'll try it out again.

H.M.Jr: Well, I'll be here till quarter of one Herbert, then I go home for lunch.

F: All right.

H.M.Jr: Thank you.

F: And if there's anything sensational breaks over the weekend I'll let you know.

H.M.Jr: I'll be here.

F: All right.

H.M.Jr: Thank you.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 6, 1937

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Cotton Situation

Summary

The situation with respect to cotton prices appears a favorable rather than unfavorable factor in the general business picture. Prices have been stabilized for five weeks, with a gradually rising trend. Their failure to respond to increased crop estimates seems to indicate that the effect of the record crop this year has been discounted at present price levels. The prospect of a crop reduction program next year, together with an apparently improving situation for prices of raw materials in general, strengthens the cotton price outlook, and in the absence of Governmental action having a deflationary influence on commodity prices in general, should contribute to an improving price trend in 1938.

A further curtailment in cotton mill activity during December and January appears likely, since goods sales continue below production, and mill margins have narrowed further in recent weeks. With cotton goods moving into consumption at a rapid rate, however, we believe that the adjustment of mill activity to previous over-production will probably have been completed by the end of January.

The cotton textile situation in foreign countries this fall has been more favorable than in the United States, and our exports of cotton have been higher than last year. A declining trend of prices for American cotton in relation to Indian has also favored increased exports. During the past few weeks, however, the cotton mill outlook abroad has become less optimistic.

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Price outlook appears favorable

Cotton prices have been stabilized for five weeks just below the 8-cent level for near-month futures, with the trend during this period gradually rising. The effect of this year's record crop appears to have been discounted at the present price level, judging from the fact that the cotton market has shown no visible reaction to an expected further increase in the Government crop estimate, which will be published next Wednesday, and the fact that prices were hardly affected by the bearish estimate in November. With hedge pressure diminishing, and prospects for a crop reduction program next spring pointing toward reduced supplies in the fall of 1936, a rising price trend from this level is a logical expectation. An apparently improving situation for raw material prices in general provides another favorable influence. The prospect of such a rise, however, would be modified by any further Governmental action of a deflationary nature.

Cotton prices this year (see Chart 1) have declined from the 14-cent level last March to below 8 cents in November. Print cloth prices, as well as prices for other standard types of finished goods, have suffered a more severe deflation. Under the influence of a sudden upswing in demand last winter, the prices of print cloth had reached levels in December and January higher than any since 1928. (Chart 1.) These prices could not be sustained, and a decline set in early in the year even while raw cotton prices were moving to new peaks. This decline has continued up to the present, bringing print cloths in recent weeks to a price level not much above the depression levels of 1932. While cotton has risen from a November average of 7.84 cents a pound to a price last week of 7.96, print cloth has declined from 4.65 cents a yard to 4.25.

Mill sales continue light

The domestic mill situation continues unfavorable. Cloth sales recently have been below production, and reduced prices on various lines of finished goods have further narrowed the margin of manufacturers' gross profits. Some mills are reported to be booking orders for nearby delivery at a loss in order to keep machinery employed. The prospect therefore points to a further decline in cotton consumption during December and possibly January, unless demand improves shortly.

The continued decline in prices of finished goods has without doubt been an important influence in causing new demand to fall off to its present low levels. Cotton goods.

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buyers are notorious for a tendency to concentrate their buying in periods of rising prices, and for buying little when prices are going down. In 1930 and 1931, as an example, a continued price decline resulted in a seriously under-bought situation among goods buyers which contributed to the marked upturn in goods prices that occurred in 1933. (See Chart 1.) This, in turn, caused buyers to rush into the market and buy too much; consequently goods prices again declined, and in the early part of 1936 inventories were again at abnormally low levels.

With the exception of two short spurts of buying last summer there has been no new buying of cotton goods in any volume since last March. This is an unusually long period for buyers to hold off. As a result of this lack of orders, the consumption of cotton by mills in this country dropped sharply in July, and has tended downward during the fall. The mill consumption of cotton in October reached the lowest monthly total since February 1936. In the meantime, according to studies we have made, the actual movement of cotton goods into consumption has continued at a rapid rate. While the present unfavorable conditions in the cotton goods markets indicate that mills in this country are likely to curtail production somewhat further, we estimate that by the end of January the previous excess of production will have been corrected, and mill activity will begin to improve.

Cotton situation abroad turning less favorable

The cotton textile situation in foreign countries has on the whole, until recent weeks, been distinctly more favorable than in this country, in line with the more strongly maintained levels of business activity abroad. This has resulted in a rather heavy export movement of cotton from this country and a well-maintained volume of consumption of American cotton by foreign mills. Our exports during November increased substantially to the highest monthly volume since December 1935. This is largely because American cotton is on the bargain counter, and continues to become cheaper in the Liverpool market relative to Indian cotton, its most important competitor. Forwardings of American cotton to foreign mills, an indication of consumption trends, have held up much better as compared with the previous season than the forwardings to American mills. (See Chart 2.) For the season through November 26, United States mills have taken 2,637,000 bales as compared with 3,259,000 bales last year during the same period, while foreign mills have taken 1,676,000 bales as compared with 1,536,000 bales last year.

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In recent weeks, however, advices from foreign mill centers have become less optimistic. Great Britain reports that while mill activity has not yet declined appreciably, the sales of yarn for several weeks have been much below production. Switzerland and Holland also report sales below production, and mill activity in France is declining due to continued poor demand for yarns and cloth. Japanese advices continue to report high mill activity currently, but indicate probable curtailment later.

The outcome of the farm bill now before Congress will doubtless have some influence on the cotton goods markets. Confirmation of present Administration plans to reduce the acreage of cotton to about 28,000,000 acres, as compared with 34,192,000 acres planted this year, should result in some increase in goods buying. A decision to finance the cotton program by a processing tax would stimulate buying immediately, although its longer-term effects on cotton consumption would probably be unfavorable.

The Commodity Credit Corporation reports that 3,077,576 bales of cotton had been pledged through Thursday, December 2 under the 1937 loan program. This represents a rapid gain from the 2,647,919 bales reported a week earlier. The Government now has more cotton pledged under loans than at any previous time, leaving out of consideration the old Producers' Pool, which was in a different category. The total of nearly 4,700,000 bales is expected to be increased to about 7,600,000 bales by the end of the season. The carrying charges on this cotton, at 8 points per bale a month, will amount to about $35,000,000 a year.

Private estimates of the cotton crop, published in advance of the Government report due on Wednesday, range from 18,271,000 bales to 18,601,000, as compared with the last official estimate of 18,243,000.

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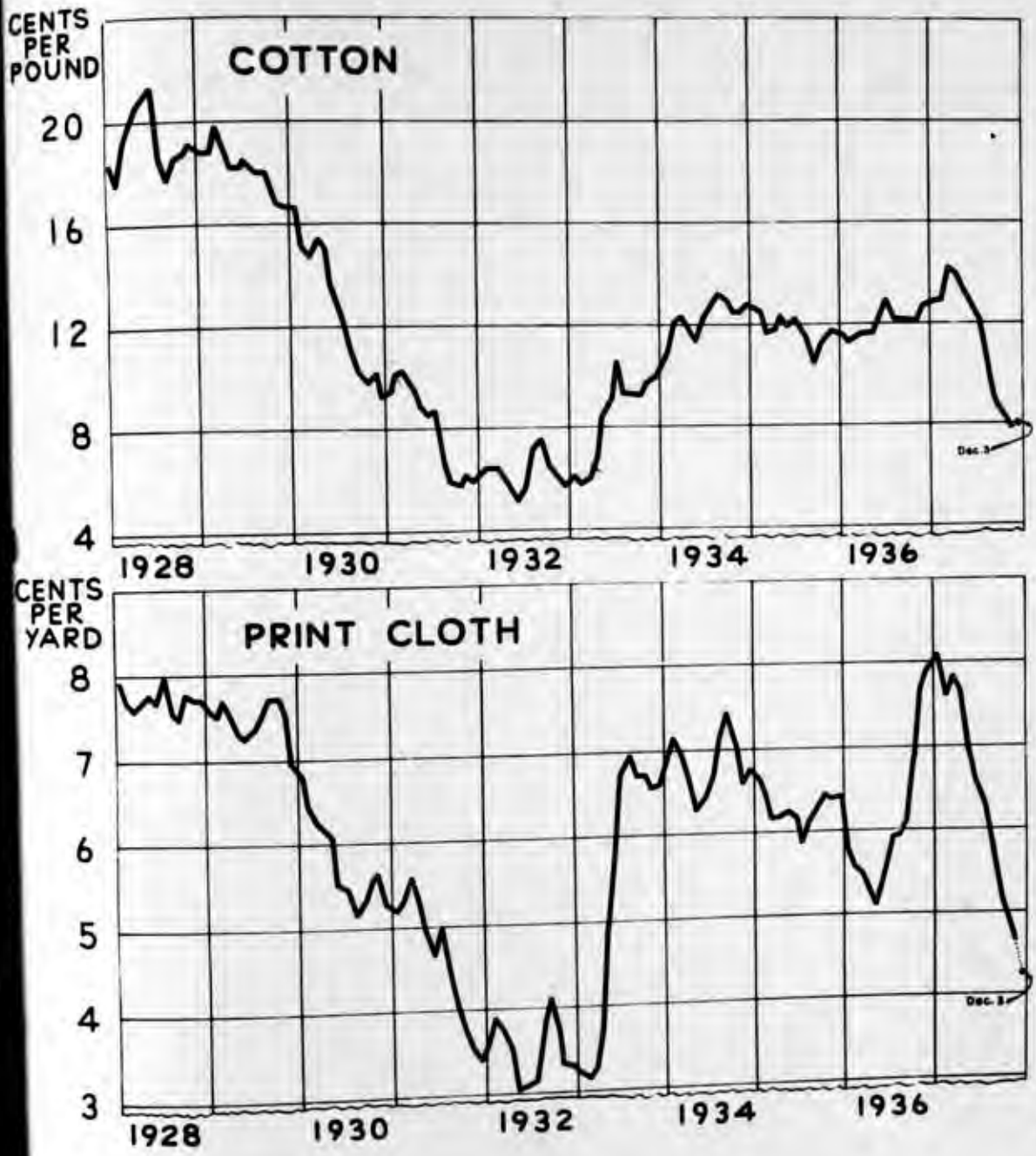
COTTON AND PRINT CLOTH PRICES



Office of the Secretary of the Treasury
Division of Research and Statistics

P-108-B

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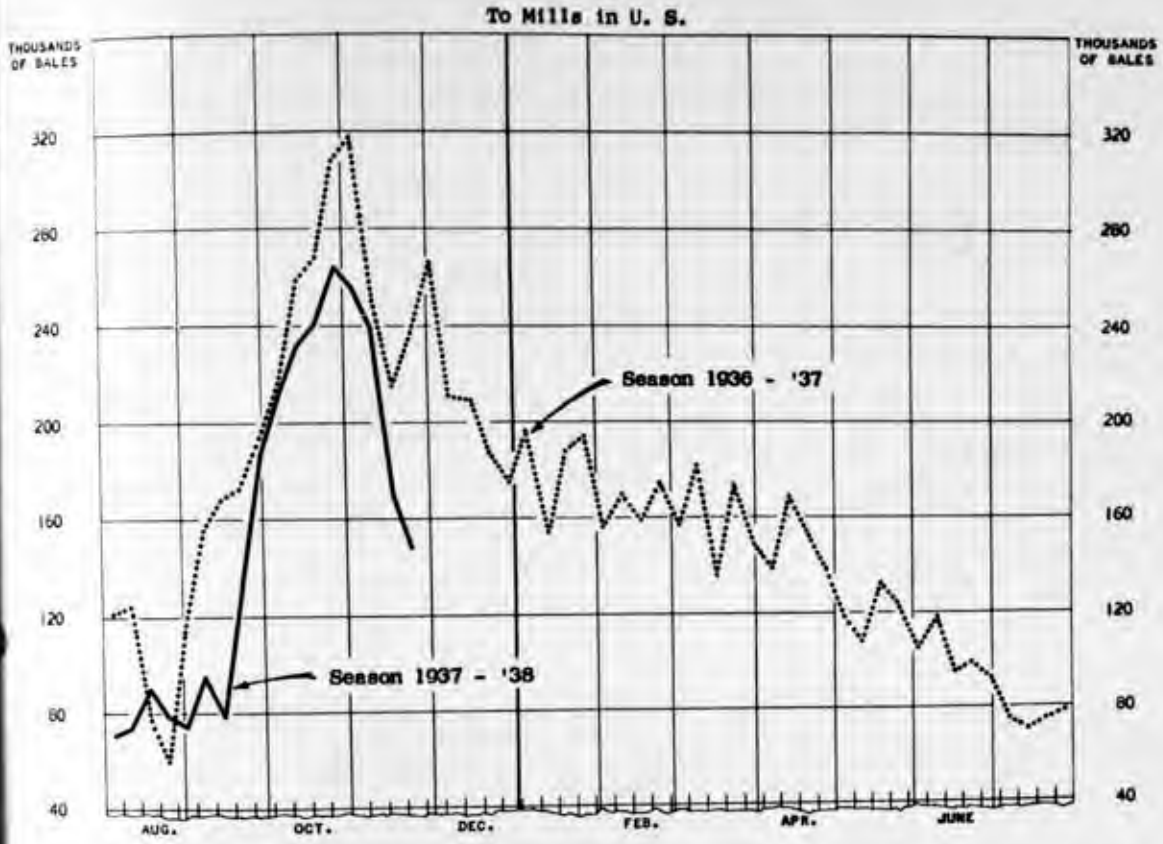
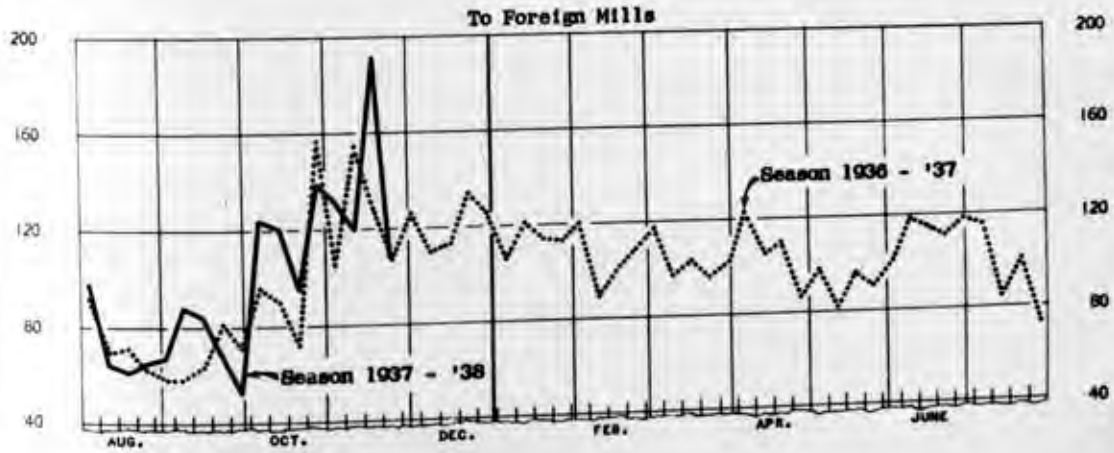
Chart 2

FORWARDINGS OF AMERICAN COTTON





Office of the Secretary of the Treasury
Division of Research and Statistics

P - 151

Regraded Unclassified

December 6, 1937.
9:12 a.m.

H.M.Jr: Hello.

Operator: Mr. Jones.

H.M.Jr: Hello.

Jesse Jones: Good morning.

H.M.Jr: Jesse?

J: Yes.

H.M.Jr: Are you at home?

J: Yes, sir.

H.M.Jr: On this cotton thing.

J: Yes.

H.M.Jr: Your lawyer told mine that they think that they can't do it, see?

J: Yes.

H.M.Jr: I guess you got that word.

J: Yes.

H.M.Jr: So I didn't call you. When I see the President I'm going to ask him if he wants me to go ahead with it, see?

J: Yes.

H.M.Jr: And if he does, then I want to ask him how he wants it done and by whom he wants it done.

J: Yes.

H.M.Jr: I still think that it's - it's a good investment for the Government.

J: Yes.

H.M.Jr: I don't know how you feel.

J: Well I think, I'm - as I've said, I'm always in favor of advertising. I don't know how much good we would get Henry.

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H.M.Jr: Yes. Well -

J: Of course if the President wants us to do it.

H.M.Jr: Yes.

J: And if he wants the Commodity to do it, and just write the letter, as he usually does, why we would be glad to do it of course.

H.M.Jr: Even in view of the lawyer's opinion.

J: Huh.

H.M.Jr: Even in view of the lawyer's -

J: Well, I think this. We've got Oliphant's opinion.

H.M.Jr: Yes.

J: And lawyers never - they never agree, you know.

H.M.Jr: I see. So you'd do it on Oliphant.

J: Huh.

H.M.Jr: You'd do it on Oliphant.

J: Yes. Well we'd - we'd have - might have to build my case, which I can do, you know.

H.M.Jr: Thank you. Well -

J: Build up our records, what I mean is we'd build up our records.

H.M.Jr: Uh-huh.

J: If - if it's desirable. If the President asks us to do it, of course we will do it.

H.M.Jr: Well I thought I'd wait now until I find out how - how much he wanted it done, see.

J: Yes. All right.

H.M.Jr: If he wanted it done at all.

J: All right.

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H.M.Jr: Now while I have you on the phone, I'd like to say something quietly but very frankly.

J: All right.

H.M.Jr: I read what you were supposed to have said in New York about doing something for taxes in '37, see? Hello -

J: Yes.

H.M.Jr: And I don't know whether you know or not, but we here are working under very definite instructions, not to do anything for '37.

J: Yes.

H.M.Jr: And that is the definite understanding that the President has with the four leaders on the Hill.

J: Yes.

H.M.Jr: And when you make a statement like that, it just makes my job that much harder.

J: Well I, of course I was not talking to the cards because I didn't know of the things that you tell me now.

H.M.Jr: Yes.

J: The only thing - here's what I feel Henry.

H.M.Jr: Yes.

J: Of everything, I don't believe anything could be done, that would take away the critical talk.

H.M.Jr: Yes.

J: The anti-New Deal talk.

H.M.Jr: Yes.

J: The anti-Roosevelt talk.

H.M.Jr: Yes.

J: And Administration talk.

H.M.Jr: Yes.

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J: As much as - whatever revision we're going to get.

H.M.Jr: Yes.

J: Get it as soon as we can.

H.M.Jr: Yes.

J: Now, let me go a little further.

H.M.Jr: O.K.

J: If we do not get it this year, if you run it into next Spring.

H.M.Jr: Yes.

J: And they get to wrangling over this, that or the other.

H.M.Jr: Yes.

J: And you don't get your tax revision until April or May.

H.M.Jr: Yes.

J: We're just going to be that much slower getting things started.

H.M.Jr: Yes.

J: So I think all the pressure that can be brought to bear on Congress to get the tax revision whatever it's going to be.

H.M.Jr: Yes.

J: And I'm not attempting to ride the ticket or anything like that or to suggest what it ought to be.

H.M.Jr: Yes.

J: Except that I've always said relief corporations in debt and for some modification or even for their plan improvement.

H.M.Jr: Yes.

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J: And those are the only two things, and I don't care how you do it.

H.M.Jr: I don't think I've quite made myself clear yet.

J: Yes.

H.M.Jr: What I'm saying is that everybody that I've talked to are in agreement with me.

J: Yes.

H M.Jr: If we pass some legislation, I don't care when, see?

J: Yes.

H.M.Jr: And made it retroactive for '37.

J: Yes.

H.M.Jr: That that would disturb the business men more than anything else that we could do because if we did it, let's say we lost several hundred million dollars by doing that.

J: Yes.

H.M.Jr: We then would have to go to Congress and ask for some new tax which also would be retroactive.

J: Yes.

H.M.Jr: To take up the place. And if there's anything to scare the business men that would, and, of course, after all, everybody has got a business theirplans are set for '37.

J: Yes.

H.M.Jr: And if we say, let's say we change the surplus tax and made it effective for '37 and then came back along in January and ask for some new tax.

J: Yes.

H.M.Jr: To apply the '37 to make up the difference. That I think would thoroughly scare the business men, and from reading what you were reported in the newspapers as saying.

J: I guess I'm quoted correctly, Henry.

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H.M.Jr: Well. Hello -

J: Yes.

H.M.Jr: Now, as I say, I don't know anything that would scare them more than to establish a precedence of making this thing effective for '37.

J: Yes.

H.M.Jr: And I wondered if you didn't think it over whether you wouldn't agree with me.

J: Well -

H.M.Jr: But that has nothing to do with as to when the Bill will pass.

J: Yes.

H.M.Jr: Although I want to tell you also that the President has this agreement with the leaders on the Hill that the Bill should not come over to the Senate until the 15th of January.

J: Yes.

H.M.Jr: Now also this pressure on us to do something when they have this agreement with the President and the leaders in the Treasury makes it terribly hard for me, but I've - since I've been here I have never criticized any Presidential appointment - appointee publicly or contradicted any statement and I'm not going to.

J: Yes.

H.M.Jr: But I am going to call up a fellow like you and have a quiet talk, tell you what my situation is, what the understanding is, then I'm sure you'll play ball.

J: Why, certainly.

H.M.Jr: See?

J: Certainly.

H.M.Jr: But this thing of being caught between both ends of the Capitol, when I'm under definite agreement and the President has a fixed agreement with - with the

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two leaders in the Senate and the two leaders in the House.

J: Yes.

H.M.Jr: Makes it terribly difficult for us.

J: Yes.

H.M.Jr: And then you come up - a responsible administration official and make a statement like that, it makes it just that damned sight harder.

J; Yes.

H.M.Jr: And I want to say to you very quietly.

J: Yes.

H.M.Jr: See?

J: Yes.

H.M.Jr: And I felt if you knew that, that you wouldn't try to make it any more difficult.

J: Well I'm - Henry, of course you know I'm not trying to make it more difficult.

H.M.Jr: Well -

J: That's impossible.

H.M.Jr: No, but possible to make it more difficult.

J: I mean it's impossible, it's unthinkable that I would try to make it more difficult.

H.M.Jr: Well, Jesse, a statement like that does make it much more difficult.

J: Yes.

H.M.Jr: And I just wanted to tell it to you, and because those are the agreements that we're working under, see?

J: Yes.

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H.M.Jr: And - and I wanted to tell it to you, but as far - any other statement other than that to you I've never - I've never shot behind, see?

J: Yes.

H.M.Jr: And I never will.

J: Yes. Well, I'm sure of that.

H.M.Jr: I never - I've never done like a lot of these fellows, I'm not talking about you, but slipped this or that to some columnist. I've never done it and I never will.

J: Yes.

H.M.Jr: But those are the facts, Jesse.

J: Yes. All right, I'd like - really I'd like to talk with you a little bit about it, a little more when I'm not on the telephone.

H.M.Jr: Well any time that you're ready I am.

J: I'll give you a ring.

H M.Jr: Any time.

J: Thank you, Henry.

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GROUP MEETING

December 6, 1937
9:30 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Oliphant
Mr. Gaston
Mr. Gibbons
Mr. Lochhead
Mr. Bell
Mr. Upham
Mr. Haas
Mr. McReynolds

H.M.Jr: I thought you'd be interested - what I'm saying is extra confidential - I went up to visit the Vice President late Saturday, had an hour's talk with him. I wanted to sort of find out where we stood on this tax business. And he says his understanding with the President - they have had two meetings - there is no change; that includes Mr. Barkley, the Speaker - who's the leader in the House?

Taylor: Rayburn.

H.M.Jr: - ..Rayburn. They don't expect any tax bill to come over until the 15th of January. He says as far as he's concerned, that's where it stands.

And the other thing - again triple-confidential - I just called up Mr. Jones and very quietly talked to him and told him that I had read what he was supposed to have said in New York about doing something for taxes, and I said that was contrary to the Administration policy, contrary to the understanding on the Hill, and that he was making my job very much more difficult; that I never criticized a presidential appointee publicly, but I did want to tell it to him; that it was hard enough carrying out the orders, but when he said something like that he just made my job that much more difficult. He said, well, the last thing in the world he wanted to do was make it hard for me - he was very quiet - and that he hadn't understood that was the Administration policy.

I said that, in addition to everything else, if we wanted to really scare the business man, all we had to do was change something in '37 and put something

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else in retroactive, and I said I didn't know anything that would scare the business man more than that, and that he was talking absolutely contrary to the Administration policy.

Well, he said, he didn't know it, and could he come over and talk to me. I mean I was just as quiet as I am now, and - well, I mean just as though I was talking to Wayne when he said something. I made up my mind I would say it and I said it, just as quietly as I am saying it here. And he says that he - I said, "Jesse, after all you're a responsible member of the Administration."

He said, "Well, I didn't make it .... ."

I said, "Well, it just makes my job much more difficult."

He said, "Well, that's the last thing in the world I want to do."

I'm terribly glad to see what Duffield wrote, and I refer you all to today's Journal, where he says that both Mr. Kennedy and Mr. Jones were making representations on the Hill which were contrary to what the White House said we wanted.

And there certainly is no doubt in the Vice President's mind - I want you (Magill) to know where we stand - and that is, he said he's had two meetings with the President and the understanding is that no bill should come over from Ways and Means - from the House; no bill should come over from the House - they don't expect it until the 15th of January; and that the statement the President made that Friday about it being up to Congress, and he was ready when the Congress was, was most disconcerting to the people on the Hill, because that was contrary to their understanding. Well, I felt much better after having had this talk with the Vice President, which lasted for about an hour. Nobody saw us; it was very late Saturday, between five and six. Nobody was around except Sam Rayburn; he was outside.

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So I just wanted to say to you (Magill), starting out, that unless we get something different from the President, I want you to continue as we have been; that is, that we don't expect to get a bill - get it over to the Senate until the 15th of January, no matter what anybody says. And if Mr. Doughton or Mr. Vinson don't act along those lines, let me know and I'd like to go up and talk to the Speaker. I first thought I'd talk to the Speaker, but I don't want to talk to the Speaker unless it gets to the point that Mr. Doughton and Mr. Vinson are not carrying it out. Now, there is a definite understanding between the President and Vice President, and that meeting took place twice, and both times it was the same thing: No bill is expected on the Senate side until the 15th of January.

And the Vice President said that to do anything with '37 - he said, "That's the goddamnedest nonsense I ever heard of." He says, "Every business man is prepared." He said, "If you really want to upset the business man, do that." He said, "That's the goddamnedest thing I ever heard of."

Magill: Well, he's absolutely right. I can't understand Jesse Jones making any such statement.

H.M.Jr: Well, he didn't.

Magill: Well, he made it all right, because we've got his mimeographed speech. It's all in there.

H.M.Jr: Could I have it?

Magill: Yes.

Taylor: It was certainly in the speech that was published in the Times in full, and that must have been .....

H.M.Jr: Get me a mimeographed copy, and I want the part underlined where he says anything - underline in blue pencil where it is contrary to whatever we've been working toward, especially to the part making it '37.

Magill: We're getting along ....

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H.M.Jr: That goes into that little - that special booklet I'm preparing.

Gaston: Yes, yes.

H.M.Jr: What?

Gaston: Yes.

H.M.Jr: And Duffield wrote an awfully good column, and you might tell Duffield that what he said about that is very helpful to me and I appreciate it.

Gaston: Yes.

Magill: We're getting along quite well before the Committee, and if Mr. Kennedy and Mr. Jones would quit making speeches - they have been quite anxious to do something at once, as you know, issue a statement or get out a bill or something, but as I see it that pressure is gradually weakening. For example, on Saturday they discussed with the draftsmen when the draftsmen would be able to prepare some of these things that they have agreed on, and the draftsmen indicated they weren't ready yet. Vinson and the Committee passed it over without any particular - well, without any excitement at all.

H.M.Jr: Well, there is no question - there is no question what the Senator - the Democratic leader, Mr. Barkley, the Speaker, and Mr. Rayburn understand. There is no question there, after two meetings a week apart with the President. They've got a cleancut understanding with him: No tax bill coming over from the House until the 15th of January. And so there is no doubt in their minds.

So I'd like to leave it this way with you. If there is any point where Mr. Doughton wants to make a statement or anything else, let me know and I'll go with you and see the Speaker.

Magill: Did you see the story in the Post this morning?

H.M.Jr: No.

Magill: Well, that's regarding the statement, and I think

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Doughton is very apt to press along that line - to issue some statement to Congress before the country, before the end of the year, as to what the intentions of the Committee are.

H.M.Jr: Oh, that - that's ....

Magill: Now, within limits he can do that and it won't cause any difficulty.

H.M.Jr: Oh, that's "House to Reveal Tax Plan at This Session" (reading from clipping).

Magill: That's right.

H.M.Jr: Well, that's something else again. That's something else again.

Magill: Yes.

H.M.Jr: I haven't read it. That's something else again. But what I am talking about is this campaign which has been going on. And I can't change myself after 46 years; I can't go out and knife a presidential appointee. I've never done it; I can't do it. I can't feed stories to people undermining them. I just haven't done it. I mean I can't do that sort of thing.

Magill: Well, I'm glad to get that straightened around.

H.M.Jr: Well, I - I mean so - and I'm going to see the President; I telegraphed him last night.

(To Bell) Incidentally, he signed that; the letter was signed.

Bell: Yes.

H.M.Jr: I'm going to see him and I'm just going to put the whole thing to him, so - and I think he ought to make some statement clearing up this statement he made that Friday that it is up to Congress, because that isn't the understanding; it is not up to Congress.

But let's leave it this way. Any real trouble on

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the part of the Committee there that they are going to accelerate this thing - if that isn't over before the 15th, I want to know about it.

Magill: Oh, I'll let you know immediately.

H.M.Jr: But I would like to have you (Gaston) say to Duffield that that was ....

Gaston: Yes.

H.M.Jr: ... helpful in several ways. You want to handle it?

Gaston: Yes, I'll see him.

H.M.Jr: Anything else?

Magill: No. I've got one other thing here, but I guess Mr. Oliphant is going to bring it up. I'd like to go along up to the Hill a little early.

H.M.Jr: Well, you want to walk out or want to wait until Oliphant talks?

Oliphant: What's that?

Magill: This feeding information business. You going to bring that up?

Oliphant: (Nods no) Has there been any question about ....

Magill: We have had a letter from Congressman McFarlane saying he is a member of a group of about 50 Congressmen who want to make speeches on the undistributed profits tax, and will the Treasury please give them the necessary information to enable them to make those speeches.

H.M.Jr: And so what?

Magill: Now ...

McReynolds: That's the Maverick group, isn't it?

Magill: That's right.

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H.M.Jr: Well, I signed a letter Saturday on that, that somebody wrote.

Magill: Well, I think you signed an acknowledgment.

H.M.Jr: Yes.

Magill: And said we'd see what we can stir up for them.

H.M.Jr: Well, any information for Congressmen goes through Mr. Gaston. Let Gaston have it. That's his job. Herbert?

Gaston: Yes.

H.M.Jr: Your responsibility.

Gaston: All right.

H.M.Jr: What else?

Magill: Well now, as we say, remember the Ways and Means Committee.

H.M.Jr: Well, Gaston hasn't pulled a "bull" since he's been here, for four years, and he always keeps everybody informed, so I take it that it's his responsibility to carry on in his usual tactful way.

Gaston: Give the proper broad interpretation to the word.

H.M.Jr: But I'm just personally not going to be bothered. I can't carry anything; I don't intend to. I was very sick Saturday night, and - I mean things like this, you three fellows (Magill, Oliphant, Gaston) - I mean I know what you're all talking about, and the three of you can work it out. I mean I'm just not going to be bothered with it. It's up to the three of you. What else?

Magill: (Nods nothing)

H.M.Jr: Herman?

Oliphant: (Nods nothing)

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H.M.Jr: Any time you (Magill) feel like walking out, you'll be excused.

Herman?

Oliphant: Nothing.

H.M.Jr: Something I wanted to ask you.

Gaston: No, I haven't got anything particularly. Here's a clipping that you might want to read, if you haven't seen it. (Pearson-Allen Merry-Go-Round, Dec. 5, re use of Treasury detectives to check on personnel for new Housing Administration)

H.M.Jr: Yes, sure. Absolutely.

Gaston: Your friends.

H.M.Jr: Are they coming today?

Gaston: I haven't heard directly from Drew. I assume they are.

H.M.Jr: Mac, how many agencies did you help set up here? Did you help set up Kennedy's organization when he first came to town? Didn't you help Kennedy?

McR: Yes, I had a few conferences with him.

H.M.Jr: Didn't you help Mr. Crowley?

McR: Yes.

Gaston: Social Security.

H.M.Jr: Did you help Social Security?

McR: Yes.

H.M.Jr: Who else did you help? Harry Hopkins - didn't you get him desks and telephones?

McR: Yes.

H.M.Jr: What?

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McR: Yes.

H.M.Jr: All right. Now, besides - because I started when I was at Farm Credit using the Treasury to check up on personnel. Who else do we help out? As though this was - instead of it being two different countries. Who else do we help out checking personnel?

McR: Well, on checking personnel, we have checked for this little housing ....

H.M.Jr: Who?

McR: U. S. Housing Authority. We have checked for Farm Credit.

H.M.Jr: Yes.

Gaston: Department of Commerce one time, didn't we?

McR: Yes, we checked for Commerce.

H.M.Jr: How about McLaughlin when he first came in?

McR: Well, we did give them some little help; we haven't checked any personnel for them. The personnel checking has been confined to two or three organizations.

H.M.Jr: Well, could I say, and try to keep a straight face, that if some other departments who have detective agencies would have checked their candidates as carefully as we did, possibly we wouldn't have been in so much trouble; if they hadn't taken the attitude that it was improper - what was the word they used? - to check up certain appointees - what was the word they said it would be? What?

Oliphant: Impertinent.

H.M.Jr: It would be impertinent. If other departments didn't take the attitude that it would be impertinent to check up on a man, maybe the President wouldn't have found himself in such a hole.

McR: Everybody knows darn well that that would be true.

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H.M.Jr: All right.

Gibbons: All you've got to say is that the Treasury doesn't consider it impertinent to check presidential appointees.

H.M.Jr: Yes.

Gibbons: Yes. Don't refer to anybody else. ... that the Treasury doesn't consider it impertinent. Don't refer to anybody else.

H.M.Jr: We don't consider it that to check anybody that the President wants to appoint, where it's our responsibility or where some other presidential appointee asks us to check up.

Gibbons: That'll cover it.

Gaston: I was trying to think of who that was that was impertinent. Very difficult problem.

H.M.Jr: Nothing the matter with that, is there?

(Magill and Upham leave)

Bell: Only difficulty I can see is how you're going to say it and keep a straight face.

Gaston: It's the difference between black and white.

Taylor: Quite a bit, isn't there?

H.M.Jr: All right, Herbert?

Gaston: All right.

H.M.Jr: O.K. I thought of that one.

Georgie?

Haas: I have a few things; I can bring them up at 10:15.

H.M.Jr: All right. How are you?

Haas: Oh, a little uncertain, but I'm better.

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H.M.Jr: Uncertain as to your health? Well, where are you going?

Haas: I don't know. But I'm better than I was. I think I got a reinfection. But I have no temperature.

H.M.Jr: All right.

Taylor: Nice day to be out.

H.M.Jr: Wayne, could you today give me, very simply and very much condensed, just what are the obligations of the Treasury on the housing bill if they should get going; I mean what they might call on us for. Do you know or does Dan know?

Taylor: That ought to be comparatively simple.

Bell: Two billion dollars potential it is.

H.M.Jr: No, I mean just what we might be called on - .. you worked on it.

Taylor: Yes.

H.M.Jr: It's your bill.

Bell: It's your baby.

H.M.Jr: Well, would you, Wayne? Could you do that?

Taylor: Very easily.

H.M.Jr: I mean if they got going - I mean where would we be called on and what are our obligations, so forth and so on.

Now, do you want to sit down with Bell - I mean before you leave town - on the Commodity Credit?

Taylor: Yes.

H.M.Jr: You do? - How about 11:30? Does that fit into your (Bell) schedule or not?

Bell: I don't know, but I think it does; I think it's all right.

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H.M.Jr: Well, let's just take it.

Second, Professor J. Douglas Brown is coming to town; he's chairman of the Advisory Committee on Social Security, and he wants to put questions to me as to just where we are and what we can do to help. And now who's in on that? Are you (Bell)? You should be.

Bell: I suppose I should. I haven't been in on it.

H.M.Jr: Well, could you be here at 11?

Bell: Yes, sir.

H.M.Jr: Well, who else is in on that? George?

Haas: Yes, there ought to be Russell Reagh and Seltzer, and myself, if you don't mind.

H.M.Jr: All right, 11 o'clock. Wayne, are you in on that or not?

Taylor: Only as far as the stuff that Himmelblau has been doing, which I think you ought to read fairly quickly.

H.M.Jr: Well, I've been waiting to hear from ...

Taylor: Bartelt?

H.M.Jr: Yes. Give Bartelt a tickle on that, will you?

McR: Yes.

H.M.Jr: Well, who wants to sit in? I just figured this way: you (Taylor) have got so many of these agencies; do you want to get in on Social Security?

Taylor: Whatever you say.

H.M.Jr: Well, I think you better not, unless you want to.

Taylor: That's fine with me.

H.M.Jr: I mean would you normally?

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Taylor: I don't think so.

H.M.Jr: What?

Taylor: I don't think so.

H.M.Jr: Well, who would carry - I mean who will carry the thing for me, so - I mean who's going to carry it?

Haas: I think Wayne ...

Oliphant: I think we should get something from Guy Helvering's shop.

Haas: Two aspects. Mostly fiscal. The other part is the tax problem. The tax problem is one thing, and ...

H.M.Jr: Let's listen to what he's got to say. I definitely want you (Haas).

Gaston: More Danny Bell's than anything.

H.M.Jr: Well, let's listen to what he's got to say.

Bell: That'd probably be better - and then decide.

H.M.Jr: Let's listen, and then after that, Dan, you and you (Taylor) and I will take a few minutes on Commodity Credit.

Taylor: All right. Can you (Oliphant) have you or Clarence at that?

H.M.Jr: Well, have you a lawyer on Social Security?

Oliphant: Yes.

H.M.Jr: Who will be here?

Oliphant: Opper is the one.

H.M.Jr: Better be here yourself.

Oliphant: All right.

H.M.Jr: Let's just listen to this fellow, see? What he's

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going to do - he's going to state his problem, he's going to say where the Treasury can help him. I looked him up. He's a very good man.

Oliphant: 11:30?

H.M.Jr: 11.

Oliphant: 11 today.

Gaston: I'd like to listen to that, if you don't mind.

H.M.Jr: All right.

McR: Graves is coming over.

Gaston: Is he chairman of some committee?

H.M.Jr: He's Chairman of the Advisory Committee which was created by Congress, as I understand it, ...

Oliphant: Created by the Senate.

Bell: Senate Finance Committee.

H.M.Jr: .. to advise on this thing. He's a fighting young fellow, got a very distinguished record. His position at Princeton is Industrial Relations. I looked him up and he's got ... He just wants to know where he's at and he wants to state what his problems are. I gather he hasn't got anywhere, or he can't without us. So let's listen to him.

McR: And you've (Bell) got something on the modification of the law in your office. Two things: one that doesn't involve taxes and the other that does.

H.M.Jr: Mr. Gibbons.

Gibbons: Nothing outside of what you've been reading in the paper. That was a good job, just as a squeal - crooks falling out, and ...

H.M.Jr: Yes. You mean in New York.

Gibbons: Yes. Funny thing, Ballinger's committee had reported

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on that very loophole there and I called in Anslinger and he said, "Don't do anything right now." They were just starting it just about eight months ago.

H.M.Jr: It was a good job.

Gibbons: The system as it is set up just looked as though it were impregnable.

Incidentally, the man who was selling those tags is a professor, teaches in Manhattan College at night. A lawyer.

H.M.Jr: Hmm!

Gibbons: This fellow Barnett.

There's some personnel has to be gone over. Gorman said there was a memorandum on it.

McR: There was.

H.M.Jr: I suppose Moyle was most helpful.

Gibbons: I haven't seen him since I talked to you. He's quite ill. Mrs. Moyle has been quite ill.

H.M.Jr: Mrs. Moyle?

Gibbons: Yes. First time he's been in bed since he was born. He was in bed for some weeks.

H.M.Jr: Since he was born.

Gibbons: But he's really more sinned against than a sinner. That whole organization is just terrible.

H.M.Jr: It's pretty tough, I know, but it's tough for a ...

Gibbons: He's a nice old man and he's got a lot of good old ideas, but you cannot put them over there without sweeping out the whole thing; it looks to me terrible.

Lochhead: The London silver brokers haven't been able to fix the price of silver so far.

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H.M.Jr: What?

Lochhead: The London silver brokers haven't been able to fix the price of silver so far this morning. They seem to be pretty nervous.

H.M.Jr: Go out and get a check on it.

Lochhead: I just got the check here.

H.M.Jr: Well, just wait until we get through. I'll see you in a second. Just sit down.

Bell: On the famous sinking fund letter, do you want that to go to file?

H.M.Jr: Yes, I think we better have it go now, in view of that conversation.

Bell: You mean go to file?

H.M.Jr: No, I want to read it with you very carefully in view of that conversation. Ask Mrs. Klotz tomorrow to fix you and me up so we can take half an hour and go over that very carefully, will you?

Bell: All right.

H.M.Jr: No, in view of that I've changed. Will you?

Bell: I thought probably you would.

H.M.Jr: Yes, will you please?

Bell: Now, the Home Loan Bank Board has submitted a proposal so that they get in effect a guarantee on their debentures - not exactly a guarantee; but you may recall that under the present law there is a limitation in the Home Owners Loan Corporation Act which permits the Corporation to sell its bonds to, say - up to 300 million dollars, and use the proceeds to buy shares in savings and loan associations or buy debentures of the Home Loan Banks.

H.M.Jr: You mean this is a change in the law?

Bell: No, that's the present law.

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H.M.Jr: Yes.

Bell: Now the 300 million dollars is becoming exhausted.

H.M.Jr: Good.

Bell: And they are a little bit scared of their debenture situation. If we run into a bad market and they need money to finance their Home Loan Banks, they won't be able to get it in the market and they'll be stuck.

H.M.Jr: Dan, is this hourly or something that I could have ....

Bell: Isn't any ...

H.M.Jr: Matter of special legislation?

Bell: Matter of legislation.

H.M.Jr: Give me another crack at it, will you?

Bell: Surely. No special hurry.

H.M.Jr: Because I want to be in there when the market opens at ten. Will you press me on it?

Bell: Oh, it's a matter of a week's time; I've got to go through it.

H.M.Jr: Well, when we do that letter we can do that. Tell Mrs. Klotz we need a half hour. How's that?

Bell: That's all right.

H.M.Jr: I just want to say - I don't know whose fault it is, but when I sign - I'm looking at McReynolds; and I'm not going to try to go over lost ground, but it ought to be fixed so it couldn't happen again - when I signed those rules and regulations on Social Security changing it from monthly to quarterly, Mr. Bell didn't know about it until I signed it, and on this fiscal year we lose a hundred million dollars. Now, I think that that - whatever that loophole is, that that should be

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tightened up so a thing like that can't happen again.

McR: I don't know what he means by losing a hundred million dollars.

Gaston: You lose two months' collections on the fiscal year owing to the lag.

H.M.Jr: It means that the deficit is a hundred million dollars more than we told the President, and I've got the sweet job of explaining it - why I was so dumb.

Bell: We don't lose it, Mac. It just affects ....

McR: It's just a question of the year it goes in.

H.M.Jr: I know, but the thing was signed without Bell, in one of his capacities, having a chance to see it, and I can't explain it other than that it's loose organization, and you're Administrative Assistant and I'm not - it can't be changed, but it oughtn't to happen again and I don't want it ever to happen again. Is that plain English?

McR: Plain English.

H.M.Jr: Thank you. As I say, a thing like that should never happen again. Some place there was a - if Bell had been here, he'd have seen it, but not having been at that particular meeting when I think it was taken up ..... But a thing like that - some place there is a gap and I wish you'd have a talk with Danny.

McR: I still think it should have been signed. Of course he should have been able to raise the question.

Bell: I think it probably would have been signed, but I ....

H.M.Jr: Of course.

McR: There's 2 million dollars real money saved - not money switched between one year and another.

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H.M.Jr: All true, but that's not the way you read it in the paper, and that's the kind of thing in the Treasury which shouldn't happen.

Gibbons: Why wouldn't it make good publicity to give out a statement now that you are doing this to relieve the pressure on business?

H.M.Jr: We did all that, and there is a letter going to every manufacturer; every manufacturer is getting a slip in the notice signed by me, explaining the thing. No, this is purely an internal matter which Mac .....

McR: Dan ought to have seen it. Just the same, we saved two million dollars hard cash by doing it.

H.M.Jr: All true, all true, but I still say that that's - maybe it's me, I don't know, but just don't let it happen again, Mac.

Gibbons: That was a swell statement on Mr. Hoover's tax.

H.M.Jr: Yes. You liked it. Herbert Gaston wrote that in five minutes with five people talking. The answer is that whenever you want Herbert Gaston to get out an extra good release, put him in a room with ten people and it'll be doubly good.

Gaston: You'll have to qualify that; I wrote it at breakfast, I worked it out at breakfast.

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December 6, 1937.
10:10 a.m.

H.M.Jr: Hello.

Randolph Burgess: Oh, hello Henry.

H.M.Jr: Good morning.

B: Well, they all like it.

H.M.Jr: So they seem.

B: They all like it. The rights are quoted hundred and one twelve.

H.M.Jr: Uh-huh.

B: Almost too high.

H.M.Jr: Well now, Randolph. If you should be doing anything about the eighty million February notes which the System controls, see.

B: Yes.

H.M.Jr: Before you do it I very much want you to talk to me.

B: All right.

H.M.Jr: I'd like - I'd really like you to talk to me, see?

B: That's fair enough, you can rest assured.

H.M.Jr: Because you may decide that you might want to sell some of those -

B: Yes.

H.M.Jr: And exchange them for something else.

B: Yes.

H.M.Jr: Had you thought of that?

B: Yes, I had this morning because these rights are quoted so very high, and it might be a good idea to dampen them down a little bit.

H.M.Jr: Well before you do it, please call me, will you?

B: Yes. Well we wouldn't do anything 'til we see how the market's going.

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H.M.Jr: Yes, because that thing - I just question whether we'd want to do anything today.

B: Yes. Well I do too, a little.

H.M.Jr: We might - we might want to do something tomorrow.

B: Yes.

H.M.Jr: Because - well you know you can't hide it when the Federal Reserve is selling.

B: Not easily.

H.M.Jr: No. So, well let's leave it that way, huh?

B: All right. I'll do that.

H.M.Jr: And keep me posted, will you?

B: All right.

H.M.Jr: Good.

B: And if there's any change I'll let you know.

H.M.Jr: Thank you.

B: Good.

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RE BUSINESS CONDITIONS

December 6, 1937
10:20 a.m.

Present: Mr. Haas
Mr. White
Mr. Seltzer
Mr. Daggit
Miss Lonigan

H.M.Jr: With the idea of seeing the President, I want to have a talk with you people on business. I'd like to tell you what I've been doing and then some of the things that I want. I haven't had a chance.

I have asked Professor Wesley Mitchell, who is Director of this National Research Council, to set up for me, based on his experience, the things to look for in the business cycles as we approach a bottom and as we come out of it. Now, he's agreed to do that and he's coming down himself next Saturday with a set-up. I asked him if they couldn't follow it and he said he didn't think it was necessary, that if they gave us an outline of what they thought should be included, we had the people here to do it. But I'm going to urge him again to do it.

Because, as he told me when he was at the house a week ago, a great mistake that the Hoover Administration made was to do wishful thinking. And he said when Mr. Hoover made that famous statement that prosperity was just around the corner - he was serious; he did go into it, found it was a man over at the Department of Commerce who gave him the weekly figures for the first week in January, which showed an up-trend, but also told President Hoover that that was always so the first week in January - always a pick-up as compared to the week before - but that Mr. Hoover was so anxious to make the statement he just didn't listen to him.

I think at this time certainly, talking for the Treasury, we've got to be extra, extra careful not to do any wishful thinking. And I know certainly this bureau seems to have the best reputation in the

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country. And I even may get two bureaus to do it. I want to first see what this bureau has. I may even ask Brookings to do a similar thing; I don't know yet. But certainly when you see the set-up and the people who are on it, it looks as though the best minds were pooled in this Bureau of National ....

White: He's got the - he's the best man in the country, and they've got some good men.

H.M.Jr: Well, he's agreed to do it and is doing it cheerfully. And I just don't think any of us can afford, as I say, to do any wishful thinking, and we're not doing anything like that here - I mean systematically. And if he gives us the set-up, why, then I'd like him to follow it; but if he doesn't want to do it, why, we can put the people on it, George, to follow it. But don't you think this is a good idea?

Haas: I think it is. I spent three years one time, about seven hundred million dollars, to do it.

H.M.Jr: How many million? 700 million dollars?

Haas: No, thousand - $300,000 a year.

H.M.Jr: You weren't in the Treasury; must have been in the thousands.

Haas: About $300,000 a year we spent. And it's different than any approach that any of these other agencies had. Harvard was the outstanding one at one time and they had a system of sequences, had different curves worked out. Now, Warren Pierson was one of the main leaders in the field. And it went bad on them.

What I worked out was this. I felt that these indices of business don't tell very much, that business can't be that simplified, that each time, at each moment, business is a composition of certain factors. So to understand where business is going, I felt we had to clearly understand what business was today, so we made separate studies of each industry, detailed studies. In addition to that,

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we broke down the activity of these industries by regions. For example, in the steel industry - you take the steel activity; the total figure may turn up several weeks after certain regions are turning up, and if you see a region turning up, you start investigating that to see what the underlying factors are. The same thing for automobiles. We found the same thing out of this last depression. The South came up first and the New England states were really the last to come up. I think that approach - I don't know what we get from up there, but if I had your permission I'd like to go ahead on my own approach and also check and go along with this, so you have different checks on the thing.

H.M.Jr: Now, George, don't throw so much in. I mean I'm not getting what I want now.

Haas: I know.

H.M.Jr: I mean nothing like this is being done now in the Treasury, and I don't want to pile layer on layer on the people and then get nothing. I mean I think that's one of the things we've got to watch. You say you'll go ahead. Who does it mean? Who you going to put to work?

Haas: People on my staff.

H.M.Jr: Well, who? Well, who?

Haas: Well, probably - it logically fits in O'Donnell's group, of which Daggit is a member.

H.M.Jr: Well - I mean has O'Donnell got time to do it?

Haas: Well, I think it's so important that by God we should take time.

H.M.Jr: But I'm just - I mean what would you do?

Haas: Well, I'd take different - for instance, I'd pick out the industry - there are key industries that you have to follow. There's steel - then the elements

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which go to make up the steel industry.

H.M.Jr: Now look, here's this bureau; they said they won't even talk to me for ten days until they can get a plan. I don't think - and how can you just pull it out of the air?

Haas: Because I spent - oh - I probably have had as much experience on that as anybody in the country.

H.M.Jr: But here I am - the suggestion comes from me. Now, if you've got so much experience, why can't you give me a plan as to what it is and tell me who you're going to put it on.

Haas: Well, I can.

H.M.Jr: Well, before you snow a lot of people under, I'd like to have a plan. I mean I just question whether we've got some people that can do it.

Haas: Oh yes, I don't think there is any question ....

H.M.Jr: Now, George, ...

Haas: You mean numbers or ability?

H.M.Jr: Well, both.

Haas: Well, I'd say as to ability .....

H.M.Jr: I'd put it up - if you think you've got a plan, let's have it on paper.

Haas: O.K.

H.M.Jr: See? Give it - before you assign a lot of people to it, let's have it.

Haas: It is not only a plan, Mr. Secretary. It is not any hypothetical thing. It is a plan we actually put in operation when dollars and cents depended on it. Larry's familiar with it.

H.M.Jr: Well, my God, is there anything more important in connection with figuring the Government's revenue than to get this thing?

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Haas: No.

H.M.Jr: I know, but as a suggestion I again say it comes from me. Now, if you've got more experience in this than anybody else ....

Haas: I wouldn't put it that way. I think, without checking, I've been following it for about 15 years. Now, for three years ....

H.M.Jr: But there is nothing in the Treasury now along those lines being done.

Haas: Oh yes, there is.

H.M.Jr: Coordinated, systematic interpretation? I'm not getting it.

Haas: Yes, there is more than you think.

H.M.Jr: Well, where is it? It doesn't come to me in memorandum form.

Haas: Well, we haven't been sending you the memorandum on the business situation periodically. I think that we should do that now; we should have done it before if I hadn't gotten ill. Of course, we were all - some of us were tremendously tied up on your speech; took all our energy.

H.M.Jr: Well, that speech was delivered November 10; that's almost three weeks ago. And whatever energy was put into that, it was most fruitful. Well, anyway, ...

Haas: Well, any ....

H.M.Jr: The purpose of this thing is - I'm going to do this thing once a week. I don't want you suddenly to give a lot of orders and shoot a lot of people on this thing. If you think you've got a plan, let's have it in an orderly manner - what you propose to do.

What I want and what I've asked Professor Mitchell and his bureau is to give me a program how I can follow the various indices of business as we approach this level, what I should look for, how do I recognize

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the bottom, how do I recognize when we are beginning to come out of it.

Now, if you think you've got a way to do it, let's see your work.

Haas: Uh-huh. I don't think anybody is positive about it.

H.M.Jr: Well, you're very positive.

Haas: That I can recognize it? No, sir. I think my plan has great advantages over the plan, for example - I don't know just where Wesley Mitchell stands now, but if it's based on his previous books, where he thinks the sequence of one index following another, and so on - I wouldn't bet a nickel on that.

H.M.Jr: Well, let's see what he - certainly - certainly the people who are contributing - if those people aren't any good, nobody is.

Haas: I don't say they are no good.

H.M.Jr: Do you know who's on that bureau?

Haas: In economics it's a matter of different opinions and different people working different fields. You can't say one is bad and one is good.

H.M.Jr: All right, I'm bringing in an outside group....

Haas: I think that's all to the good.

H.M.Jr: ....to give me this thing. Now, if you say you've got another plan, I say put it on a piece of paper.

Haas: They may have the same plan that I have in mind.

H.M.Jr: I don't know. All I know is he wouldn't even talk to me until he had had two weeks to talk it over. Now, if you've got something, why, don't hold out on me; let's have it.

Haas: I didn't mean to hold out.

H.M.Jr: I mean I just don't think you can suddenly shoot at

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something as important as this with a group in the Treasury as busy as they are. And if I get something like this, I want definite people to work on it and concentrate on it, see? I mean I wanted to tell you just what I had in mind. The purpose is - I'm doing things off my shoe from the hip, and I haven't got all this time to tell you people. Now, this gives you people a chance to - when he comes Saturday, I'm going to ask you to sit in at ten o'clock Saturday and listen to what he's got to say, and let's hear him through, you see.

Haas: Meantime, I'll organize this thing for you.

H.M.Jr: On paper.

Haas: Uh-huh.

H.M.Jr: Now, Miss Lonigan, take a little time and tell us what you saw.

Lonigan: I went to Boston first, Mr. Secretary, and they have a very acute situation on their hands. Textiles and shoes have been going straight down since mid-summer. In the shoe industry, the difficulty is that this Czechoslovakian Barta is making better cheap shoes than New England can make. They've got a cement for their shoes, which means they don't melt in the rain. The shoe industry has been going down.

In the textile industry, the causes are more varied. The manufacturers told us that the difficulties were that, in the first place, the excess profits tax hit them in the one good year; that their profits are on a cyclical basis and they have one good year and that pays for three or four. The processing tax (evidently meant excess profits tax) caught them in a good year, and now they've got no reserves for this period that flattens out. Their profits just simply go on that cyclical basis.

The second difficulty that they mentioned was the fear of a processing tax. As soon as the cotton reports - reports of the large cotton crop came in, then the trade began to get very much concerned about

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the processing tax, and the firm conviction from their experience under the last processing tax is that they can't move cotton goods in competition if they have to carry a processing tax, which of course is a cumulative tax.

I would cite the trade - I've got the third reason, which they didn't mention, which is of course that when the cheap cotton crop came on, the cotton manufacturers were not prepared to lower prices; they were operating on a high price basis and tried to sell the goods - against low price cotton, they tried to sell cotton goods at the price of the previous year.

In addition to that, which nobody mentioned, I do believe that you've got a diminishing demand from the urban areas because of the general increase in the cost of living. That wasn't mentioned.

Now, the effects of those two things, in those two different principal industries in New England, have been to cause a definite down-slide. They had a very good first half year. Cotton industry had an extremely good period. There's been a definite down-slide going into effect since July or August, and cumulative. They won't say anything about what is likely to come out of it. They agreed when I said it that probably, given an even chance, demand should begin to pick up after Christmas and it's barely possible they may find empty shelves before Christmas. My personal hunch is that some of these department stores are going to be caught very short in textiles, in cotton products, and so on, and that they may have a demand which they won't be able to put through the manufacturing and distributing set-up in time. At any rate, there is an even chance for recovery along in the spring, if they have some stable bases on which to go. It is a function at the present time of the actual instability and the fear of instability.

On the relief side, the WPA cut relief very steeply in mid-summer, as we all know, and they had no difficulties from it. The people they let go were

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absorbed in the industries that were under way in New England in the summer, and they had no kickback. They are in the position now where - they had made a promise to take back these people that they let go; they told anyone who went off relief rolls that he could get back on. They are not in a position to keep that promise, with their present quotas. If they are going to keep that promise, the quotas must be raised.

The advantages - two advantages - of their being able to keep their promise are, first, the obvious one; and second, they believe that if they are allowed to take these people on in the winter, they can make an even steeper cut next spring; that if - they cut their figures, I think it's from about 8,000 in New Hampshire to 4,200 in the summer. Now, they believe ....

H.M.Jr: 4,200?

Lonigan: In New Hampshire.

H.M.Jr: From what?

Lonigan: 8,000.

H.M.Jr: Oh.

Lonigan: They believe that if they are allowed to raise their quotas this winter, they can cut that at least to 3,600 next year; in other words, the floor will be lowered next summer, if they keep their promise. They speak of a 50 percent increase in quotas. I think that's probably a little too high. Somewhere between 25 and 50. But I think they are playing absolutely fair, and ...

H.M.Jr: Who is?

Lonigan: The WPA. The state set-ups are competent now. They've been worn down to the operating men. You have confidence in their statements.

The Social Security program theoretically goes into effect on the first of January. There is a three-week

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waiting period before the men become eligible, and then a week after they become eligible, before the ....

H.M.Jr: For what?

Lonigan: For unemployment compensation.

H.M.Jr: That begins when?

Lonigan: Theoretically it begins the first of January. Actually, they are not eligible because of the waiting period until the third week, and the wife doesn't get the check until the fourth week.

In addition to that, there is a breakdown in the machinery - I think this is extremely important, Mr. Secretary - and the machinery is not functioning up to schedule. They have worked out these magnificent posting systems that the International Business Machines sold them under high-pressure salesmanship, and they are not up to schedule, and they haven't got the workers' cards ....

H.M.Jr: Be sure and tell this to Harold Graves, who is my man on Social Security, will you?

Lonigan: Yes, sir.

H.M.Jr: And McReynolds.

Lonigan: And now this breakdown ....

H.M.Jr: McReynolds and Harold Graves.

Lonigan: Yes, sir.

The machinery is supposed to post on the individual workers' cards the number of dollars he gets on January 15, January 22, January 29, over 52 weeks of the year. I mean you can see why it breaks down. They didn't think the thing through, and they are not carrying it out according to schedule.

I think that is going to mean something extremely

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serious in the month of February; if they haven't caught up by the first of February, the worker's going to be very disconcerted and if he doesn't get anything until the 29th of February and that machine breaks down, he just won't have any check to bring home to his wife. If he has to wait about four weeks - which nobody can say, he's going to wait four weeks; I'm talking about the possibilities - if he has to wait four weeks in Februrary before he gets his money, I would think that was going to cause trouble. That's the time when I'm afraid that these 25 million workers are going to talk about the whole question of Social Security, including the reserve fund.

H.M.Jr: Now look, let me go back a minute in this thing. In the first place, let me ask you some questions. Who took you around?

Lonigan: Mr. Branion, of the WPA Regional Office, came up from New York and introduced me to the WPA State Director in Massachusetts, and then I went up to New Hampshire. I worked in Massachusetts and ....

H.M.Jr: Did you feel that they let you see ....

Lonigan: Absolutely. Mr. Branion is an old school friend of mine. He went to school with me and ....

H.M.Jr: But I mean you could see - it wasn't a "Russian" tour?

Lonigan: No, sir.

H.M.Jr: That's what I wanted to find out.

Lonigan: No, sir, not at all. I liked - most of the state people are grand.

H.M.Jr: How long did you spend in New Hampshire?

Lonigan: One day.

H.M.Jr: I see.

Lonigan: I went to Manchester and to Concord, the state capital, and I saw the Employment Service people. Then I got a background picture.

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Now, first I gave you the textiles and shoes, which are the cyclical industries, the things which are accounting for this winter and possibly next spring. The winter picture is acute because of these two main industries and the situation in WPA and the situation in Social Security. That's the picture for the winter. The picture for the spring, I think, is fairly encouraging.

Then underlying that is this question of the fact that Massachusetts has never had recovery, and around each of these cities something like half of the industries have gone out of the state. Shoes, woolen manufacturers, and cotton manufacturers - half of the industry has gone out. The people don't move. They won't move. They're not going to move. They're right there. And so you've got underlying this temporary situation that I described a frightfully serious permanent situation in which a good number of the old textile workers in Massachusetts are going to be somewhere besides employed until they die.

H.M.Jr: Let me ask you this. Is there any real suffering?

Lonigan: At the present time, I would think - Massachusetts has an old tradition in relief; it's had the machinery for a long time - I would say that probably nobody is hungry except a small group of people who still absolutely refuse to take relief. There's always a group ....

H.M.Jr: Well then, it's their fault. They could get it if they wanted to.

Lonigan: They could get relief if they would take it on a relief basis. I would say there is no suffering. I would say the amount of mental suffering is probably frightful. That's different. That is a factor ....

H.M.Jr: Well, I know, but - now, go ahead.

Lonigan: Now, one other thing on the temporary situation, I forgot to mention. These industries are always running up against the fact that not only do they have a tight situation from their buyers and a tight

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price situation, but they've got an extremely tight situation from their bankers. The bankers are refusing to finance them. The bankers are running to cover again, taking the attitude that business is going downhill and it's going to keep going downhill. And particularly the wool industry, which has got to finance the growers. The wool industry lends the money to the sheep-raisers for their working season. That's what they told me.

H.M.Jr: What's the matter with Farm Credit?

Haas: That's an old way that that was handled in the trade for years, Mr. Secretary. They had that wool crop up there - they loaned out tremendous sums. I don't know what the status of it is.

H.M.Jr: Well, go ahead.

Lonigan: Well, so far as their customary procedure last year - they are only thinking in terms of this year and last year - as far as last year is concerned, they are still trying to get the thing moving, but the bankers are not willing to finance them. That is increasing, and of course it is accentuated because of the psychological factors now existent.

On the long-term basis, they are trying as hard as they can to find employers to fill up the old factories, and what is happening is that you have a group of small manufacturers coming in to buy space in those old plants. They all have valuable water power rights, of course, and the danger that they are in is that you have the same type of fly-by-night manufacturers that we had always trying to get out of New York City and go upstate, trying to get out of Boston and go to New Hampshire; and people like the New Hampshire Planning Commission are trying very hard to persuade the towns that it doesn't pay them to bid for these employers. They had one employer who went to WPA and asked for fifty sewing women. They are training sewing women. He asked for fifty women. The man in charge of employment sent him a few, and asked those women to report back to him, and one of the women reported that her earnings

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the first day amounted to 24 cents. All of them are aware of that except the Chambers of Commerce. They are the last to grow aware of it, of course, and the State Planning Commission in New Hampshire and the Governors in general, I believe, are trying very hard to persuade the cities that it is not a bright idea to offer that kind of firm tax exemption and free sites and a few other things. In other words, New England is at least a little farther ahead than the South on this matter of trying to draw in fly-by-nighters. I don't see much hope in that business of small manufacturers, because I know the type that leaves New York and leaves Boston. I don't see much hope in it, but it is something.

H.M.Jr: Now, may I ask you this? What I'd like you to do is - do you mind my being a little frank?

Lonigan: No, sir.

H.M.Jr: I'd like you to write a report. I want it very much condensed. I don't want you to put in this report your own solutions, if you don't mind.

Lonigan: No.

H.M.Jr: I'd like you to do it by classifications, in this way: If you're talking about unemployment, don't suddenly shoot into Social Security.

Lonigan: You have to tell me, because I think they run together.

H.M.Jr: I mean if it's going to - if you're talking, for instance, about unemployment conditions, and one of the reasons that the people are slowing up is because they are afraid about the processing tax, be sure and put that in. If the shoe people are - I'd put it this way: "This is the way I found conditions." Then I'd put underneath some of the reasons why the factories are not going ahead in cotton, on account of their fears. I'd list "Fears," see? Under "Fears" - "(1) Processing Tax; (2) something else." Then - "Shoes. Czechoslovakia..." - what is it?

Lonigan: That's what it is.

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H.M.Jr: "Czechoslovakia - Shoes." See? But I'd give first conditions as you find them, and then fears, why they're not going ahead.

Then, if you want, put in a paragraph: "In going through this, I found Social Security - I'm afraid such and such a thing is going to happen."

Lonigan: Yes. That's all conjecture, of course.

H.M.Jr: Pardon me?

Lonigan: That's all conjecture.

H.M.Jr: You're going to be careful. If it's any good, it's going to go to the President and Hopkins.

If you're worried, give me a little memorandum on the side, but what I'd like to do - this is what I'd like to do. I'd like to get from your eyes just how you found these conditions, but as simple as possible. If you don't mind my saying, very often your thing is so complex, I can't follow it. In other words, you're a news reporter. I don't want your own ideas. If you want to give your ideas, give them to me on a special piece of paper: "Mr. Morgenthau, I think this thing could be changed in such and such a way." In other words, give me remedies separately. But what I want is simply what you saw, in an orderly manner, as though you were writing a feature story for a Sunday magazine.

Lonigan: And you want the long-term situation too?

H.M.Jr: Yes. But I want the immediate - but I want - you went in the field; I can't go; I'd give anything if I could. What do I see through your eyes? Not interpreting, but straight facts - what you saw about unemployment. Now, if you want to give me a memorandum on the side - "Mr. Morgenthau, if you could get this and this thing changed, I think it would improve matters" - all right. But don't mix the two. Is that plain?

Lonigan: (Nods yes)

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H.M.Jr: See? And I wouldn't go - I'm more - I wouldn't go in the long. I just want a... - What did you see in New Hampshire? What are the conditions, the unemployment? It's unemployment that you went after, and nothing else. What did you actually see? Is the State of New Hampshire cooperating? Is WPA doing all they can? I mean are they meeting the present situation? Is anybody starving? But I want it in a narrative form, as you saw it.

Lonigan: Well now, you don't exclude in your picture of employment these factors that are creating unemployment.

H.M.Jr: No. But I want it in an orderly manner. I want it - I mean don't mix the thing. "~~This is~~ what I saw. These are the conditions." And then you saw next what brought about these conditions. But - and make it very much condensed.

Now, back of that, what I want Mr. Haas to do is - I want to check, not what you say, but what they said. I mean if they say that cotton spindles in New England are so and so, let Haas attach to this a little chart going back - if you say it's since the first of July, let's go back to the first of July, or the first of January would be better, and attach to this thing a little chart showing what is the condition of the cotton textile industry of New England.

Lonigan: Well, I have some of that already made up.

H.M.Jr: Well, you can't do it all, because Tuesday night you've got to go away to another section.

Lonigan: Well, my assistant ...

H.M.Jr: I'd like to have this thing fresh.

Lonigan: I can have it Tuesday night.

H.M.Jr: Let Mr. Haas go over it with you and then I can get it Tuesday night so I can give it to the President Wednesday. And I'll give Mr. Hopkins a copy. But please don't put too many things - ideas in. And your job is not in this report to give me the remedies. You can give me such memorandums on the side. But

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I want you - just as though I'd send Herbert Gaston to see what are the unemployment conditions. You're a reporter. You're not an editorial writer. Do you get the difference? If you want to editorialize, do it on a separate piece of paper. Do I make myself very plain? And God, don't put anything down unless you're a thousand percent sure. In other words, if you saw it, it's so.

Lonigan: Well now, I want to ask you one question.

H.M.Jr: Please.

Lonigan: If I tell you what I know about Social Security, I'd put nothing in the report. If you want my judgment, I think it's the most important factor in the picture.

H.M.Jr: You can give me a separate piece of paper. That's what I want. See?

Lonigan: Yes.

H.M.Jr: But what you saw, who took you around, and who was there. But I want it through Tuesday night - gives you two days to write it up. I want the chart to back it up, George. I want Mr. Haas to go over it with you, and I want it Tuesday night. And then Tuesday night I want you to go somewhere else, because this thing is important. I can't go out. It's terribly important to have somebody going around seeing this stuff. If you're right on this Social Security, we've still got time to fix it up.

Lonigan: That's why I emphasized it.

H.M.Jr: But go in to Mr. Haas and let him sit down with you and go over it with you. Now, I want to talk to Colonel Harrington, find out where you can go next.

(On phone) Colonel Harrington, of Mr. Hopkins' organization, please.

Is two days enough?

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Lonigan: Two days what?

H.M.Jr: Can you write it up in two days?

Lonigan: Yes, sir. How long do you want it?

H.M.Jr: Well, not - if possible, not more than four pages.

Lonigan: Single space? I was - that's plenty.

H.M.Jr: What's that?

Lonigan: That's plenty.

H.M.Jr: Try to keep it down to four pages. I don't mind if it's chatty, but I don't want too many ideas.

Lonigan: Yes.

H.M.Jr: You can give me a separate piece of paper, simply say: "From what I see, you better check up on Social Security." That's all you've got to tell me, see, and I'll see that it's done. You don't even have to see those people that I told you to. Don't take the time. I'll see them. Just give me a little piece of paper on, is Mr. Hopkins - are they meeting the thing realistically, see? And don't be afraid to call a spade a spade. See? There was one time Mr. Hopkins had this Irene Hickok doing just that, and she called a spade a spade. I don't know whether you ever saw her report, but she went around ....

Lonigan: Very able, very useful.

H.M.Jr: They have nobody doing that now. Do I make myself plain?

(On phone) Hello. - - Well, I'd like to talk to him between now and 12 o'clock.

Do you get it, George? See what I want?

Haas: (Nods yes)

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H.M.Jr: Now, I've got five more minutes. Who's got something? Anything on commodities?

Daggit: Would you like to see these charts?

H.M.Jr: Yes.

George, here's this telephone message.

Haas: I wonder if the statisticians must have looked at this twice. Got exactly the same thing.

H.M.Jr: If this thing works, I'm going to invite people in once a week from other departments. If it works, see? But I want to first have a - want to put on - be sure our own show is in order. But if it works, I'm going to begin to ask other people in.

Daggit: The improvement has continued during the past week in commodities, and the sensitive commodities have started to turn up. There are 11 commodities in this index, as compared to 30 here. And the Rogers index has 21. Moody's has about 15. Moody's shows up as a little more sensitive than the others.

The commodity situation seems definitely favorable now as I view it. I am speaking particularly of raw materials. But there is always a lag in manufacturing products. They went down about three months after raw materials started down last spring, and will probably continue to bring the B.L.S. all-commodity index further down. I doubt whether, even though we reach a low in raw materials now - I doubt whether the all-commodity index will reach a low before February or March.

H.M.Jr: All right. Now, this commodity picture, I think, is tremendously important, and I think Daggit ought to give all the time necessary to it.

Haas: All right, that's all right.

H.M.Jr: All the time necessary. Anything else?

Daggit: May I say that I have checked back over previous depressions back to 1904 and find a rather definite

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tendency for commodity prices to reach their lows after business has turned up. Now, that is in terms of general prices, and not raw materials.

H.M.Jr: They turn afterwards?

Daggit: General prices turn afterwards.

H.M.Jr: Which come first?

Daggit: I haven't analyzed the difference in previous depressions, but it seems to me quite apparent that raw materials would turn up several months before general prices.

H.M.Jr: What do you mean by general prices?

Daggit: I'm thinking of a broad index like the all-commodity index which includes manufacturing of ....

H.M.Jr: Well, raw materials would come first? Well, that seems to be happening now.

Daggit: That seems to be happening now.

H.M.Jr: Well, keep plugging at it.

Daggit: I'm doing it.

H.M.Jr: All right, and if you don't get all the time you need, say so. Now's the time to say so.

Haas: This is the top thing on this whole business.

H.M.Jr: This is the top thing, sure. This is what your bureau was created for. Everything else is - this is the top thing. As I said to you before, if we haven't got brains enough to do it for the Administration, somebody else will.

Haas: Well, we've got it on this particular thing. It happens to be ....

H.M.Jr: Well, this is the thing, and I want the very best information that I can get.

(To White) Got anything on your mind?

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White: Just a minor thing with regard to freight rates, if you're interested.

H.M.Jr: Please.

White: We examined the reports on the importance that freight rates have in lumber costs. It constitutes for the whole of the United States last year about one-half of the cost of lumber, to the user - is made up of freight rates. Therefore, an increase in freight rates of 15 percent, as is contemplated, will operate to substantially increase the price of lumber. When you reflect that all the way back into the cost of housing, it is much smaller, of course, so that in the total cost it doesn't amount to very much. But, if it comes up, you might want to exempt lumber and possibly cement, although we haven't the figures on that yet.

H.M.Jr: Well, if you get that far, you might give me a little memorandum on it, see?

George, anything particular?

Haas: No. You've seen where the physical volume indices are going - still going down, like that Times index.

H.M.Jr: Oh yes.

Larry?

Seltzer: I think your production indexes are going to go on going down some more. I think sentiment is either at or approaching a low.

H.M.Jr: Well, the purpose of this meeting is for you people to see how my mind is working, see. And I want to know - and I'm not going to take anybody's - just where we're going.

Incidentally, I told you what Beardsley Ruml is doing. No? Beardsley Ruml is going to get a set-up for me so that every Tuesday or Wednesday morning, from the five cities - he said New York, Boston, Chicago, Dallas, and San Francisco - he would have the actual retail sales for the previous week - retail stores.

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Haas: That's good.

H.M.Jr: And he says he'll set that up for me so that I'll get it either Tuesday or Wednesday of the following week. He says they are more likely to give it to me where they wouldn't give it to anybody else. A competitive situation. But he's going to get it. He said he thought, for some reason or other, Dallas is very important; it's different from the rest. He's going to set that up. I'll get it every Tuesday or Wednesday. I said if it's a question of telegrams or air mail, send it to you (Haas). He said we'd get it every week - department store sales in those five centers for the previous week. That doesn't exist in the ~~whole~~ United States.

Haas: I know. That's very good.

H.M.Jr: And he's going to set it up for me. And it's that kind of stuff - we've got to do some original thinking, and you've got to think fast in a time like ....

Haas: Here's one thing maybe I can get your permission now to do. One of the key situations in this, I think, is going to be automobile sales. Now, we from General Motors have a sales report covering the United States every ten days. I'd like to ask them, if you give me permission, for a regional breakdown so we can have that along with that retail picture.

H.M.Jr: That's all right. Well, can't you get it also from Chrysler and Ford?

Haas: Well, we - General Motors came through, and I forget what our situation was when we started that report; Ford - no, I don't think he ...

H.M.Jr: Well, try Chrysler.

Haas: Chrysler probably. If we have those two, even without Ford, we're situated quite well.

H.M.Jr: All right. O.K. Anything else?

Lonigan: (Nods nothing)

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H.M.Jr: You didn't mind my talking so frankly?

Lonigan: No, Mr. Secretary. I'm a little amused that you thought I gave recommendations, that's all. You don't know what I could do if I started on recommendations. It's very hard to discuss things without them.

H.M.Jr: All right, we're - what I'm trying to do is to get information and I can pass it along.

Lonigan: Well, it's very helpful.

H.M.Jr: Yes, and then I'll talk to him. I thought that - did you do New York?

Lonigan: No, I didn't touch New York.

H.M.Jr: Well, you did New England. I think I might send you - I'll ask him where he thinks you should go next. But you be ready to go. I think we'll do it this way, if you can stand it physically. Did you get back Sunday?

Lonigan: I got back Sunday morning.

H.M.Jr: You'll have Sunday, Monday, and Tuesday. If it's too much physically, let me know.

Lonigan: I'd rather be out.

H.M.Jr: All right. Well, we'll do that for the time being.

Regraded Unclassified

December 6, 1937.
12:03 p.m.

H.M.Jr: Hello.

Operator: Mr. Jones. Go ahead.

H.M.Jr: Hello.

Jesse Jones: Hello.

H.M.Jr: Jesse?

J: Yes.

H.M.Jr: Henry.

J: Yes.

H.M.Jr: Mr. Taylor, Mr. Bell, Mr. Oliphant and I have just spent half-an-hour on the Commodity Credit Bill.

J: Yes.

H.M.Jr: We're all in accord.

J: Good.

H.M.Jr: And we're ready - they are ready to talk to you at your convenience.

J: All right, when should I come?

H.M.Jr: They're ready, I mean anytime they'll come and see you or anyway.

J: - Well

H.M.Jr: They're here in the room now.

J: I'll be glad to come over there.

H.M.Jr: All right. When do you want to come?

J: Anytime after a half hour.

H.M.Jr: Well - let me ask them.

J: Yes.

H.M.Jr: May I?

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J: Yes.

H.M.Jr: All right. They say if you'd drop in at Wayne Taylor's office in a half an hour the three of them will be there.

J: All right.

H.M.Jr: And they say their knives are dull.

J: Good. That's fine. Well, now - tell them I've just got two long distance calls to answer and then I'll come right over.

H.M.Jr: Thank you.

J: Thank you.

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December 6, 1937,
12:05½ p.m.

H.M.Jr: Hello.

Operator: Secretary Wallace is working on his radio speech. He'd like to call you back in about fifteen minutes.

H.M.Jr: Give me Appleby, will you?

O; All right.

H.M.Jr: (aside) He's working on his radio speech. Who do you want over here, Tapp?

O: One moment. I'll have him in just a second. Mr. Appleby.

H.M.Jr: Hello.

Appleby: Hello.

H.M.Jr: Hello.

A: Hello.

H.M.Jr: Hello.

A: This is Appleby.

H.M.Jr: Oh Appleby, this is Henry Morgenthau.

A: Yes, sir.

H.M.Jr: They told me that Mr. Wallace is busy, and I want to get this across to you. We've just had a meeting on Commodity Credit here, Mr. Taylor, Mr. Bell and Mr. Oliphant and myself, and we've come to an agreement. We called up Mr. Jones and he said he would come to Mr. Wayne Taylor's office at 12:30. Hello.

A: Yes.

H.M.Jr: And I wondered - I mean - lacking Mr. Wallace being able, I wonder if he couldn't send Jesse Tapp, or whoever he wants to over to Mr. Taylor's office at 12:30, so that we could clean this thing up.

A: Yes, indeed. Will it be satisfactory to you if Jesse comes. Would you rather the Secretary would come?

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H.M.Jr: Well I didn't want to ask the Secretary, but if he could come it would be swell and if he can't come, - I mean - I'm putting it this way. I am putting it up to you to see that somebody comes.

A: Yes.

H.M.Jr: Who - Either the Secretary or somebody who can talk for him.

A: We'll certainly do it.

H.M.Jr: You see what I mean?

A: Yes indeed.

H.M.Jr: And Mr. Jones said he would get to Mr. Taylor's office about 12:30. Now you might - why not let me know before. I just got through and Mr. Jones said he would like to do it now.

A: All right.

H.M.Jr: So I just got through talking to Mr. Jones.

A: We'll have somebody there.

H.M.Jr: And if somebody wants to know anything about it before they come over, why they can talk to Mr. Taylor.

A: Yes.

H.M.Jr: But you will have somebody there.

A: Yes indeed.

H.M.Jr: Got it all?

A: Yes.

H.M.Jr: Thank you very much.

A: Fine.

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December 6, 1937.
12:16 p.m.

H.M.Jr: Hello.

Operator: Burgess. Go ahead.

H.M.Jr: Hello.

Randolph Burgess: Hello, Henry.

H.M.Jr: Well, she looks pretty good.

B: Yes she looks almost too good, doesn't she?

H.M.Jr: Yes.

B: They can't hurt you feeling that way though, can they?

H.M.Jr: Not a bit. We - we need it.

B: That's right. I think so.

H.M.Jr: We really need it badly.

B: I think so, yes.

H.M.Jr: Well I've got nothing, have you?

B: No, not a thing, and the price shows it. They quoted a hundred and one and a half.

H.M.Jr: The only thing I called you up about, I was talking to Dan.

B: Yes.

H.M.Jr: I certainly want to close the Exchange by Wednesday night.

B: Oh yes. That's all right.

H.M.Jr: How about Tuesday night.

B: Oh I think you'd better give them two days.

H.M.Jr: Two days.

B: That is two days after today.

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H.M.Jr: Well I don't want to rush it too much.

B: No I think - I think you could announce when you close the books on cash tonight that you were closing the books on exchange Wednesday night.

H.M.Jr: Well, I have a Press conference at five fifteen.

B: That's a good time.

H.M.Jr: So - I've got to go down to meet the President, so will you be in your office about five.

B: Yes.

H.M.Jr: And then I thought at that time I'd talk to you and then if everything looked all right we could say the conversion books would close Wednesday night.

B: I think that's all right.

H.M.Jr: What?

B: Yes.

H.M.Jr: And then that would give us till - Tuesday night would rush us a bit, huh?

B: Oh I'm afraid so. There's a lot of people who aren't available easily and so on. I'd leave it open until Wednesday. You don't lose anything.

H.M.Jr: All right. We've got a gold case decision coming down maybe today, you know.

B: Oh, I've got to watch the ticker.

H.M.Jr: Yes.

B: Are you excited?

H.M.Jr: Not a bit.

B: Neither am I.

H.M.Jr: All right.

B: Goodbye.

H.M.Jr: Thank you.

B: Goodbye.

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December 6, 1937.
2:27 p.m.

H.M.Jr: Hello.

Randolph Burgess: Oh, Henry.

H.M.Jr: Yes, Randolph.

B: I just wanted to report to you that your issue was all sold.

H.M.Jr: No. No.

B: A couple of times.

H.M Jr: Good.

B: Up to - to 2 o'clock they got five hundred and forty five million of the bonds.

H.M.Jr: Yes.

B: And three hundred and forty five of the notes.

H.M.Jr: Not enough.

B: Not yet, no.

H.M.Jr: No.

B: Of course this is just a first - a first flash.

H.M.Jr: Yes.

B: And we'll have two or three times that much tonight.

H.M Jr: You see we Democratic countries always over-subscribe eight or ten times.

B: Oh, at least that.

H.M.Jr: That's the way to tell the difference between a Democratic country and a Fascist country.

B: Well, it's one way.

H.M.Jr: Well, there's something to it. I just thought of it. I can use that.

B: I think that's right. Well this is just a good start, that's all. Just a running start. There's a lot of big fellows we haven't heard from yet.

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H.M.Jr: All right. Well, count them as they come in.

B: I guess there'll be a lot be less than ten per cent.

H.M.Jr: Well, I hope you are right.

B: I think that's right, yes.

H.M.Jr: You've still been sitting still haven't you, on yours?

B: Oh, we haven't done a thing. We won't do anything until I talk to you, Henry.

H.M.Jr: That's right.

B: Now of course - I'm thinking of things they might do.

H.M.Jr: Yes.

B: The bond is going to be quoted higher than the note.

H.M.Jr: Yes.

B: We might sell some of our rights tomorrow.

H.M.Jr: Yes.

B: And buy notes. Now that would have the effect of making your bonds bigger, because the people who bought the rights would convert it to bonds.

H.M.Jr: I see.

B: On the other hand I think it's a little more disturbing to the market. It's about fifty fifty.

H.M.Jr: Uh-huh. Well just as long as your one hand knows what the other's doing, it's all right.

B: That's right, yes. (laughs) You got it. But I haven't talked to Marriner yet today.

H.M.Jr: Fine.

B: We'll let it settle down and do our business tomorrow.

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H.M.Jr: All right. Well, I'll talk to you later, discuss - I'll talk to you around five o'clock.

B: Very good, Henry.

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H.M.Jr: Hello.

Operator: Mr. Helvering.

H.M.Jr: Hello.

Guy Helvering: Hello.

H.M.Jr: Hello Guy?

H: Yes.

H.M.Jr: A Mr. Goltra of St. Louis.

H: Ed Coltra?

H.M.Jr: What?

H: Ed Coltra.

H.M.Jr: Goltra. You remember he used to be National Committeeman?

H: Yes.

H.M.Jr: Well, he just came in and saw Magill and me, and he gave me a long story about some case he's got against - to collect some money for boats.

H: From who?

H.M.Jr: Some boats that the Government owes him for fifteen years. So I said well why does that affect us. Well, Mr. Hughes was the lawyer and now it's over in the Dwight office, and - so that his case wouldn't be hurt - he recommended that we accept a check of Mr. Dwight, see? Hello.

H: Yes.

H.M.Jr: Which is pretty long winded so I said to him, I didn't want to be impolite but I thanked him very much for his advice, which I had not asked, that the matter was entirely in Commissioner Helvering's hands and that - I didn't care to interfere in any way whatsoever, and I wanted to tell you that direct in case he came over and might tell you something different, see?

H: Yes. Well the whole situation is - the Dwight case

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which comes in days of full tax and interest and his fraud penalty, I'd be willing to accept it. Nothing less.

H.M.Jr: Well, the matter is in your hands.

H: Yes.

H.M.Jr: Because Mr. Goltra has the case pending with Mr. Dwight as his lawyer. I mean it's one of the most ridiculous things I ever heard of.

H: Well, what is that, a war contract or something?

H.M.Jr: Yes. War contract.

H: Well -

H.M.Jr: Yes, but I -

H: Well I don't think that will have much influence on that tax case.

H.M.Jr: Well, I just wanted to give it to you.

H: I suppose he'll come over and see me now.

H.M.Jr: Exactly, but I wanted you to get it first hand.

H: Yes. All right.

H.M.Jr: How are you?

H: Just fine.

H.M.Jr: Anything new?

H: No, not much of anything. The - I didn't come over to talk to you about that other matter on Russell yet, but I will in a few days.

H.M.Jr: Well, that's all right. When you're ready I'm ready.

H: All right.

H.M.Jr: Take care of yourself.

H: You bet.

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H.M.Jr: Hello.

Operator: Dr. Burgess. Go ahead.

H.M.Jr: Hello.

Randolph Burgess: Yes, Henry.

H.M.Jr: Well, I don't know whether you've talked to the boys here, but hearing - the bonds are fifteen times over-subscribed, and the notes eleven.

B: Eleven, yes.

H.M.Jr: Now they figure - that's about a seven per cent on the bonds and nine per cent on the notes.

B: Yes, and of course there's some more coming in.

H.M.Jr: Well, no, this - no this is, no, this is figuring - no, based on experience.

B: I see, yes.

H.M.Jr: Now, they actually cashed bonds - the figure is two billion, six eighty two.

B: Yes.

H.M.Jr: Notes - one billion, six ninety two, see?

B: Yes.

H.M.Jr: And that may take - they go back, based on previous experience.

B: I see, yes.

H.M.Jr: They arrive at that, and then we cut a little bit off, just to be sure.

B: Yes. Yes.

H.M.Jr: See.

B: Uh-huh. Well, that's very nice.

H.M.Jr: Well, I'd say so.

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B: That's going to make a nice taste.

H.M.Jr: Don't you think it ought to give them a good taste?

B: Oh my, yes. Yes, that's the medicine that the doctor prescribed for the patient, I think.

H.M.Jr: I think so.

B: I think that's right.

H.M.Jr: Yes. Well thanks very much. We'll close the other thing Wednesday night.

B: I think that's right.

H.M.Jr: On the exchange on the bonds, there's sixty three million in on the bonds, and four on the notes.

B: Yes, that's most of that here.

H.M.Jr: Now you will talk to me tomorrow about what you're going to do.

B: Yes, I think - I think the present outlook, I've talked to Marriner and the others a little, the present outlook is to take fifty per cent in bonds.

H.M.Jr: Yes.

B: And then for the balance either to exchange for notes or to do some selling and buy other stuff.

H.M.Jr: Uh-huh.

B: Now, if we sell rights, now of course that makes those rights available for somebody who wants the bonds.

H.M.Jr: Yes.

B: So that - that has a tendency to increase the subscription for the bonds.

H.M.Jr: I'm not crazy about that.

B: Because you think it'd upset the market?

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H.M.Jr: No, I - I - I don't like it from a standpoint of the Federal Reserve. I - I think you might be criticized for not cutting them in.

B: Oh, do you really?

H.M.Jr: Yes I do. Yes I do. I'd much rather see you turn them in and then sell it, but I think that - I think that if that's the case public, I think - you're subject to criticism. That's my offhand opinion.

B: Well I don't quite see that Henry.

H.M.Jr: Well, let me ask - let me ask Bell a minute, he's sitting here. May I?

B: Yes.

H.M.Jr: Let me ask Bell. (other half sell their rights. Yes, sell their rights. They've got eighty million, first thing turn in half the bonds, sell the other half. Think so.)
Hello.

B: Yes.

H.M.Jr: Dan says that - before I raised the question, he would have thought it's all right, but now that I've raised the question I've raised a doubt in his mind.

B: Yes, I see.

H.M.Jr: See? And he'd like to sleep on it.

B: Well, let's think about it overnight. I'll talk to you in the morning. I haven't talked to Marriner. I haven't called Marriner back yet because I - he was going to talk with the other fellow from the Board.

H.M.Jr: Dan says what would you do with the cash?

B: Oh, we'd buy some other short stuff.

H.M.Jr: Wouldn't let it - Dan says would you let it run off?

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B: Oh no, no, no. Oh, no.

H.M.Jr: Well, now that I've raised the question, you - you sleep on it.

B: All right. Fair enough.

H.M.Jr: Now don't - don't misunderstand me. I mean - I say convert, and then if you convert, sell.

B: Yes.

H.M.Jr: But to sell your rights- just my offhand opinion, it just doesn't taste good.

B: Of course, we've done it repeatedly. I mean we've sold rights for one, we've bought notes that - it's -

H.M.Jr: Well, I -

B: There's a lot of fellows here that want these bonds and can't get them -

H.M.Jr: Well you could sell them - let's say - let's say you convert it fifty-fifty. Hello.

B: Yes.

H.M.Jr: And then sold your bonds.

B: Well, we want to keep some of the bonds.

H.M.Jr: Well I mean sell whatever you didn't want.

B: Yes.

H.M.Jr: See.

B: Well, we'd like to keep forty million bonds.

H.M.Jr: Well just offhand when you give it to me fast, the idea of selling rights and not converting the Federal Reserve System, it just doesn't taste right. Now you may have done it before, but I didn't happen to know about it.

B: Yes.

H.M.Jr: See?

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B: Yes.

H.M.Jr: You sleep on it.

B: Yes. Well we'll sleep on it. I'll consider it from that angle. I confess I haven't thought very much about that.

H.M.Jr: And if you can tell me that I'm all wrong, why I'm willing to lift the ban.

B: I think it would be wrong if there's any pressure on the rights market but here there's just any number of people who'd love to do it, who'd love to get those rights, 'cos they want the bonds.

H.M.Jr: Well, why not -

B: conversion into bonds.

H.M.Jr: Pardon me.

B: It - it fits your books because it would give you a larger conversion into bonds. It would fit the book of a lot of people who'd like the bonds.

H.M.Jr: Well, let's all sleep on it. You might mention, what I said, to Harrison, will you?

B: All right. Yes.

H.M.Jr: Thank you.

B: Very good.

H.M.Jr: Thank you.

B: Fine. Goodnight.

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DEPARTMENT OF STATE

ADVISER ON
INTERNATIONAL ECONOMIC AFFAIRS

December 6, 1937.

MEMORANDUM

With reference to informal inquiries made by the Treasury Department of the Department of State regarding the renewal of an arrangement that has been in existence for some time between the Treasury Department and the Chinese Government designed to maintaining the parity of exchange between the Chinese yuan and the American dollar, having in mind particularly the question whether in the event of the recognition of a state of war between China and Japan such an arrangement would be inconsistent with the position of this Government as a neutral, the following observations are made:

It is inconsistent with the status of neutrality for a neutral government to supply directly or through any governmental agency loans or credits to a belligerent or its agencies. The Department of State has been assured by the Treasury Department that the arrangement in question cannot in any sense be regarded as a loan or a credit arrangement. The Department of State likewise understands from the Treasury Department that similar arrangements are in existence between the Treasury Department and certain other countries.

On

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On this basis the Department of State is of the view that the arrangement could not properly be considered as rendering this Government unneutral in the event of its continuance after the recognition of a state of war between China and Japan.

However, since the arrangement is of a somewhat novel character, it is suggested that it would be advisable for the Treasury Department to retain some freedom of action in the light of possible future contingencies. To this end it is suggested to the Treasury Department that it include in any extension of the arrangement a proviso that the extension is agreed to subject to "any possible questions of neutrality that may arise."

In discussions with the Chinese authorities it might be pointed out to them that as far as our present judgment goes it is unlikely that any such contingency will arise.

EA:HF:LWW
Le:GHH

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MISC. 3.1 60M 6-37

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 6, 1937.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF FRANCE.

FROM L. W. Knoke

Mr. Cariguel called at 12:10 today and requested that we dispatch per Steamship Normandie on December 8 another shipment of $5,000,000 of gold.

Things were very quiet in Europe, he said. He had bought a little sterling. Dollars were offered. He had bought today so far $1,200,000.

I inquired about the new French loan which Cariguel thought was very expensive for the Treasury. He understood it was going quite well but did not know exactly the amount so far subscribed. If two to two and a half billion francs were placed of it, he thought the Treasury would be quite happy.

LWK:KMC

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RB

GRAY

London

Dated December 6, 1937

Rec'd 3:34 p. m.

Secretary of State

Washington.

755, December 6, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Even before the silver fixing this morning there was discussion of the possibility that Japan might acquire large quantities of silver in China which the United States might be unwilling to purchase at the prevailing price. This had the effect of making fixing difficult and when no American support was forthcoming the price declined one penny. American purchases after fixing have somewhat strengthened the position but the reduction in price and the concurrent weakening of the dollar have called attention to the situation.

Kindersley's annual review in the Economic Journal of British overseas investments has just appeared. British income from foreign investments in 1936 was pounds 184,000,000, an increase of pounds 12,400,000

over

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over that of 1935 and of pounds 34,300,000 over that of 1933, but still pounds 46,900,000 below the level of 1929. Whereas, in the years 1929-34 British subscriptions to new overseas issues exceeded repayments by pounds 24,500,000 a year, in 1935 there was a net repayment of 30,000,000 pounds and in 1936 a net repayment of 46,000,000 pounds. The "Financial News" comments as follows: "These figures mean in short that our most regular and most satisfactory source of income are gradually being stopped up. They mean that the general policy of lack of encouragement to foreign issue which the British Government has been following ever since 1932 has been too successful and that if it is allowed to continue it may have unfortunate effects upon our balance of trade and our standard of life. As the debtor countries become able to finance their own capital development of course we shall have to accept some ultimate diminution of our receipts from them. But that is no reason why Britain should not still finance the backward countries which are unable to finance themselves. This job of financing may involve

changes

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changes in our machinery of foreign investment; there is every reason therefore why those changes should be discussed and put into effect as soon as possible".

Be that as it may a reimportation of capital together with a reduction in the amount of reinvestment abroad would seem to have been incident to the building up of a semi-permanent gold supply.

JOHNSON

WWC

GW

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RB

GRAY

Paris

Dated December 6, 1937

Rec'd 5:24 p. m.

Secretary of State

Washington.

1703, December 6, 6 p. m.

FOR TREASURY.

Business today on the exchange market here has been on a very restricted scale. Sterling was traded in around 147.9 and the dollar around 29.44. The fund left the market almost entirely alone.

Rentes opened 30 to 40 centimes down.

A second repayment installment of approximately 8,000,000 pounds was made by the French Treasury on December 4 in connection with the credit of 40,000,000 pounds granted by London banks to the French railways, according to a communique issued by the Ministry of Finance. The communique stated that "the necessary currencies for the repayment, amounting to about 1,200,000,000 francs were remitted to the Treasury in exchange for francs by the exchange equalization fund. This brings to about 2,400,000,000 the repay-

ment made

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ment made, for which it was not necessary to draw on the gold reserves of the Bank of France." Other installments on the same amount are due on December 12, 19 and 26.

In referring to the French financial and monetary situation at Belfort yesterday Monsieur Brunet, Undersecretary for Finance, is reported to have stated that "the Government would not tolerate abuses and would know how to take all necessary measures to repress them. The Government would know how to deal with the difficulties which stand in the way of French national economy, and would see that the 1938 budget was voted by Parliament before January 1. Furthermore, the Minister indicated that bills relating to pensions for aged workers, agricultural disasters, and the hiring and discharging of labor would be ready for presentation to Parliament before the end of the year.

It is stated in the press that as concerns the service of certain loans issued in France by Yugoslavia, agreement on basic points covering a new moratorium period dating from October 14, 1937 to October 13, 1938 has been reached with the French committee of holders. It is also

indicated .

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indicated that about 25,000,000 francs will be set aside each year for the amortization of all Yugoslavian loans issued here. It is added that the payments to be made in accordance with the agreement will carry an exchange guaranty in favor of the pound.

BULLITT

SMS

NPL

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Diary

December 6, 1937
Monday

There was some delay in fixing the price of silver in the London market today owing to uncertainty abroad as to the fate of the U. S. Silver Act and the London Silver Agreement of 1933, which expires at the end of this year.

After an hour of negotiations between the brokers the price was set at 18 7/16 pence, equivalent of 41.50¢ in New York terms.

After the fixing, 1,000,000 ounces was offered to us at the fixing price, which the Secretary instructed be purchased. Offers over the market fixing price were declined.

The Secretary wished to be in a position to inform Senator Pittman, or anyone else interested in the silver program, that we had accepted any offers of silver made to us at the fixing price.

A.L.

AL

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, December 6, 1937.
12/4/37

Press Service
No. 11-83

Secretary of the Treasury Morgenthau is today offering for subscription, at par and accrued interest, through the Federal Reserve banks $250,000,000, or thereabouts, of 8-year 2-1/2 percent Treasury bonds of 1945, and $200,000,000, or thereabouts, of 5-year 1-3/4 percent Treasury notes of Series C-1942. The holders of 2-5/8 percent Treasury notes of Series A-1938 maturing February 1, 1938, are offered the privilege of exchanging such maturing notes either for the Treasury bonds or the Treasury notes, the exchange to be made par for par with an adjustment of accrued interest as of December 15, 1937, and to the extent such exchange privilege is availed of, the offering of bonds or of notes may be increased.

The 2-1/2 percent Treasury bonds of 1945 now offered for cash, and in exchange for Treasury notes maturing February 1, 1938, will be dated December 15, 1937, and will bear interest from that date at the rate of 2-1/2 percent per annum payable semiannually. They will mature December 15, 1945, and will not be subject to call for redemption prior to maturity. In view of the comparatively small size of the issue, and the early maturity date, no provision is made for redemption prior to maturity.

The 1-3/4 percent Treasury notes of Series C-1942, also offered for cash, and in exchange for Treasury notes maturing February 1, 1938, will be dated December 15, 1937, and will bear interest from that date at the rate of 1-3/4 percent per annum payable semiannually.

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They will mature December 15, 1942, and will not be subject to call for redemption before that date.

The Treasury bonds and the Treasury notes will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds and Treasury notes, respectively, now outstanding. These provisions are specifically set forth in the official circulars issued today.

The Treasury bonds will be issued in two forms, bearer bonds with interest coupons attached, and bonds registered as to both principal and interest; both forms will be issued in the denominations of $50, $100, $500, $1,000, $5,000, $10,000 and $100,000. The Treasury notes will be issued only in bearer form with coupons attached, in the denominations of $100, $500, $1,000, $5,000, $10,000 and $100,000.

Subscriptions will be received at the Federal Reserve banks and branches, and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Cash subscriptions from banks and trust companies for either issue for their own account will be received without deposit but will be restricted in each case and for each offering to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied by 10 percent of the amount of bonds or notes applied for. Exchange subscriptions for either bonds or notes should be accompanied by a like face amount

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of 2-5/8 percent Treasury notes of Series A-1938 tendered in payment.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice, either for the Treasury bonds or the Treasury notes and with respect to the cash offering or with respect to the exchange offering of either. Subject to the reservations set forth in the official circulars, all cash subscriptions will be received subject to allotment and exchange subscriptions will be allotted in full.

Payment for any bonds or notes allotted on cash subscriptions must be made or completed on or before December 15, 1937, or on later allotment. Treasury notes of Series A-1938, maturing February 1, 1938, with coupon due February 1, 1938, attached, will be accepted at par in payment for any bonds or notes subscribed for and allotted, and accrued interest on such notes from August 1 to December 15, 1937 ($9.701087 per $1,000) will be paid following their acceptance.

Special Treasury bills aggregating $450,000,000 mature immediately after December 15, and about $158,000,000 interest on the public debt becomes payable on that date. 2-5/8 percent Treasury notes of Series A-1938, maturing February 1, 1938, in the amount of $276,670,600 are now outstanding.

The texts of the official circulars follow:

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UNITED STATES OF AMERICA

2-1/2 PERCENT TREASURY BONDS OF 1945

Dated and bearing interest from December 15, 1937 Due December 15, 1945

Interest payable June 15 and December 15

1937
Department Circular No. 579

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, December 6, 1937

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 2-1/2 percent bonds of the United States, designated Treasury Bonds of 1945. The amount of the offering is $250,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which Treasury Notes of Series A-1938, maturing February 1, 1938, are tendered in payment and accepted.

II. DESCRIPTION OF BONDS

1. The bonds will be dated December 15, 1937, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable semiannually on June 15 and December 15 in each year. They will mature December 15, 1945, and will not be subject to call for redemption prior to maturity.

2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income

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taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate $5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of $50, $100, $500, $1,000, $5,000, $10,000, and $100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Cash subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case

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to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied by payment of 10 percent of the amount of bonds applied for. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, subscriptions in payment of which Treasury Notes of Series A-1938 are tendered will be allotted in full. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted on cash subscriptions must be made or completed on or before December 15, 1937, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of bonds applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depositary will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve bank of its district. Treasury Notes of Series A-1938, maturing February 1, 1938, with coupon dated February 1, 1938, attached, will be

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accepted at par in payment for any bonds subscribed for and allotted, and accrued interest on the maturing notes from August 1, 1937, to December 15, 1937, ($9.701087 per $1,000), will be paid following acceptance of the notes. Payment through surrender of Treasury Notes of Series A-1938 should be made when the subscription is tendered.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

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UNITED STATES OF AMERICA

1-3/4 PERCENT TREASURY NOTES OF SERIES C-1942

Dated and bearing interest from December 15, 1937 Due December 15, 1942

Interest payable June 15 and December 15

1937
Department Circular No. 580

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, December 6, 1937.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 1-3/4 percent notes of the United States, designated Treasury Notes of Series C-1942. The amount of the offering is $200,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which Treasury Notes of Series A-1938, maturing February 1, 1938, are tendered in payment and accepted.

II. DESCRIPTION OF NOTES

1. The notes will be dated December 15, 1937, and will bear interest from that date at the rate of 1-3/4 percent per annum, payable semiannually on June 15 and December 15 in each year. They will mature December 15, 1942, and will not be subject to call for redemption prior to maturity.

2. The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes, or gift taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be accepted at par during such time and under such rules

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and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

5. Bearer notes with interest coupons attached will be issued in denominations of $100, $500, $1,000, $5,000, $10,000 and $100,000. The notes will not be issued in registered form.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Cash subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied by payment of 10 percent of the amount of notes applied for. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, subscriptions in payment of which Treasury Notes of Series A-1938 are tendered will be allotted in full.

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Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for notes allotted on cash subscriptions must be made or completed on or before December 15, 1937, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depositary will be permitted to make payment by credit for notes allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve bank of its district. Treasury Notes of Series A-1938, maturing February 1, 1938, with coupon dated February 1, 1938, attached, will be accepted at par in payment for any notes subscribed for and allotted, and accrued interest on the maturing notes from August 1, 1937, to December 15, 1937, ($9.701087 per $1,000), will be paid following acceptance of the notes. Payment through surrender of Treasury Notes of Series A-1938 should be made when the subscription is tendered.

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1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

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2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

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