

DIARY

Book 119

April 13 - April 19, 1938

	Book	Page
Appointments and Resignations		
O'Connor, J.F.T.:		
Resignation again discussed at 9:30 group meeting - 4/18/38.....	CXIX	158,165

Banking Legislation		
Federal Home Loan Bank Board: Conference; present:		
HMJr, Taylor, Bell, Foley, Murphy, Fahey, Webb, Delano, and Russell - 4/18/38.....		222
a) Board memorandum.....		242
Business Conditions		
See also Housing		
HMJr and Bell to see FDR with regard to financing of future administrative program - 4/13/38.....		3
a) HMJr tells Eccles of pending conference - 4/13/38.....		5
b) HMJr tells Hull of pending conference - 4/13/38.....		8
c) Conference with Bell, Taylor, Gaston, Haas, White, and Viner, preparatory to White House conference - 4/13/38.....		30
d) Bell memorandum on conference with FDR; program will not materially change financing picture - 4/13/38.....		41
e) Conference with Taylor, Gaston, Oliphant, Lochhead, Haas, White, Viner, and Magill, after leaving White House - 4/13/38.....		44
New York Herald-Tribune article: "Roosevelt consults foes and friends of spending; denies rift with Garner" - 4/13/38.....		24
FDR's fireside talk - 4/14/38.....		52
FDR's message to Congress - 4/14/38.....		61
Conference concerning financing of FDR's program; present: HMJr, Taylor, Oliphant, Bell, Haas, Gaston, White, Upham, Bernstein, Eccles, Ransom, Goldenweiser, and Gardner - 4/14/38.....		74
a) Bell memorandum.....		124,125,128
Greenbaum memorandum on "deliberate deficit spending" - 4/16/38.....		144
Conference on future borrowing planned at 9:30 meeting - 4/18/38.....		161
Further conference concerning gold policy, with representatives of Federal Reserve - 4/18/38.....		175
a) Memorandum: "Shall sterilization of gold be completely suspended?".....		208
b) Bell estimate of working balances at the end of each month, April to December, 1938, under various conditions - 4/18/38.....		206
c) HMJr reads to Eccles proposed statement on gold policy - 4/18/38.....		219
1) Eccles reports on reaction of Board - 4/18/38..		251
Haas memorandum on situation showing further improvement in business sentiment - 4/18/38.....		282

	Book	Page
Comptroller of Currency		
See Appointments and Resignations: J.F.T. O'Connor		
Correspondence with FDR concerning eligibility of		
bonds to be issued by local housing authorities		
for purchase by national banks for their own account..	CXIX	335

Federal Home Loan Bank Board		
See Banking Legislation		
Financing, Government		
See also Business Conditions		
Conference in connection with financing of FDR's future		
program; present: HMJr, Taylor, Oliphant, Bell, Haas,		
Gaston, White, Upham, Bernstein, Eccles, Ransom,		
Goldenweiser, and Gardner - 4/14/38.....		74
a) For personal expressions of opinion,		
see pages 114-123		
b) Bell memoranda.....		124,125,128
Greenbaum memorandum on "deliberate deficit spending" -		
4/16/38.....		144
Conference on future borrowing planned at 9:30 meeting -		
4/18/38.....		161
a) Conference held; present: HMJr, Eccles, Ransom,		
Jones, Myers, Fahey, Taylor, and Upham - 4/19/38		
(Upham memorandum).....		319
1) Straus memorandum on funds for United States		
Housing Authority for disbursement to		
localities through December 1, 1938.....		327
Further conference concerning gold policy in connection		
with financing of FDR's future program - 4/18/38.....		175
a) Memorandum: "Shall sterilization of gold be		
completely suspended?".....		208
b) Bell estimate of working balances at the end of		
each month, April to December, 1938, under		
various conditions - 4/18/38.....		206
c) Harris review of United States Government		
security market - 4/18/38.....		209
d) Haas memorandum: "Adjustment of Treasury		
financing program to use of desterilized gold" -		
4/18/38.....		214
e) HMJr reads to Eccles proposed statement on gold		
policy - 4/18/38.....		219
1) Eccles reports on reaction of Board -		
4/18/38.....		251
France		
See Stabilization		

	Book	Page
Germany		
Schacht's loss of influence commented upon by Niemeyer at Bank for International Settlements meeting - 4/13/38.....	CXIX	13
Gold		
See also Japan		
Conference on desterilization in connection with the financing of FDR's future program; present: HMJr, Taylor, Oliphant, Bell, Haas, Gaston, White, Upham, Bernstein, Eccles, Ransom, Goldenweiser, and Gardner - 4/14/38.....		74
a) For personal expressions of opinion, see pages 114-123		
b) Bell memoranda.....		124,125,128
c) FDR talks further to Eccles - 4/18/38.....		155
Further conference concerning gold policy, with representatives of Federal Reserve - 4/18/38.....		175
a) Memorandum: "Shall sterilization of gold be completely suspended?".....		208
b) Haas memorandum: "Adjustment of Treasury financing program to use of desterilized gold" - 4/18/38.....		214
c) HMJr reads to Eccles proposed statement on gold policy - 4/18/38.....		219
1) Eccles reports on reaction of Board - 4/18/38.....		251
Government Bond Market		
Harris review of United States Government security market - 4/18/38.....		209
Greenbaum, Edward S.		
See Business Conditions		

Housing		
HMJr tells Straus, after interview at White House, "we're counting on you for \$800 million worth of housing" - 4/13/38.....		17
Straus memorandum on future requirements for disbursement to localities through 12/1/38, dated 4/19/38, attached to memorandum on conference with regard to future borrowing.....		327
Correspondence between Comptroller of Currency and FDR concerning eligibility of bonds to be issued by local housing authorities for purchase by national banks for their own account.....		335

- J -

	Book	Page
Japan		
White memorandum: Financial mission is proceeding to United States to investigation of possibility of establishing additional credit - 4/12/38.....	CXIX	131
American Embassy, Tokio, reports shipment of gold to San Francisco in the amount of twenty million yen - 4/15/38.....		142

- L -

Leith-Ross, Sir Frederick		
Butterworth reports on conference with - 4/13/38.....		13
Liquor		
Senator King consults HMJr concerning proposal to require by legislation that Federal Government protect state borders in connection with enforcement of tax laws relating to alcoholic beverages - 4/14/38.....		69
a) McReynolds memorandum.....		130
FDR and HMJr confer concerning an increased tax in new revenue bill: HMJr feels that increasing the tax increases bootlegging - 4/18/38.....		278

- N -

Niemeyer, Sir Otto		
Butterworth reports on conference with - 4/13/38.....		13

- O -

O'Connor, J.F.T.		
See Appointments and Resignations		

- P -

Peoples, C. J. (Admiral; Director of Procurement)		
HMJr verifies fact that message was delivered requesting presence on 4/18/38.....		173
Program, Administrative (Future)		
See Business Conditions		

- R -

	Book	Page
Revenue Revision		
Magill tells HMJr reaction of committee to FDR's letter - 4/13/38.....	CXIX	10
Liquor:		
FDR and HMJr confer concerning an increased tax in new revenue bill: HMJr feels that increasing the tax increases bootlegging - 4/18/38.....		278
Tax-exempt Securities:		
FDR asks Treasury for certain statistical information - 4/16/38.....		148
HMJr-Magill conference on Treasury position - 4/18/38..		277
HMJr consults FDR about position Treasury should take - 4/18/38.....		278
a) Magill memorandum.....		281

- S -

Social Security Board		
Unemployment Compensation:		
Third report on situation regarding payment - 4/18/38 (Bartelt, of Treasury, memorandum).....		254
Stabilization		
France:		
Exchange market movements resume' - 4/13/38.....		1,347
Stabilization Fund (United States)		
HMJr's release: "Contingent liability of United States Stabilization Fund" - 4/19/38.....		332

- T -

Taxation		
See Revenue Revision		
Tax-exempt Securities		
See Revenue Revision		
Transportation, Department of		
FDR and HMJr confer concerning; HMJr suggests Jones as head - 4/18/38.....		278
HMJr's letter to Jones transmitting certain documents and asking that they be studied - 4/19/38.....		306

- U -

Unemployment Compensation		
See Social Security Board		
Unemployment Relief		
See Social Security Board		
United States Housing Authority		
See Housing		

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 13, 1936, 11 a.m.

NO.: 593

RUSH FROM COCHRAN.

Yesterday evening when the first vote of 576 to 5 in favor of the French Government before the Chamber was announced, the Paris exchange market was closed. However there was a quick response from New York. Yesterday evening the French control was able to sell 74,000,000 francs in New York. This morning when the banks opened there was clear indication of the impetus from New York's trading last evening.

and capitalists
French operators/have in addition been much encouraged by Daladier's second vote of 508 to 12 whereby Chamber approved special financial powers. A contributing factor consisted of the explanations of the Finance Minister, Marchandeu, and Chamber reporter Schmidt, that the Government did not intend to ask for or use special authority to establish exchange control, or to change bearer securities, or to put a tax on rentes, or to suspend amortization, or to have gold stocks revalued, or to impose prohibitions on capital.

This morning at a quarter of ten I visited at the Bank of France. The control by ten fifteen had gained 1,400,000 pounds and at the same time the franc rate had
been

- 2 -

been strengthened to 158.58. The control had not yet reached a decision as to how far the franc should be permitted to come up. ^{In -} ~~Excluding~~ gold and foreign exchange, the French control held approximately 2,130,000,000 as of yesterday, not counting the foreign exchange which was gained in New York. Decision may be reached to try to replenish the (?) considerably in the present favorable conditions rather than permit a too abrupt rise in the franc.

The labor situation still needs much to clear it up, although the labor news is better to the extent that national aviation plants have been evacuated.

In addition, in view of international conditions, it would seem that the bank and control would be warranted in strengthening their positions as much as they can. In the opinion of my friends in the Bank, a national defense loan will not be floated until the Liberal Government has been successful in eliminating strikes and restoring more confidence in the Government.

WILSON.

EA: LWW

April 13, 1938.
11:17 a.m.

D. W.
Bell: Dan.

H.M.Jr: Dan.

B: Yep.

H.M.Jr: I'm just back from the White House.

B: Yep.

H.M.Jr: And I asked the President for thirty minutes, for you and me to see him, to go over the whole program. And he's agreed to give it to us.

B: When?

H.M.Jr: Sometime in the next hour or two.

B: Oh, is that right?

H.M.Jr: Yeah.

B: I see. Well, any change?

H.M.Jr: Well, I - I told him, ah, how far I'd go. So, ah, we - we're going to have our day in court.

B: Well, I mean, is there any change in the figures - have I got to change the figures before that time?

H.M.Jr: Well, ah, I didn't know whether you wanted to go over and get the latest figures from Jimmy, in the meantime.

B: Uh-huh.

H.M.Jr: Or does it make any difference, if he's going to go over the whole thing?

B: Well, oh, I see. He's going over all this whole plan.

H.M.Jr: He's going to go over the whole plan.

B: I see. All right. That's all right. I can do some quick figuring while I'm there, I guess.

H.M.Jr: No, I mean, ah, he - he's going to go over the whole plan, and, ah, I'm in a - where are you now?

B: In the Budget.

H.M.Jr: Well, in about

B: I'm coming around that way right away.

H.M.Jr: Well, I'm just dictating a little bit, and in ten or fifteen minutes I'll be ready, and let you know.

B: Ah - ah, Burlew called up and said he'd been instructed to write a bill for the loan part, and he wants to come over and see Taylor and me, and he'll be here about eleven thirty.

H.M.Jr: All right. Goodbye.

B: All right.

H.M.Jr: Ah, ah, when I'm through, ah, which will be ten or fifteen minutes, I'll let you know.

B: All right.

H.M.Jr: Right.

April 13, 1938.
12:20 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

Marriner S.

Eccles: Hello. Oh, hello, Henry?

H.M.Jr: Yeah.

E: Uhm, remember, I talked to you last night, uhmm, and you said you'd let me know today what the - what your position was.

H.M.Jr: No, my position - ah - hasn't been settled.

E: It hasn't?

H.M.Jr: No. And, ah, ah, I - Bell and I are to see the President the first minute he's free.

E: Oh, I see. So

H.M.Jr: And, and, ah - ah - just as soon as, ah, ah, Roosevelt - Jimmy called up - why we didn't come over to fill in the figures, and I advised him - waiting to hear from his father.

E: Uh huh.

H.M.Jr: So, ah, ah, the President is going to, ah, sit down, ah, with Bell and me for the first time and go over the program.

E: Did, ah - last night at the meeting, did he - he, did, ah, did he decide to go on the - go through on the program as - along the line that was discussed yesterday? Is there any particular modification in it?

H.M.Jr: No. No.

E: There isn't?

H.M.Jr: No. The only thing that, ah, that he had in mind which wasn't mentioned at noon, was the, ah, billion and a half, ah, ah, no-interest loans to states.

- 2 -

- E: Well, is he going to cut that out?
- H.M.Jr: I don't know.
- E: Don't know whether that'll go through or not?
- H.M.Jr: No, I don't:
- E: Uh huh. Well, if - if that goes out, he'd - they'd put the other in, I suppose. That is, the - he,
- H.M.Jr: he's determined to have a Public Works Program, isn't he?
- H.M.Jr: Well, I don't know that - I, I've never had a chance to discuss it with him, ah, Marriner.
- E: Well, ah, what I meant was that, that did he change his views last night over the views that Jimmy and Hopkins discussed yesterday noon?
- H.M.Jr: No.
- E: Except, ah, uh,
- H.M.Jr: Well, there's the, the ah, the individual - the breakdown of the program was not discussed last night.
- E: Oh, I see.
- H.M.Jr: And, ah, ah, he - he read the program, leaving the dollars out.
- E: I see. Well
- H.M.Jr: And the program, he, he read it as a program, but whether this was good or that was bad was - it was never discussed.
- E: Uh huh. Well, the, the only reason, of course, I was checking was because the Board, ah, ah, I represented to them that no action would be expected except based on certain conditions here, that, that their action, of course, is - is dependent upon, ah that other, on other conditions.
- H.M.Jr: Well. Those conditions which you gave me over the phone, you gave those to the President.

E: That's right.

H.M.Jr: So I imagine

E: Yes, that's

H.M.Jr: you'll have to deal with the President direct.

E: Yes. Yes, well, I hadn't called him; I - I just thought if you knew what the result was that.....

H.M.Jr: No.

E: But, but it apparently hasn't been entirely settled.

H.M.Jr: No. But, but please remember, this - those conditions which you named to me, ah, don't expect me to trade for them. You'll have to do your own trading.

E: (Laughs) Well, I guess so. I usually do though.
(Laughs)

H.M.Jr: What?

E: Have to do my own trading.

H.M.Jr: You will have to this time. I - I'm doing mine.

E: You - you've got your hands full doing yours, huh?

H.M.Jr: Ah, they're - they're full and over-flowing.

E: Yeah. (Laughs) Well, I don't want to over - I, I wouldn't ask you to do that.

H.M.Jr: All right.

E: All right, then.

H.M.Jr: Just as soon as I know, I will call you at once.

E: Well, fine.

H.M.Jr: And I'm doing the best I can under very difficult circumstances.

E: All right. Thank you.

H.M.Jr: Thank you.

E: Goodbye.

April 13, 1938.
12:55 p.m.

H.M.Jr: Hello.
Just a moment Mr. Secretary.

H.M.Jr: Hello.

Operator: He'll be right on.

H.M.Jr: Thank you. Hello.

Secy. Cordell Hull: Hello.

H.M.Jr: Cordell.

H: Yes sir.

H.M.Jr: Are you alone?

H: Yes.

H.M.Jr: O. K. Ah, I had thirty minutes with the President.

H: Yeah.

H.M.Jr: And, ah, ah, I argued and pleaded - way I never have before in my life

H: Yeah.

H.M.Jr: And the result of which he is seeing Bell and me at twenty minutes to two.

H: Oh, I see.

H.M.Jr: And give us a chance to go over the whole program with him.

H: Well, that's fine.

H.M.Jr: And, ah, whether we get anywhere, I don't know. I couldn't get - we never have had a chance to go over it with him, and would he give us thirty minutes?

H: Yeah.

H.M.Jr: And he's going to do that.

H: Well that's fine. Maybe you'll make some progress.

H.M.Jr: Well, I hope so. Now, ah, ah, I'll do the best I can. You didn't have any chance to talk to

H: No, I didn't.

H.M.Jr: Uh huh.

H: No, I haven't so far.

H.M.Jr: Uh huh.

H: I had to go into that meeting

H.M.Jr: Oh, I

H: and haven't had the chance yet.

H.M.Jr: Well, I wanted to keep you informed.

H: Yes. Thank you so much, Henry, and best of luck.

H.M.Jr: Thank you. Yeah.

April 13, 1938.
1:16 p.m.

Operator: Go ahead.
Roswell
Magill: Hello.
H.M.Jr: Ros.
M: Yes, Henry.
H.M.Jr: I wouldn't bother you, but I'm seeing the President in a few minutes again.
M: Yeah.
H.M.Jr: And I wanted to know what happened up there.
M: Ah, his letter came in about ten thirty, or so.
H.M.Jr: Ten thirty.
M: Ah, to the two people.
H.M.Jr: Yeah.
M: And, ah, Senator Harrison, who was elected Chairman of the Conference Committee read it to them. And he, ah, he had previously told me what I said.
H.M.Jr: Yeah.
M: Ah, ah, Doughton declared himself - said this wouldn't affect him because he'd always thought the theory of the undistributed profits tax was perfectly sound.
H.M.Jr: Yes.
M: Ah, ah, two or three of the Senators, particularly Vandenberg, expressed themselves adversely to the letter.
H.M.Jr: Yeah.
M: Well, then they went on, but, ah, discussing the two main things, ah, described in the letter, which they'd agreed to discuss anyway.
HMJr: Yeah.

- M: And, ah, got nowhere in particular. It was pretty obvious that they were all turning it over in their minds, trying to make up their minds what to do.
- H.M.Jr: Yeah. Well, now, let me ask you this: Would you say they were sore?
- M: No. I think, ah, I think Harrison, ah, ah, ah, was to the extent that he wished the President hadn't injected himself into it.
- H.M.Jr: Uh huh.
- M: He, ah, he said he had told the President that at sometime in the past.
- H.M.Jr: Yeah.
- M: Ah, I didn't get a chance to see the House conferees afterwards, but I imagine they were very much pleased. But, ah.
- H.M.Jr: Ah, do you think there's any chance of holding a line?
- M: I think there's a - I think there's a pretty good chance. What they'll - I think it undoubtedly will have its effect. The - I think on the capital gains that they'll try to work out some compromise position. That seemed to be the way they were trending.
- H.M.Jr: I see.
- M: Ah, on the U. P. they're - they're still locked horns.
- H.M.Jr: Uh huh.
- M: And I don't know what they will do, but, ah, gosh, if they have any sense, why, ah, I think they'd take the House plan, but I don't know whether they will or not.
- H.M.Jr: Well, he kept faith with you.
- M: Well, I - I was very much pleased about that, and I wish you'd thank him very much on my behalf.

- 3 -

H.M.Jr: Well, I don't think I will today, but I will
(laughing.) All right.

M: (Laughs.) How do you feel, Henry?

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

M: Gosh, you must - you certainly had one day yesterday.

H.M.Jr: Well, it's just as bad today.

M: It is, huh?

H.M.Jr: Yeah.

M: Well,

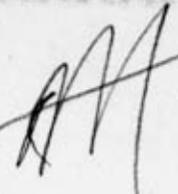
H.M.Jr: Well, well, I'll see you a little later.

M: Thank you for calling, Henry. Yeah, I'll be up there from two to four, I guess.

H.M.Jr: O. K.

M: Thank you

EG

GRAY 

13

London

Dated April 13, 1938

Rec'd 2:35 p.m.

Secretary of State,
Washington.

307, April 13, 6 p.m. (SECTION ONE)

FOR TREASURY FROM BUTTERWORTH

ONE. In the course of a conversation at a private dinner Sir Otto Niemeyer said that the B I S meeting had been a depressing affair; that the governors of the central banks took a pessimistic view of world affairs in general and France's in particular. He also said Schacht had really lost greatly in influence and that he was now only consulted about purely technical matters and even then he was overruled if it could be presented to the Fuehrer that a given question should be decided on its political merits. He cited as an illustration the mark-schilling rate which Schacht had felt should have been in the ratio of one to two but it had been decided on grounds of political expediency to fix at one to one and one half. Niemeyer said that in effect the prevailing rate added 25% to Austria's export prices but correspondingly aided Austrian exploitation of the German market. Leith-Ross who was present questioned

-2- #307, April 13, 6 p.m. SECTION ONE from London

questioned Niemeyer about Schacht's attitude towards the Austrian sterling loans (my 298, April 11, 7 p.m.) and Niemeyer repeated that Schacht would only have the deciding voice on such a question if it were not represented to the Fuehrer as involving important political considerations.

Both Niemeyer and Leith-Ross were convinced that the inclusion of Austria into Germany had raised extensive and difficult problems. The military and political administrative problems incident to the annexation of Austria had been minutely prepared for in advance but the financial and economic preparations had been negligible. In any case the adjustments both internal and external were of such a character as to preoccupy Germany for some time.

Incidentally, in the course of subsequent discussions, Niemeyer defended Kienboeck's skillful handling of Austria's financial problems. Leith-Ross, however, blamed him for refusing in recent times to embark on an expansionist policy which would have decreased Austrian unemployment through public works activity. Leith-Ross attached considerable importance to the fact that Imredy, Governor of the Hungarian National Bank, was benefitting by Kienboeck's mistake; an expansionist policy was a necessary safeguard against Nazi penetration in Hungary.

Two. (END SECTION ONE)

EG

PLAIN

London

Dated April 13, 1938

Rec'd 2:40 p.m.

Secretary of State,
Washington.

307, April 13, 6 p.m. (SECTION TWO)

The city's reaction to the American spending program is reflected in the moderately worded concluding portion of an editorial entitled "Priming the Pump" in today's FINANCIAL NEWS: "For America the policy may lead to recovery of an inflationary kind although it may do no more than cause a further loss of confidence among industrialists. To the extent that public expenditure causes a loss of confidence and a reduction of private capital expenditure the benefits which it provides even in the short run are limited. On the whole it seems likely that towards the end of this year under the impetus of this expenditure America will recover. But it is highly uncertain how lasting or how healthy that recovery will be".

THREE. Shortly after the opening the franc turned bid at 158 1/8 and the control has had to give francs freely thereby acquiring as much as six million pounds.

It

-2- #307, April 13, 6 p.m. SECTION TWO from London

It is anticipated that on Tuesday when the value dates come together again the dollar which has remained steady today will be weak in terms of francs. But today's movement into francs is due not to actual repatriation but to bear covering. It is noteworthy that gold coins especially gold sovereigns have been freely offered down to 34.07. (END MESSAGE)

KENNEDY

RR:KLP

03111033
APR 13 1946
RECEIVED
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

April 13, 1938.
4:15 p.m.

H.M.Jr: Hello.
Nathan
Straus: Hello, Henry?

H.M.Jr: Hello, Nathan.

S: I've been reading all about you.

H.M.Jr: Have you? What have you got, one of these tickers?

S: No - don't have to have that.

H.M.Jr: Oh. Well, I've been living at the White House. I just came out for a breath of fresh air.

S: Yes? Are you going to give us some good prosperity.

H.M.Jr: I don't know whether I am. They're counting on you for eight hundred million dollars worth of housing.

S: Say, wait a minute, don't, don't give it to me all at once. Give it to me with a teaspoon.

H.M.Jr: Well, I think - haven't you guaranteed to build eight hundred million dollars worth of houses?

S: I have not. I told them ^{we} could sign that many contracts, but building I cut down to exactly half that figure.

H.M.Jr: (Laughs) And, ah, ...

S: And it's going to be a hell of a job to do it, Henry.

H.M.Jr: And, ah, did Kline get the ten per cent at the end?

S: Well, Henry, that's a perfectly unworkable, cockeyed scheme, and Senator Wagner will back me up on that.

H.M.Jr: Yeah.

S: Now that's absurd - to get the ten per cent at the end. The whole enthusiasm of the cities is that it's going to be their projects. And if you're going ahead and tell them that it isn't going to belong to them until they've raised that ten per cent, then

- 2 -

the local interest we've gotten is - is just, ah

- H.M.Jr: Well, I told them if they really wanted to have you build the houses, waive the ten per cent.
- S: I said, "My idea is to waive it until December the thirty-first."
- H.M.Jr: Well, they don't seem to think that's what you want to do.
- S: Well, we've got the amendments over there now. I hadn't seen Senator Wagner when that went over.
- H.M.Jr: Well, I just
- S: And I think it will be worth the effort. You can see that other thing's, ah, cockeyed.
- H.M.Jr: Well, I - I - I mean, ah, I made the statement, I said, "If you really want Straus to build it," I said, "You'd better waive the ten per cent." He said, "No, he's insisting on the ten per cent come in at the end."
- S: I never - I've been consistently opposed to it as strongly as I knew how, and they had Senator Wagner partly sold, and we got him unsold today.
- H.M.Jr: Well, what Franklin D. Roosevelt wants James Roosevelt insisting that the ten per cent - build a house, don't give it to the city unless they cough up ten per cent.
- S: Well, Henry, you know I wouldn't advocate anything as crazy as that.
- H.M.Jr: Well, I just, ah,
- S: I'm glad you told me, and I will - tomorrow when I go over there, I will try to straighten them up because Senator Wagner now has authorized me to speak for him. He had
- H.M.Jr: Better do it tonight - it, it's - the whole thing is crystalizing about a hundred and twenty miles an hour.
- S: Well, I - I'll call up right away. Thank you.

H.M.Jr: Well, don't, ah,

S: No, I was going to call up anyway, tomorrow morning. Now, I'm simply making it

H.M.Jr: Well, you'd better do it tonight, because the way the thing is going it's crystalizing, and, and if you really want to give Straus a chance to do something, then you'd better, ah, build the houses and give them to the cities.

S: Ah, well I - I'm, I'm not going to build them; they're going to build them.

H.M.Jr: I know.

S: All right. All right, Henry; thanks very much.

H.M.Jr: Well.

S: Now Henry, on that other thing, is that O. K. with you?

H.M.Jr: What's that?

S: Ah - did you get my - my note today?

H.M.Jr: I haven't had a letter in three days.

S: Well, I sent a letter over to you - it has the same thing - asking whether you would be good enough to designate Admiral Peoples to discuss, with some of my people, the question of placing a large order for individual things like bathtubs and piping and ranges, in groups of - we want to buy a hundred thousand.

H.M.Jr: Ah, Friday I'll come up for air.

S: All right.

H.M.Jr: And until Friday, ah, just count me amongst the

S: All right, Henry, quite all right.

H.M.Jr: Will you?

S: You'll get this letter in due time. Why, why did you call me up - just to help me out?

- 4 -

- H.M.Jr: I got a message you called me this morning.
- S: Well, that was about this thing, but I decided you were too busy and I asked the office to kill the call and I sent the letter over in place of it.
- H.M.Jr: Well. Friday morning I'll come up for air.
- S: All right. Now don't worry about this; it's perfectly all right, and it'll keep until you have plenty of time.
- H.M.Jr: What is it, bathtubs?
- S: Bathtubs, toilets, everything else. What have you, to be - we're going to place - place a big order and we want to use your Procurement Division to cooperate in as far as you're ready to lend it to us, because they tell me you have a swell machinery for doing that.
- H.M.Jr: Well, can't I resign and go in the bathtub business?
- S: Well, I wonder how good it's going to be. Where they going to stamp it - store the damn things after they're finished? Well, that's the headache, but the boss wants the order placed, and we're trying to arrange to place it.
- H.M.Jr: You're not implying they're going to put coal in the bathtub, are you?
- S: That joke was very old very many years ago.
- H.M.Jr: (Laughs.)
- S: And, everytime at a meeting, Colonel Rice told me, Captain Rice, of the London County Council
- H.M.Jr: Yeah.
- S: I heard him answer the question, when he was asked, "You know, that, that question is very old in England, and really, we wouldn't expect the Americans that are always ahead of everything to be bringing up that joke, when we consider it rather stale, twenty-five years ago." And he got a laugh.

H.M.Jr: Well

S: Except when he sat down, I said to him, "Gee, you're pretty quick on the trigger. How did you happen to answer that quickly at that question"? He said, "Oh, I always could ask that at all the meetings and I always make the same answer."

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

S: Henry, thanks ever so much. Don't overwork, old man, and don't worry about me; I'll try to limp along and I'll

H.M.Jr: You called me up didn't you? Fellow died on us out in California.

S: Henry, I'll, I'll - don't let's talk about that over the wire.

H.M.Jr: (Laughs.)

S: So long, old man. Call me up soon. I'm awfully anxious to see you.

H.M.Jr: O. K.

S: Will you?

H.M.Jr: Goodbye.

S: Goodbye.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 13, 1938, 6 p.m.

NO.: 600

RUSH

FROM COCHRAN.

The optimism reported in my 593, April 13, 11 a.m., continued throughout the day on Paris market. French rentes gained as much as 4.15 francs; share market experienced boom trading; three months premium on sterling declined from 5 to 3 francs. Many bourse operators feel that this time a real turn has been taken in French affairs that will continue in the right direction.

More conservative observers reserve their judgment until they see how the strikes are settled, whether industrial production picks up, whether service on public debt can be reduced, et cetera.

At any rate a very promising start is being made by Daladier and many business people will support his actions since they look upon him as the last hope for general salvation of the country. It is entirely conceivable that capital will return better under his present Government than it would under broad National Union Government with Communist participation therein.

This evening at a quarter of six the French had for

the

- 2 -

the day gained in foreign exchange, including dollars, approximately one million five hundred thousand pounds.

Guaranty had bought by four o'clock two and three quarters million dollars for the control. The "value dates" incidental to Easter holidays somewhat hampered Guaranty.

The closing rate of the franc was around 158.12 to the pound sterling.

WILSON.

EA:LWW

Roosevelt Consults Foes And Friends of Spending; Denies Rift With Garner

Morgenthau and Hull, Opponents of 'Pump Priming,' Sounded Out on Message Tomorrow

President Moves To Ward Off Revolt

Seeks to Refute Report of White House Row With Garner Over Plan to Pile Up More Debts

By Albert L. Warner

WASHINGTON, April 12.—President Roosevelt called to the White House tonight and conferred with five Cabinet members and two agency heads in an effort to bring the Right and Left Wings of his administration together on a relief and works program to be sent to Congress Thursday.

The Presidential message and radio speech to accompany the program and designed to bring agreement in the official family is disclosed from authoritative indication to cover the following:

A firm request for \$1,250,000,000 for W. P. A. relief for seven months starting July 1.

Discussion and commendation of proposals for a \$1,500,000,000 public works program but specific consignment to Congress of responsibility for making any decision and choosing the method.

Use of desterilization process on the \$1,200,000,000 sterilized gold fund to reduce the public debt and cut the amount of new borrowing necessary under a spending program.

A new call for the revival of private business and assurance as to governmental policies toward industry.

Those at Conference

At the White House conference were Cordell Hull, Secretary of State; Henry Morgenthau, Secretary of the Treasury; Postmaster General James A. Farley and Jesse H. Jones, chairman of the R. F. C., all representing the conservative wing of the Administration, and Harold L. Ickes, Secretary of the Interior;

Henry A. Wallace, Secretary of Agriculture, and Harry Hopkins, W. P. A. Administrator, representing the other Administration wing. James Roosevelt, the President's son and secretary, was also present with his father.

"The purpose of the conference," the White House announced ahead of time, "is to discuss the message the President is preparing for probable transmission to the Congress Thursday."

In other quarters it was learned that earlier Secretary Morgenthau had joined the ranks of those advising the President against a large new "pump-priming program." In his own quiet and unobtrusive way, it was reported among his friends, the Secretary of the Treasury told the President yesterday he was firmly against a big spending program, although he realized that current economic conditions required more money for relief and some government aid.

Hull Against Spending

This put the Secretary of the Treasury in much the same camp with Vice-President John N. Garner. It was taken for granted in Washington that Secretary Hull also looked askance at any large-scale return to "pump priming." This was the first time he had been called into a special conference on relief and public works as far as newspaper men knew.

The personnel of the White House conference thus suggested that the President was anxious to erase the rising division in his Administration ranks. Some assurance to business and the handing of responsibility for a public works decision to Congress were reported to be the President's concessions to the conservatives.

That the President was disturbed by reports of dissension in his administration over spending was indicated at his afternoon press conference.

Despite a growing list of well-known points on which their views have differed President Roosevelt denied any estrangement from Vice-President Garner and particularly sought to refute the report that they had quarreled at a White House conference or that they had had a tiff over renewed "pump-priming" expenditures.

Mr. Roosevelt did not refer to yesterday's other gossip version, namely, that Mr. Garner, although

ready to espouse a firm stand against higher deficits, had actually crossed the President by championing the House leadership in the reorganization bill fight and resenting a half-humorous Presidential "crack" at its expense.

Capital observers are well agreed that Mr. Garner is fiercely opposed to any great "pump-priming" and deficit-rolling program, and that he has voiced these views trenchantly to the President at other times, if not yesterday.

But at his press conference the President said he knew nothing about any tiff with Mr. Garner except what he had read in the newspapers. He replied with a flat negative to a question as to whether he and the Vice-President had disagreed over pump-priming.

The President also was asked about a report that last week Mr. Garner had told him the New Deal should "let the cattle be turned out to grass"; in other words, that business should be given some kind treatment and good pasturage, for a change, so it could "fatten up." The President said this report was made out of whole cloth, and he himself had asked Mr. Garner yesterday if he had read it. He quoted the Vice-President as saying, "Damn it, yes, I've seen it." Mr. Garner, according to Mr. Roosevelt, said he had never made the remark to any one, let alone the President.

Meantime, the spending forces in the Administration were upheld by John L. Lewis, chairman of the Committee for Industrial Organization, who told fellow leaders of the C. I. O. unions that the government must create purchasing power and jobs for the unemployed. He warned that "wishful thinking needs to be replaced by well planned action."

"Hand-to-mouth measures are not enough. A well planned, long-time program needs to be envisioned. The C. I. O. and the unemployed do not want leaf-raking jobs. They want houses, slum clearance, schools, hospitals, flood control, education and sound recreation."

Mayor F. H. LaGuardia of New York also gave encouragement to the spenders in conferences with Messrs. Hopkins and Ickes. Mr. Hopkins also saw Secretary Morgenthau. To the White House came Representative Maury Maverick, Democrat, of Texas, one of the Left Wing progressive group. He said afterward that a

minimum of \$3,000,000 would be needed for relief and pump priming.

On Capitol Hill, the Administration leaders pointed to a strategy which may help the cause of relief and public works appropriations. The Navy expansion bill providing for the eventual expenditure of \$1,200,000,000 will be brought up first in the Senate to hold the spotlight next week. After many Republicans and conservatives vote for the bill, as expected, Administration leaders believe these Senators will have difficulty voting against a program of local peaceful public works. It was pointed out that it would be hard to explain to constituents the vote for battleship construction and a vote against building bridges and schools.

Opposition leaders believe that if the President's spending plans were to be curtailed it would be largely up to the President's own conservative advisers. Opposition Congressmen frankly admitted that when the plans go before Congress, and local officials, labor organizations and the relief people mobilize behind them, it will be politically extraordinary if a big public works program can be stopped.

26

Copy of letter as finally sent by
the President to Senator Harrison

COPY

THE WHITE HOUSE
Washington

April 13, 1938

Dear Mr. Chairman:

The Revenue Bill as it passed the House and the Revenue Bill just adopted by the Senate differ in many particulars. While differences in detail can, I am confident, be ironed out in conference committees without sacrifice of fundamental principles, in two major respects important principles of fairness in taxation are in issue. I wish to bring these two matters briefly to your attention at this time.

1. Capital Gains - For many years the country has accepted without question the principle of taxation in accordance with ability to pay. This principle applies to all forms of additional wealth accruing to individuals. There is no fairness in taxing the salaried man and the merchant upon their incomes and taxing at far lower rates the profits on the capital of the speculator. Nor is it fair to subject the salaried man and the merchant to progressive surtaxes upon their earnings and at the same time to tax capital gains, large or small, at the same flat rate, to the particular advantage of the taxpayer who otherwise would pay much higher surtax rates. In other words, as a matter of principle, if additional wealth in the form of earnings from business, such as dividends, interest, or wages, is taxed at progressive rates then capital gains should also be taxed at progressive rates.

The present law treats capital gains very favorably - more favorably than dividends, interest, or salaries earned over similar periods of time. The advantage given to capital gains under the present law, as compared to ordinary income, in many cases runs as high as 50 percent. Under the Senate Bill this preferential advantage is further increased by reducing the tax to a flat rate, no matter how large are the taxpayer's capital gains or how large his other income. For example, a man who makes a capital gain in a given year amounting to \$5000 would have to pay a tax of not more than 15 percent; while at the same time the man who makes capital gains of \$500,000 in a given year will also pay a tax of not more than 15 percent. Desirable as it is to foster business recovery, we should not do so by creating injustices in the tax system, particularly injustices at the expense of the man who earns his income - injustices to the advantage of the man who does not.

COPY

- 2 -

2. Corporation Taxes - For many years the Congress has sought to devise a fair system for taxing incomes from business, whether received by individual proprietors, by partnerships, or by corporations. Legally the corporation is a separate entity from the individuals who own it. Hence, while individual proprietors and partners are taxable at the usual normal tax and surtax rates upon the entire incomes of their businesses, whether taken out of the business or left in it, the corporate charter sets up a Chinese wall which prevents the earnings from being taxed to the shareholders who really own them, unless those earnings are actually distributed to the shareholders in the form of dividends. Thus a wide and basically unfair disparity between the taxation of individual proprietors and partnerships on the one hand, and of corporations on the other is created, unless some provision for taxing undistributed corporation earnings appears in the law.

At present, corporations are taxable on their earnings at a normal rate of from 8 to 15 percent, whether the earnings are paid out in dividends or not. If dividends are declared, the individual stockholders who get the earnings pay an additional normal personal income tax. If their incomes are large enough, they pay progressive surtaxes also. Consequently, the Treasury stands to lose where the corporation does not distribute earnings, whereas if earnings were distributed, the Treasury would collect additional taxes on the personal income tax returns of the stockholders. Moreover, with no undistributed profits tax, the partnership or individual proprietor is discriminated against as compared to the corporation. Finally, with no undistributed profits tax, the avoidance of surtaxes through the use of the corporation becomes a readily available device, for those persons in the higher surtax brackets, who seek legally to keep their net personal incomes down for taxpaying purposes and to hide their actual profits by leaving them in the corporations they own.

For these reasons and others, I recommended the undistributed profits tax in 1936, and the Congress adopted it. Modifications shown by experience to be desirable, in particular the exemption of small corporations, should be made, but the principle of the tax is sound, and it should be retained in our tax system. Otherwise we grant a definite incentive to the avoidance of personal income tax payments through methods which are legal, but which are contrary to the spirit of the principle that every citizen should pay taxes in accordance

COPY

with his means. It would be particularly undesirable to eliminate the undistributed profits tax at this time, in favor of a flat rate of tax, representing an increase in the tax burden on many small corporations, and on all corporations which follow established American practices of dividend distribution; and a decrease in the tax burden of many large corporations, which have hoarded their earnings in the past, and would be encouraged to resume the practice in the future.

The Bill as passed by the House gives a flat exemption from the undistributed profits tax to those smaller corporations which make net earnings up to \$25,000 per year. Out of the total of 200,000 taxpaying corporations, approximately 176,000 are exempted from the undistributed profits tax under this provision. This means that any young and growing corporation earning up to \$25,000 per year can in the discretion of its directors set aside all its earnings for growth and expansion. Moreover, under the House Bill, corporations with incomes in excess of \$25,000 can also accumulate reserves for legitimate purposes by paying an additional tax of only from 1 to 2 percent on undistributed earnings.

There are many other provisions in the two bills which will improve the equity of the tax system, and the efficiency of its administration. Some pending amendments grant unjustifiable exemptions from a fair general rule, complicate the law, and should be eliminated. It is most important, however, to hold fast to that which is good in the tax system. Equal taxation of incomes of similar size, and equal taxation of corporations and individual taxpayers are axiomatic. The repeal of the undistributed profits tax and the reduction of the tax on capital gains to a fraction of the tax on other forms of income strike at the root of fundamental principles of taxation.

Business will be helped, not hurt, by these suggestions.

Faithfully,

STANLEY H. HOOPER

Hon. Pat Harrison,
Chairman, Finance Committee,
United States Senate,
Washington, D. C.

April 13, 1938

12 o'clock

Present:

Mr. Bell
Mr. Taylor
Mr. Gaston
Dr. Haas
Dr. White
Dr. Viner
Mrs. Klotz

(Mrs. Morgenthau present for the last few minutes of the meeting.)

HM, Jr.: The purpose of asking you people to come in is this: The President told me this morning that he would give Bell and me 30 minutes to go over this whole program with him. Jimmie Roosevelt just called up and asked why wasn't I over there to fill in the figures. I said the reason was the President said he would give us 30 minutes in which to go over the program and tell him what, in our opinion, we thought was a good program and could be financed.

So I want to go over this thing with you fellows once more.

Now, Dan, let's just start in on this thing. This is the way it is going to go. Highways, \$290,000,000. Doesn't show any increase. What about that?

Mr. Bell: Shows an increase -- you see, what I did was to give the increase for the total rather than individual items. There is \$190,000,000 increase.

HM, Jr.: This thing he is sending up tomorrow, any increase in that for Highways?

Mr. Bell: \$100,000,000 is the new increase - \$90,000,000 is the increase in the regular amount. The total is in here - \$190,000,000 there (pointing to tabulation) and \$150,000,000 there, making \$340,000,000.

HM, Jr.: The difference between that is?

Mr. Bell: \$190,000,000.

-2-

HM, Jr: You have upped it \$190,000,000 and upped this one \$150,000,000. That makes your \$340,000,000. All right. There is \$190,000,000 increase in Highways. Well, he told Wallace that must be spent in this calendar year.

Mr. Bell: What I take is, he is going to put in the Budget the \$100,000,000. The \$90,000,000 goes in the regular appropriation and is matching money, and the \$150,000,000 is also going in his message -- flood control.

HM, Jr: Just \$100,000,000 for Highways.. Are we for it or not -- the extra?

Mr. Bell: Well, we don't know what he intends to do with it. I would just as soon see it spent on Highways as on anything else, but I hate to see a Transcontinental Highway, to start with \$800,000,000, and that's what I understood Jimmie Roosevelt to say it is for -- to start a spur for that. I certainly am against that.

HM, Jr: Well, we will ask him what it is for and at this time we don't want to start an \$8,000,000,000 program.

Mr. Bell: I don't believe we should.

Mr. Taylor: No, if they use this total highway principle, it can go to Jesse on that. He can finance that.

Mr. Bell: Oh, no; that won't work.

Mr. Gaston: It's bad in principle.

Mr. Bell: Sure. Politically it won't stick. Tolls. We will be holding the bag in two years after you put on the tolls.

HM, Jr: Well, just kind of go quickly over the whole business.

Mr. Bell: \$150,000,000, Flood Control. The country is flood control conscious and I think that is a good thing to spend money for if you are going into a spending program. I don't think, however, we should build up a big one - flood control bill - which we can't meet out of taxes.

-3-

HM,Jr: (Reading from tabulation)

Rural Relief.
National Youth.
C.C.C.

Those are all fixed.

Social Security. You can't fight about that.

Revolving Fund including Grants?

Mr. Bell: That's the \$450,000,000 extra that you talked about yesterday.

Mr. Taylor: That's what we are having a meeting on in the other room.

HM,Jr: Who is "we"?

Mr. Taylor: Department of the Interior.

HM,Jr: Do we want to start Ickes in business again?

Mr. Bell: I certainly don't.

HM,Jr: I don't either.

Mr. Bell: I think what will happen, you will get a lot of commitments in 1939 and the money will be spent in 1940-1941 and that will ruin those years if you even think about balancing the budget.

HM,Jr: What's what I told the President. The President said if they don't get started until October, it's no good. You and I have seen letter after letter on that. I think you and I should take the position not to start Ickes in business again.

Mr. Bell: That's right.

HM,Jr: Because he has never been successful at it. I don't think we should have 1½ billions-50 year thing for States. It's too slow.

Mr. Gaston: That's an alternative to this same thing.

-4-

HM, Jr: No; it's separate. They won't tell us. That's the trouble. And they keep me in the dark all the time and as near as I can make out, that 2½ to the States is extra.

Mr. Bell: That's direct loans without interest.

Mr. Gaston: That means another \$700,000,000.

HM, Jr: It means another 1½ billions.

Mr. Gaston: Actual cost.

Mr. Bell: Over a period of 50 years it ~~will cost~~ us at least 1 billion interest.

HM, Jr: That won't get started until the State legislatures meet. Right? Won't be started this year.

If the President says, Now I put it up to you. We do the 1½ billion for unemployed. Youth Administration, Farm Security -- that's all in there?

Mr. Bell: That's in the bottom bracket.

HM, Jr: I won't argue about that.

Mr. Bell: I can't argue about taking care of the poor fellow who hasn't a job.

HM, Jr: What we are arguing about is putting Mr. Ickes back in business because it won't get results. We are going to argue about 50-year loans to States because that won't get results now and has not been thought through. In the first place, take New England. There are five States involved in the Connecticut Valley. Until they get together and they won't meet until next year, it won't get started until a year from now.

Mr. Bell: The only possible amount that could get out, you could take old applications on file which have already been approved by cities and counties.

Dr. White: They haven't anything later than 1936.

Mr. Bell: I think that's right.

-5-

HM, Jr: And Mr. Jones has authority to do that.
What I am trying to get at is the thing we don't
want.

1. Put Ickes back in business.

Mr. Bell: Yes.

HM, Jr: Because it is too slow. Right?

Mr. Bell: Yes, sir.

Dr. White: Is it possible to avoid a good deal of
opposition by giving him a little?

HM, Jr: Dan and I have been through this thing. I
had the President give me his word of honor that he wouldn't
spend a dollar of the \$300,000,000 Revolving Fund of Ickes.

Mr. Bell: And it's all gone.

HM, Jr: It's all gone.

2. No 50-year loans to States. Right?

Mr. Bell: Yes.

HM, Jr: Too slow?

Mr. Bell: Yes, I think too slow.

HM, Jr: No Transcontinental Highway.

Dr. White: They would never get started on that. for
at least four months.

Mr. Gaston: Too slow; unsound.

Mr. Bell: We made a \$4,000,000 allocation in June,
1935, for good roads which they said they could get under
way immediately. They didn't spend a dollar of it until
the spring of '36.

HM, Jr: Now, Straus. What about waiving his 10%?

Mr. Bell: I don't know enough about it. I don't
think it makes a lot of difference -- thinking out loud --

-6-

because it's a gift anyway.

Mr. Taylor: I would take that one.

HM, Jr.: That's the way I feel. I would take that. But he wants another authority, for another \$500,000,000. Let him do the first \$500,000,000 first.

Mr. Bell: That's what I say.

Mr. Taylor: I would even give him the other \$500,000,000 if you have to.

HM, Jr.: If Straus signs contracts for \$500,000,000 now, o.k. Then Congress will be back in seven months and if the thing works -- let's see.

Mr. Taylor: If you find it useful I would take that \$500,000,000 and throw it in there and it isn't going to hurt you.

HM, Jr.: You mean he won't do it?

Mr. Taylor: Yes.

Mr. Bell: Yes, but if he signs contracts and commitments, we are sunk.

HM, Jr.: Sure!

Mr. Gaston: I think that's a trading item.

Dr. White: Put a strong on it -- on condition such and such an amount is expended.

Mr. Taylor: No.

HM, Jr.: When this boils down, we don't want to put Ickes back in business; we don't want 50-year loans to States; we don't want Transcontinental Highway. Is that right?

Mr. Bell: Yes. And if they want to spend anything on roads, it should be part of Hopkins 1 $\frac{1}{2}$.

Dr. White: So far you have merely taken away. Anything to substitute?

-7-

HM,Jr: I don't think we need to.

Dr. White: Couldn't you increase expenditures for Public Health. Very badly needed.

HM,Jr: I offered to increase Hopkins' appropriation by \$500,000,000 if he wanted and the President's answer was 'I don't want any leaf raking'.

Dr. White: Would that apply to Public Health?

Mr. Gaston: You have nearly 2 billions additions to the deficit here; increases over the budget.

Dr. White: Before discarding the Public Health possibility, it is very popular; all worked out. There is a report on public health that is full of dynamite.

Mr. Bell: Would it create employment?

Dr. White: No. They have a program -- Dr. Parran has a program for hospitalization. \$175,000,000 would go a long way. Hospitalization and treatment for those on relief.

HM,Jr: Does that put anybody to work?

Dr. White: Sure.

HM,Jr: How?

Dr. White: They are going to build hospitals; put more purchasing power in the hands of the physicians....

Dr. Viner: What percentage of the beds in hospitals are vacant now? 35%.

Dr. White: Surely you don't question the value of the project.

HM,Jr: No. I am taking the position, Harry, that if you do this plus all we have got plus what the President has got left, if he wants to, if he really wants to do things, we have plenty of things left that he does not need authority for. If he wants to do this job, I am not recommending it but he has some silver certificates, some Thomas currency; he has got lots of stuff that he can use. And what I am trying to do is give him a program which I

-8-

think Congress is going to give him. No, I think you people can take -- I think that's as far as we can go with safety and I think it is necessary to go.

Dr. White: I think you can increase the strength of your position in taking off these very large slices if you substitute something which is not large, yet which can be very well defended.

HM, Jr: No. The thing that he threw out himself last night, very emphatically, this item of \$100,000,000 to put unemployed railroad people back to work on railroads, which is a Jones matter, he emphatically is opposed to that.

Dr. White: You feel it is too late to consider any additional

HM, Jr: It's not too late, but I don't think it's necessary and I think that I don't want to scare the country to death and this thing here, Hopkins kept saying he wanted to add a billion dollars. Cash.

Mr. Bell: Yes, sir.

HM, Jr: This will do that, won't it?

Mr. Bell: I understood him to say a billion cash over and above the 1½ billions which was discussed with the Congressional leaders.

HM, Jr: Oh!

Mr. Bell: In other words, a 2½ billion program.

Mr. Gaston: This just does that without grants and no interest loans. About 2½ billions altogether.

Mr. Taylor: We are really arguing about whether you do grants and public works; that's all.

HM, Jr: Practically.

Dr. White: Would there be any virtue in scaling down the grants, making them smaller? You might be able to get sufficient demand for them that they would begin spending them right away and it would be quite popular.

HM, Jr: The trouble is, Harry, I have been through

-9-

this thing for four years. Bell and I find we can control Hopkins. You can start him quick and he will stop quick of his own accord. You can control him. These other things, the experience that we have had is, in the first place they don't spend the money when you want them to do it. They spend it when it is unnecessary. And you never can stop it and nobody can work with Ickes. You just can't work with him. Now, Hopkins has always said that he can build big projects. I don't care how much authority they give him, because you can work with that fellow.

Mr. Bell: That's right. Yes, sir.

HM, Jr: You can work with him, but you cannot work with Ickes.

Mr. Bell: That's right.

HM, Jr: If you want to go back to the President's original idea and say a town wants to build a \$50,000 school. We will let Jones make a loan and Hopkins will either give you unemployed labor or the money with which to hire unemployed labor.

Mr. Bell: That's all right. No objection to that.

HM, Jr: And those things will go and if all these projects are kicking around and they get this thing started, but by the time Ickes examines the thing and has all his engineers examine them and has them adjust projects the way he wants them, two years go by.

Well, Dan, I wanted you to have what I had in mind. You had better go up to your room and re-examine it in view of what I have been saying here now. And if and when I get a call from the President, you will be among the first to know it. If you go out for lunch, will you leave word where you are?

Mr. Bell: Yes. I don't see much change in that memorandum except this $1\frac{1}{2}$ billions for non-interest bearing loans. Now whether that \$450,000,000 that we have got in there for grants could be considered part of that $1\frac{1}{2}$ billions -- what Wayne had in mind -- I don't know whether we could get away with that or not.

Mr. Taylor: That's what I have been talking to this

-10-

Interior crowd about, that you can, let's say, take a billion or any figure that you want and say that is a grant. Now that grant, if it is made in the form of a contribution of interest, has to come out of that billion and you set it up on its present day value; in other words, it is a form of grant. Treat it as that. But keep your financing mechanism, whether RFC or Commodity Credit or a new corporation that they are involved in setting up.

HM, Jr: Ickes crowd?

Mr. Taylor: Yes. ~~That has to be sweet.~~

HM, Jr: Do we need another corporation?

Mr. Taylor: You don't need another corporation, but if you do do it in that form, with Ickes back in business and so on, that is the only way that it makes the slightest sense. Doesn't make much then. But you can do it if you do it on that basis and Dan is thoroughly familiar with that. I said all I had to say in there and got the impression that the Interior boys agreed with that.

HM, Jr: I don't want them to start it.

Dr. White: The chief argument you are advancing about the $1\frac{1}{2}$ billions to States is that it will not be used?

HM, Jr: Promptly. Will not be used in this calendar year.

Dr. White: Supposing that there is available, or can be within two months, 200 or 300 or 400 million dollars. It seems to me you would be on weaker ground and in view of the fact that the objection you are raising to us, that instead of $1\frac{1}{2}$ billions let us make it 250 million or 300 million. That would give your point consistency.

HM, Jr: No, because as soon as you get up on the Hill they boost it a billion or a billion and a half. Ickes goes up with his whole machine and he tells this Senator, If you don't do this I will take 35,000 projects away from you. You can't work with this fellow. Hopkins will say, I want $1\frac{1}{2}$ billions. Have we agreed on it? and

-11-

and we say yes, and he sticks to his word. Ickes' word doesn't mean anything. He just won't stick to it. I don't know where I am at from day to day. And the best example is, the President tells Jesse Jones to put a new bill through and Ickes goes up on the Hill and lobbies against it. How are you going to deal with a man like that?

Mr. Bell: To my mind, the amount you suggest could be handled very promptly through Hopkins and Jessie Jones, by Hopkins giving labor equivalent to the grant and Jones giving the loan.

HM, Jr: Dan, you go on and if I get word and I have a little more time, I will meet with you fellows again. In the meantime, you can be thinking about it.

oOo-oOo



TREASURY DEPARTMENT

WASHINGTON

 DEPARTMENT OF THE ADMINISTRATIVE
 REPORT TO THE SECRETARY

April 13, 1938.

TO THE SECRETARY:

The President indicated in today's conference that his message would contain recommendations for appropriations as follows:

Works Progress Administration	\$1,250,000,000	to last until February 1, 1939.
Farm Security Administration	175,000,000	full year.
National Youth Administration	75,000,000	full year.
Civilian Conservation Corps	50,000,000	in addition to the amount in the budget.
Roads	100,000,000	in addition to the amount in the budget.
Flood Control	37,000,000	in addition to the amount in the budget.
Federal Buildings	25,000,000	in addition to the amount in the budget.
Public Works	1,000,000,000	for loans and grants.
Total	\$2,712,000,000	

He also stated that he was adding \$300,000,000 for the United States Housing Authority for expenditure in 1939 and that an agreement had been reached between Wagner and Straus to offer an amendment which would permit the United States Housing Authority to pay the entire cost of a housing project but that the title should not pass to the local housing authority until the local housing authority had paid to the United States Housing Authority 10% required under the Act.

As to the billion dollars for public works, loans and grants, the President said that it was his thought that this could be on an optional 45% grant and a 55% loan or on some other percentage basis, and, also, that permission should be granted to loan the whole sum without interest, the borrower to repay the principal

- 2 -

only over a period of years not to exceed 50. This would result in the Federal Government loaning the principal, paying the interest on the borrowed funds, and using the principal repayments as they come in to retire its outstanding debt obligations. The President stated that it is his thought the total ultimate out-of-pocket cost to the Government should not exceed \$1,000,000,000 and, furthermore, no loans or grants should be made on any state or local project which cannot be started within six months from the date legislation is approved. I asked him if he would care if a provision to that effect were inserted in the proposed legislation. He said he would not care and thought it might be a good thing to insert it.

There is attached hereto statements showing rough budget estimates for the fiscal year 1939 which include expenditures from the above-mentioned appropriations on a full year basis.

dwB

*his program would not materially change
the financing picture.*

ROUGH BUDGET ESTIMATES, FISCAL YEAR 1939

(In millions of dollars)

	Estimated in 1939 Budget		Revised estimates		Increase
<u>Expenditures-</u>					
Departmental		\$1,324		\$1,324	---
Public Works-					
Highways	\$100		\$200		
Rivers and Harbors	60		60		
Flood Control	63		100		
All other	<u>181</u>	404	<u>196</u>	556	\$152
National Defense		989		1,040	51
Agric. Adj. Program		586		636	50
Civilian Cons. Corps		230		280	50
Social Security		338		350	12
Int. on the Public Debt		976		1,000	24
Revolving funds (in- cluding grants)		142		592	1/ 450
Transfers to trust accts		667		667	---
Supplemental		75		100	25
Recovery and relief-					
Works Progress Admn.	925		2,200		
Farm Security Admn.	85		200		
All other	<u>128</u>	1,138	<u>128</u>	2,528	1,390
Total expenditures		6,869		9,073	2,204
<u>Revenues</u> 2/		<u>5,919</u>		<u>5,077</u>	(a) 842
<u>Net deficit</u>		<u>950</u>		<u>3,996</u>	<u>3,046</u>

a) Decrease

The President indicated that he would ask for authority to make grants and loans to local governments optional on a 45% grant and a 55% loan or some other such percentage or advance the whole sum as a loan without interest to be repaid over a term of years, the Government paying interest in the meantime on the outstanding debt obligations, but that the total cost would not exceed \$1,000,000,000. It is estimated in the above statement \$450,000,000 will be spent in the fiscal year 1939.

Above revised revenue estimate is based on Federal Reserve Board business index of 80. If this index declines to 75 the estimate of revenue will be about \$4,881 million, and the net deficit will be \$4,380 million. If this index increases to 85, the revenue estimate will be \$5,238 million, and the net deficit \$4,023 million.

DWB

April 13, 1938

4:15 p.m.

Present:

Mr. Taylor
Mr. Gaston
Mr. Oliphant
Mr. Lochhead
Dr. Haas
Dr. White
Dr. Viner
Mr. Magill
Mrs. Klotz

(The Secretary's father was present for the last few minutes of the meeting.)

HM, Jr: To be brief, the program is just about the way it was. There is no change. I had two hours with the President and as near as I can make it out, I think it totaled up to 1 billion 700 million cash. I just haven't got the figures offhand, but anyway it is just about where it was.

I suggested to the President that it seems to me there are a lot of possibilities, Herbert, that may get him in trouble -- talking about copper prices and inventories and all that kind of stuff. I thought possibly you (Mr. Gaston) and Haas and White -- he said he would like you, as soon as it is typed, to go over there and go over it word by word.

Mr. Oliphant: That's Leon's work.

HM, Jr: No, most of it was written by Aubrey Williams.

Mr. Gaston: You mean the speech or the message?

HM, Jr: This is the message. Again and again he said, 'This is Aubrey Williams'. I would say 'Who wrote that?' and he would say 'Aubrey Williams'. He said it should three times.

Mr. Taylor: Leon probably wrote it for Aubrey Williams.

HM, Jr: So I think, Herbert, if you would talk to Steve. Maybe I had better clear it for you.

-2-

Mr. Gaston: Perhaps so, if Steve doesn't know.

HM, Jr: Well, now, there really isn't -- I think you (Mr. Taylor) had better get hold of Marriner and tell him that I have just come in after two hours and that the first thing in the morning I would like to get together with him. I have a press conference at 10:30. Why not ask him to come over at 11. I would like Ransome too.

Mr. Taylor: Tell him what's happened?

HM, Jr: Well, he sent over a memorandum on this gold and on the excess reserves and I had the President change it to ~~read~~. The Federal Reserve has advised me' instead of his saying that he is going to tell the Federal Reserve. Eccles wrote this thing and he had this whole thing about bank examinations and I had the President change that and say as a part of better organization, bank examinations should be consolidated, leaving out reference to securities and all the rest of the thing. Bell and I felt the way it was written was all right. The way it read looked like we were going to do three things: gold, excess reserves, liberalize bank examination -- and fourth, SEC, etc., so if the combination wouldn't scare anybody nothing would. And so all I can say is it is just about where it was.

Dr. White: Was there a specific amount of gold mentioned?

HM, Jr: Yes. 1 billion 4. Dan thought it would be better to say 1 1/2 billions; keep a little in case something goes out. But I don't want to change anything as long as it is in there. I just thought I would tell you where it is, and that's where it is. Tomorrow is another day.

Dr. White: Are you going to have another crack at it?

HM, Jr: No. But I want Gaston to take Haas and White over there and take care of the words, because I am a little worried about the words. Aubrey Williams or Leon Henderson has written the thing. There may be some terrible mistakes.

oOo-oOo

EXTRACTS FROM ADDRESS GIVEN BY FRANKLIN D. ROOSEVELT, AS
GOVERNOR OF NEW YORK AND DEMOCRATIC NOMINEE FOR PRESIDENT,
OCTOBER 19, 1932, AT PITTSBURGH, PENNA.

What I should like to do is to reduce, in so far as possible, the problem of our national finances to the terms of a family budget.

Now the credit of the family depends chiefly on whether that family is living within its income. And this is so of the nation. If the nation is living within its income, its credit is good. If in some crisis, it lives beyond its income for a year or two it can usually borrow temporarily on reasonable terms. But if, like a spendthrift, it throws discretion to the winds, is willing to make no sacrifice at all in spending, extends its taxing to the limit of the people's power to pay and continue to pile up deficits, it is on the road to bankruptcy.

* * * * *

Taxes are paid in the sweat of every man who labors because they are a burden on production and can be paid only by production. If excessive, they are reflected in idle factories, tax-sold farms, and, hence, in hordes of the hungry tramping the streets and seeking jobs in vain. Our workers may never see a tax bill, but they pay in deductions from wages, in increased cost of what they buy, or (as now) in broad cessation of employment.

There is not an unemployed man—there is not a struggling farmer—whose interest in this subject is not direct and vital.

Let me make it perfectly clear, however, that if men and women or children are starving in the United States, I regard it as a positive duty

- 2 -

of the Government to raise by taxes whatever sum may be necessary to keep them from starvation.

What I am talking about are the taxes which go to the ordinary costs of conducting Government, and that is where the question of extravagance comes in. There can be no extravagance when starvation is in question; but extravagance does apply to the mounting budget of the Federal Government in Washington during these past four years.

The most obvious effect of extravagant Government spending is, then, its burden on farm and industrial activity and, for that, nearly every Government unit in the United States is to blame. But when we come to consider prodigality and extravagance in the Federal Government--as distinguished from State or local government--we are talking about something even more dangerous. For upon the financial stability of the United States Government depends the stability of trade and employment, and of the entire banking, saving and insurance system of the country.

* * * * *

BANKS FINANCING STUPENDOUS DEFICITS.

You know as well as I do that this administration's claim that it has provided credit for industry and agriculture by pouring credit into banks are not frank. Commercial credit has continuously contracted and is contracting now. Most of this new Government-created credit has been taken to finance the Government's continuing deficits.

- 3 -

The truth is that our banks are financing these stupendous deficits and that the burden is absorbing their resources.

All this is highly undesirable and wholly unnecessary. It arises from one cause only, and that is the unbalanced budget and the continued failure of this administration to take effective steps to balance it. If that budget had been fully and honestly balanced in 1930, as it could have been, some of the 1931 collapse would have been avoided. Even if it had been balanced in 1931, as it could have been, much of the extreme dip in 1932 would have been obviated. Our financial men know the unnecessary muddle that has accumulated and is still accumulating in Washington.

* * * * *

In all earnestness I leave the answer to your common sense and judgment. The other bad effect of this fiscal mismanagement is not at all technical. It is the burden of high cost on the backs of all our people.

WARRING ON GOVERNMENT COSTS.

I can state the condition best, by quoting one paragraph from a document published a week ago and signed by both Alfred E. Smith and Calvin Coolidge:

"All the costs of local, State and National Government must be reduced without fear and without favor. Unless the people, through unified action, arise and take charge of their government they will find that their government has taken charge of them. Independence and liberty will be gone and the general public will find itself in a condition of servitude to and aggregation of organized and selfish minorities."

Every word of that warning is true, and the first and most important and necessitous step in balancing our Federal budget is to reduce expense.

April 13, 1938

Blary

ROOSEVELT TO CONFER WITH MORGENTHAU AND BELL
ON RELIEF MESSAGE 1.02

WASHN - PRESIDENT ROOSEVELT REVAMPED
HIS SCHEDULE OF CALLERS SHORTLY BEFORE
LUNCH TIME TODAY AND ANNOUNCED HE HAD CUT
HIS LUNCHEON APPOINTMENT WITH EDWARD FLYNN OF
NEW YORK IN HALF AND WAS GIVING THE OTHER
HALF OF THE TIME TO A DISCUSSION OF THE RE-
LIEF MESSAGE WITH SECY MORGENTHAU AND ACTING
BUDGET DIRECTOR BELL - THE PRESIDENT INTENDS
TO DEVOTE MOST OF THE AFTERNOON TO WORK ON
THE MESSAGE AND THE RADIO ADDRESS
THAT WILL FOLLOW IT

APR 13 1938

-0-

April 13, 1938

Employment figures.

Week ending April 9	- - - - -	2,504,479
Increase over week ending April 2	-	59,163

WORKS PROGRESS ADMINISTRATION

WALKER-JOHNSON BUILDING
1734 NEW YORK AVENUE NW.
WASHINGTON, D. C.

HARRY L. HOPKINS
ADMINISTRATOR

April 13, 1938

MEMORANDUM

TO: Mr. Morgenthau, Secretary of the Treasury

FROM: Emerson Ross, Director
Division of Research,
Statistics, & Records

During the past week WPA employment rose to 2,504,179 persons, an increase of slightly more than 59,000 from the previous week. This increase was again rather widely distributed, although the larger increases were concentrated in the industrial states, including Ohio, Pennsylvania, Michigan, New Jersey, Indiana, and New York.

FOR THE PRESS

April 14, 1938

CONFIDENTIAL UNTIL RELEASED

CAUTION: This address of the President, to be broadcast from the White House, Thursday, April 14, 1938, MUST BE HELD IN CONFIDENCE until released.

NOTE: Release to all editions of newspapers appearing on the streets NOT EARLIER than 10:30 P.M., Eastern Standard Time, April 14, 1938.

STEPHEN EARLY
Secretary to the President

Five months have gone by since I last spoke to the people of the Nation about the state of the Nation.

I had hoped to be able to defer this talk until next week because, as we all know, this is Holy Week. But what I want to say to you, the people of the country, is of such immediate need and relates so closely to the lives of human beings and the prevention of human suffering that I have felt that there should be no delay. In this decision I have been strengthened by the thought that by speaking tonight there may be greater peace of mind and the hope of Easter may be more real at firesides everywhere, and that it is not inappropriate to encourage peace when so many of us are thinking of the Prince of Peace.

Five years ago we faced a very serious problem of economic and social recovery. For four and a half years that recovery proceeded apace. It is only in the past seven months that it has received a visible setback.

And it is only within the past two months, as we have waited patiently to see whether the forces of business itself would counteract it, that it has become apparent that government itself can no longer safely fail to take aggressive government steps to meet it.

This recession has not returned us to the disasters and suffering of the beginning of 1933. Your money in the bank is safe; farmers are no longer in deep distress and have greater purchasing power; dangers of security speculation have been minimized; national income is almost 50% higher than in 1932; and government has an established and accepted responsibility for relief.

But I know that many of you have lost your jobs or have seen your friends or members of your families lose their jobs, and I do not propose that the government shall pretend not to see these things. I know that the effect of our present difficulties has been uneven; that they have affected some groups and some localities seriously but that they have been scarcely felt in others. But I conceive the first duty of government is to protect the economic welfare of all the people in all sections and in all groups. I said in my Message opening the last session of Congress that if private enterprise did not provide jobs this Spring, government would take up the slack -- that I would not let the people down. We have all learned the lesson that government cannot afford to wait until it has lost the power to act.

Therefore, I have sent a message of far-reaching importance to the Congress. I want to read to you tonight certain passages from that Message, and to talk with you about them.

In that Message I analyzed the causes of the collapse of 1929 in these words: "over-speculation in and over-production of practically every article or instrument used by man millions of people had been put to work, but the products of their hands had exceeded the purchasing power of their pocketbooks Under the inexorable law of supply and demand, supplies so overran demand which would pay that production was compelled to stop. Unemployment and closed factories resulted. Hence the tragic years from 1929 to 1933."

I pointed out to the Congress that the national income -- not the Government's income but the total of the income of all the individual citizens and families of the United States -- every farmer, every worker, every banker, every professional man and every person who lived on income derived from investments -- that national income amounted, in the year 1929, to eighty-one billion dollars. By 1932 this had fallen to thirty-eight billion dollars. Gradually, and up to a few months ago, it had risen to a total of sixty-eight billion dollars -- a pretty good come-back from the low point.

I then said this to the Congress:

"But the very vigor of the recovery in both durable goods and consumers' goods brought into the picture early in 1937 certain highly undesirable practices, which were in large part responsible for the economic decline which began in the later months of that year. Again production outran the ability to buy.

"There were many reasons for this over-production. One was fear -- fear of war abroad, fear of inflation, fear of nationwide strikes. None of these fears have been borne out.

".... Production in many important lines of goods outran the ability of the public to purchase them. For example, through the winter and spring of 1937 cotton factories in hundreds of cases were running on a three-shift basis, piling up cotton goods in the factory and in the hands of middle men and retailers. For example, also, automobile manufacturers not only turned out a normal increase of finished cars, but encouraged the normal increase to run into abnormal figures, using every known method to push their sales. This meant, of course, that the steel mills of the Nation ran on a twenty-four hour basis, and the tire companies and cotton factories speeded up to meet the same type of abnormally stimulated demand. The buying power of the Nation lagged behind.

"Thus by the Autumn of 1937 the Nation again had stocks on hand which the consuming public could not buy because the purchasing power of the consuming public had not kept pace with the production.

"During the same period ... the prices of many vital products had risen faster than was warranted. In the case of many commodities the price to the consumer was raised well above the inflationary boom prices of 1929. In many lines of goods and materials, prices got so high that buyers and builders ceased to buy or to build.

"... the economic process of getting out the raw materials, putting them through the manufacturing and finishing processes, selling them to the retailers, selling them to the consumer, and finally using them, got completely out of balance.

"... The laying off of workers came upon us last Autumn and has been continuing at such a pace ever since that all of us, Government and banking and business and workers, and those faced with destitution, recognize the need for action."

All of this I said to the Congress today and I repeat it to you, the people of the country tonight.

I went on to point out to the Senate and the House of Representatives that all the energies of government and business must be directed to increasing the national income, to putting more people into private jobs, to giving security and a feeling of security to all people in all walks of life.

I am constantly thinking of all our people - unemployed and employed alike - of their human problems of food and clothing and homes and education and health and old age. You and I agree that security is our greatest need - the chance to work, the opportunity of making a reasonable profit in our business - whether it be a very small business or a larger one - the possibility of selling our farm products for enough money for our families to live on decently. I know these are the things that decide the well-being of all our people.

Therefore, I am determined to do all in my power to help you attain that security and because I know that the people themselves have a deep conviction that secure prosperity of that kind cannot be a lasting one except on a basis of business fair dealing and a basis where all from top to bottom share in prosperity, I repeated to the Congress today that neither it nor the Chief Executive can afford "to weaken or destroy great reforms which, during the past five years, have been effected on behalf of the American people. In our rehabilitation of the banking structure and of agriculture, in our provisions for adequate and cheaper credit for all types of business, in our acceptance of national responsibility for unemployment relief, in our strengthening of the credit of state and local government, in our encouragement of housing, slum clearance and home ownership, in our supervision of stock exchanges and public utility holding companies and the issuance of new securities, in our provision for social security, the electorate of America wants no backward steps taken.

"We have recognized the right of labor to free organization, to collective bargaining; and machinery for the handling of labor relations is now in existence. The principles are established even though we can all admit that, through the evolution of time, administration and practices can be improved. Such improvement can come about most quickly and most peacefully through sincere efforts to understand and assist on the part of labor leaders and employers alike.

"The never-increasing evolution of human society will doubtless bring forth new problems which will require new adjustments. Our immediate task is to consolidate and maintain the gains achieved.

-4-

55

"In this situation there is no reason and no occasion for any American to allow his fears to be aroused or his energy and enterprise to be paralyzed by doubt or uncertainty."

I came to the conclusion that the present-day problem calls for action both by the Government and by the people, that we suffer from a failure of consumer demand because of lack of buying power. It is up to us to create an economic upturn.

"How and where can and should the Government help to start an upward spiral?"

I went on to propose three groups of measures and I will summarize the recommendations.

First, I asked for certain appropriations which are intended to keep the Government expenditures for work relief and similar purposes during the coming fiscal year at the same rate of expenditure as at present. That includes additional money for the Works Progress Administration; additional funds for the Farm Security Administration; additional allotments for the National Youth Administration, and more money for the Civilian Conservation Corps, in order that it can maintain the existing number of camps now in operation.

These appropriations, made necessary by increased unemployment, will cost about a billion and a quarter more than the estimates which I sent to the Congress on the third of January.

Second, I told the Congress that the Administration proposes to make additional bank reserves available for the credit needs of the country. About one billion four hundred million dollars of gold now in the Treasury will be used to pay these additional expenses of the Government, and three-quarters of a billion dollars of additional credit will be made available to the banks by reducing the reserves now required by the Federal Reserve Board.

These two steps taking care of relief needs and adding to bank credits are in our judgment insufficient by themselves to start the Nation on a sustained upward movement.

Therefore, I came to the third kind of Government action which I consider to be vital. I said to the Congress:

"You and I cannot afford to equip ourselves with two rounds of ammunition where three rounds are necessary. If we stop at relief and credit, we may find ourselves without ammunition before the enemy is routed. If we are fully equipped with the third round of ammunition, we stand to win the battle against adversity."

The third proposal is to make definite additions to the purchasing power of the Nation by providing new work over and above the continuing of the old work.

First, to enable the United States Housing Authority to undertake the immediate construction of about three hundred million dollars of additional slum clearance projects.

Second, to renew a public works program by starting as quickly as possible about one billion dollars worth of needed permanent public improvements in states, counties and cities.

Third, to add one hundred million dollars to the estimate for federal aid highways in excess of the amount I recommended in January.

Fourth, to add thirty-seven million dollars over and above the former estimate of sixty-three million dollars for flood control and reclamation.

Fifth, to add twenty-five million dollars additional for federal buildings in various parts of the country.

In recommending this program I am thinking not only of the immediate economic needs of the people of the Nation, but also of their personal liberties -- the most precious possession of all Americans. I am thinking of our democracy and of the recent trend in other parts of the world away from the democratic ideal.

Democracy has disappeared in several other great nations -- not because the people of those nations disliked democracy, but because they had grown tired of unemployment and insecurity, of seeing their children hungry while they sat helpless in the face of government confusion, government weakness, through lack of leadership in government. Finally, in desperation, they chose to sacrifice liberty in the hope of getting something to eat. We in America know that our own democratic institutions can be preserved and made to work. But in order to preserve them we need to act together, to meet the problems of the Nation boldly, and to prove that the practical operation of democratic government is equal to the task of protecting the security of the people.

Not only our future economic soundness but the very soundness of our democratic institutions depends on the determination of our Government to give employment to idle men. The people of America are in agreement in defending their liberties at any cost, and the first line of that defense lies in the protection of economic security. Your Government, seeking to protect democracy, must prove that Government is stronger than the forces of business depression.

History proves that dictatorships do not grow out of strong and successful governments but out of weak and helpless ones. If by democratic methods people get a government strong enough to protect them from fear and starvation, their democracy succeeds, but if they do not, they grow impatient. Therefore, the only sure bulwark of continuing liberty is a government strong enough to protect the interests of the people, and a people strong enough and well enough informed to maintain its sovereign control over its government.

We are a rich Nation; we can afford to pay for security and prosperity without having to sacrifice our liberties into the bargain.

In the first century of our republic we were short of capital, short of workers and short of industrial production, but we were rich in free land, free timber and free mineral wealth. The Federal Government rightly assumed the duty of promoting business and relieving depression by giving subsidies of land and other resources.

Thus, from our earliest days we have had a tradition of substantial government help to our system of private enterprise. But today the government no longer has vast tracts of rich land to give away and we have discovered that we must spend large sums to conserve our land from further erosion and our forests from further depletion. The situation is also very different from the old days, because now we have plenty of capital, banks and insurance companies loaded with idle money; plenty of industrial productive capacity and several millions of workers looking for jobs. It is following tradition as well as necessity, if Government strives to put idle money and idlemen to work, to increase our public wealth and to build up the health and strength of the people -- and to help our system of private enterprise to function.

It is going to cost something to get out of this recession this way but the profit of getting out of it will pay for the cost several times over. Lost working time is lost money. Every day that a workman is unemployed, or a machine is unused, or a business organization is marking time, is a loss to the Nation. Because of idle men and idle machines this Nation lost one hundred billion dollars between 1929 and the Spring of 1933. This year you, the people of this country, are making about twelve billion dollars less than last year.

If you think back to the experiences of the early years of this Administration you will remember the doubts and fears expressed about the rising expenses of Government. But to the surprise of the doubters, as we proceeded to carry on the program which included Public Works and Work Relief, the country grew richer instead of poorer.

It is worthwhile to remember that the annual national people's income was thirty billion dollars more in 1937 than in 1932. It is true that the national debt increased sixteen billion dollars, but remember that in this increase must be included several billion dollars worth of assets which eventually will reduce that debt and that many billion dollars of permanent public improvements -- schools, roads, bridges, tunnels, public buildings, parks and a host of other things meet your eye in every one of the thirty one hundred counties in the United States.

No doubt you will be told that the Government spending program of the past five years did not cause the increase in our national income. They will tell you that business revived because of private spending and investment. That is true in part, for the Government spent only a small part of the total. But that Government spending acted as a trigger to set off private activity. That is why the total addition to our national production and national income has been so much greater than the contribution of the Government itself.

In pursuance of that thought I said to the Congress today: "I want to make it clear that we do not believe that we can get an adequate rise in national income merely by investing, lending or spending public funds. It is essential in our economy, that private funds be put to work and all of us recognize that such funds are entitled to a fair profit."

As national income rises, "let us not forget that Government expenditures will go down and Government tax receipts will go up."

The Government contribution of land that we once made to business was the land of all the people. And the Government contribution of money which we now make to business ultimately comes out of the labor of all the people. It is, therefore, only sound morality, as well as a sound distribution of buying power, that the benefits of the prosperity coming from this use of the money of all the people should be distributed among all the people -- at the bottom as well as at the top. Consequently, I am again expressing my hope that the Congress will enact at this session a wage and hour bill putting a floor under industrial wages and a limit on working hours -- to ensure a better distribution of our prosperity, a better distribution of available work, and a sounder distribution of buying power.

You may get all kinds of impressions in regard to the total cost of this new program, or in regard to the amount that will be added to the net national debt.

It is a big program. Last autumn in a sincere effort to bring Government expenditures and Government income into closer balance, the Budget I worked out called for sharp decreases in Government spending.

In the light of present conditions those estimates were far too low. This new program adds two billion and sixty-two million dollars to direct Treasury expenditures and another nine hundred and fifty million dollars to Government loans -- and the latter sum, because they are loans, will come back to the Treasury in the future.

The net effect on the debt of the Government is this -- between now and July 1, 1939 - fifteen months away -- the Treasury will have to raise less than a billion and a half dollars of new money.

Such an addition to the net debt of the United States need not give concern to any citizen, for it will return to the people of the United States many times over in increased buying power and eventually in much greater Government tax receipts because of the increase in the citizen income.

What I said to the Congress in the close of my message I repeat to you.

"Let us unanimously recognize the fact that the Federal debt, whether it be twenty-five billions or forty billions, can only be paid if the Nation obtains a vastly increased citizen income. I repeat that if this citizen income can be raised to eighty billion dollars a year the national Government and the overwhelming majority of State and local governments will be 'out of the red.' The higher the national income goes the faster will we be able to reduce the total of Federal and state and local debts. Viewed from every angle, today's purchasing power -- the citizens' income of today -- is not sufficient to drive the economic system at higher speed. Responsibility of Government requires us at this time to supplement the normal processes and in so supplementing them to make sure that the addition is adequate. We must start again on a long steady upward incline in national income.

...."And in that process, which I believe is ready to start, let us avoid the pitfalls of the past -- the over-production, the over-speculation, and indeed all the extremes which we did not succeed in avoiding in 1929. In all of this, Government cannot and should not act alone. Business must help. I am sure business will help.

"We need more than the materials of recovery. We need a united national will.

"We need to recognize nationally that the demands of no group, however just, can be satisfied unless that group is prepared to share in finding a way to produce the income from which they and all other groups can be paid. You, as the Congress, I, as the President, must by virtue of our offices, seek the national good by preserving the balance between all groups and all sections.

"We have at our disposal the national resources, the money, the skill of hand and head to raise our economic level -- our citizens' income. Our capacity is limited only by our ability to work together. What is needed is the will.

"The time has come to bring that will into action with every driving force at our command. And I am determined to do my share.

..... "Certain positive requirements seem to me to accompany the will -- if we have that will.

"There is placed on all of us the duty of self-restraint. That is the discipline of a democracy. Every patriotic citizen must say to himself or herself, that immoderate statement, appeals to prejudice, the creation of unkindness, are offenses not against an individual or individuals, but offenses against the whole population of the United States.

"Self-restraint implies restraint by articulate public opinion, trained to distinguish fact from falsehood, trained to believe that bitterness is never a useful instrument in public affairs. There can be no dictatorship by an individual or by a group in this Nation, save through division fostered by hate. Such division there must never be."

Finally I should like to say a personal word to you.

I never forget that I live in a house owned by all the American people and that I have been given their trust.

I try always to remember that their deepest problems are human. I constantly talk with those who come to tell me their own points of view -- with those who manage the great industries and financial institutions of the country -- with those who represent the farmer and the worker -- and often with average citizens without high position who come to this house. And constantly I seek to look beyond the doors of the White House, beyond the officialdom of the National Capital, into the hopes and fears of men and women in their homes. I have travelled the country over many times. My friends, my enemies, my daily mail bring to me reports of what you are thinking and hoping. I want to be sure that neither battles nor burdens of office shall ever blind me to an intimate knowledge of the way the American people want to live and the simple purposes for which they put me here.

- 9 -

In these great problems of government I try not to forget that what really counts at the bottom of it all, is that the men and women willing to work can have a decent job to take care of themselves and their homes and their children adequately; that the farmer, the factory worker, the storekeeper, the gas station man, the manufacturer, the merchant — big and small — the banker who takes pride in the help he gives to the building of his community — that all these can be sure of a reasonable profit and safety for the savings they earn — not today nor tomorrow alone, but as far ahead as they can see.

I can hear your unspoken wonder as to where we are headed in this troubled world. I cannot expect all of the people to understand all of the people's problems: but it is my job to try to understand those problems.

I always try to remember that reconciling differences cannot satisfy everyone completely. Because I do not expect too much, I am not disappointed. But I know that I must never give up — that I must never let the greater interest of all the people down, merely because that might be for the moment the easiest personal way out.

I believe we have been right in the course we have charted. To abandon our purpose of building a greater, a more stable and a more tolerant America, would be to miss the tide and perhaps to miss the port. I propose to sail ahead. I feel sure that your hopes and your help are with me. For to reach a port, we must sail — sail, not tie at anchor, sail, not drift.

April 14, 1938

CONFIDENTIAL: To be held in STRICT CONFIDENCE and no portion, synopsis, or intimation to be published or given out until the READING of the President's Message has begun in the Senate or the House of Representatives. Extreme care must therefore be exercised to avoid premature publication.

STEPHEN EARLY
Secretary to the President

TO THE CONGRESS OF THE UNITED STATES:

The prosperity of the United States is of necessity a primary concern of Government. Current events, if allowed to run undisturbed, will continue to threaten the security of our people and the stability of our economic life. The National Administration has promised never to stand idly by and watch its people, its business system and its national life disintegrate. It is because the course of our economics has run adversely for half a year that we owe it to ourselves to turn it in the other direction before the situation becomes more definitely serious.

When this Administration took office it found business, credit and agriculture in collapse. The collapse had followed on the heels of over-speculation in and over-production of practically every article or instrument used by man. During the processes of over-speculation and over-production -- in the twenties -- millions of people had been put to work, but the products of their hands had exceeded the purchasing power of their pocketbooks, with the result that huge surpluses, not only of crops but also of buildings and goods of every kind, overhung the market. Under the inexorable law of supply and demand, supplies so overran demand which would pay that production was compelled to stop. Unemployment and closed factories resulted. Hence the tragic years from 1929 to 1933.

Starting in March, 1933, the Congress and the Administration devoted themselves unceasingly, not only to reestablishing reservoirs of credit, but to putting purchasing power in the hands of the consuming public and actually securing a more equitable distribution of the national income. Thus the downward spiral was stopped -- and not merely stopped, but started on an upward course -- a trend lasting through four years and a half.

In 1928 the national income was eighty billion dollars; in 1932 it had fallen to less than forty billion dollars.

Since the low point of 1932, each year including 1937, has shown a steady increase in the income which the Nation produced, reflected in increased wages and salaries, in increased dividends, interest and individual's income. In 1937 the total of our citizens' income had risen to sixty-eight billion dollars.

At the end of 1936 the efforts of the Government to aid in increasing the Nation's purchasing power and in stimulating business had become so well recognized that both the business community and the Government felt that a large measure of the Government's spending activities could be materially reduced.

But the very vigor of the recovery in both durable goods and consumers' goods brought into the picture early in 1937 certain highly undesirable practices, which were in large part responsible for the economic decline which began in the later months of that year. Again production outran the ability to buy.

There were many reasons for this over-production. One was fear -- fear of war abroad, fear of inflation, fear of nation-wide strikes. None of these fears have been borne out. There were other causes of over-production, and these causes differed in each industry.

The net result of these causes and ill-advised practices was a repetition, on a small scale, of what had happened in 1927, 1928 and 1929 on a much larger scale. In other words, production in many important lines of goods outran the ability of the public to purchase them. For example, through the winter and spring of 1937 cotton factories in hundreds of cases were running on a three-shift basis, piling up cotton goods in the factory and in the hands of middle men and retailers. For example, also, automobile manufacturers not only turned out a normal increase of finished cars, but encouraged the normal increase to run into abnormal figures, using every known method to push their sales. This meant, of course, that the steel mills of the Nation ran on a twenty-four hour basis, and the tire companies and cotton factories speeded up to meet the same type of abnormally stimulated demand. The buying power of the Nation lagged behind.

Thus by the Autumn of 1937 the Nation again had stocks on hand which the consuming public could not buy because the purchasing power of the consuming public had not kept pace with the production.

During the same period prior to last Autumn, the prices of many vital products had risen faster than was warranted. For example, copper -- which undoubtedly can be produced at a profit in this country for from ten to twelve cents a pound -- was pushed up and up to seventeen cents a pound. The price of steel products of many kinds was increased far more than was justified by the increased wages of steel workers. In the case of many commodities the price to the consumer was raised well above the inflationary boom prices of 1929. In many lines of goods and materials, prices got so high that buyers and builders ceased to buy or to build.

Once more, as in 1929, the economic process of getting out the raw materials, putting them through the manufacturing and finishing processes, selling them to the retailers, selling them to the consumer, and finally using them, got completely out of balance. The Government of the United States fearing just such an event had issued warnings in April, 1937, against these practices of over-production and high prices. The Federal Reserve System curtailed banking credit, and the Treasury commenced to "sterilize" gold as a further brake on what it was feared might turn into a run-away inflation.

The simple fact is that the laying off of workers came upon us last Autumn and has been continuing at such a pace ever since that all of us, Government and banking and business and workers, and those faced with destitution, recognize the need for action.

It should be noted in fairness that since January 1, 1937, the President has recommended to the Congress only four measures of major importance to the business of the country:

1. Legislation to stabilize agriculture. A comprehensive law was approved by me two months ago.
2. Legislation to end serious loopholes in our personal income tax laws. This was enacted last summer.
3. Legislation to put a floor under wages and a ceiling over hours of labor in industry, and
4. Tax legislation to remove inequities from the undistributed profits tax, especially as they affect the smaller type of business. Both this measure and the third are still under consideration by the Congress.

The record speaks for itself. No other measures affecting business have been proposed.

All the energies of Government and business must be directed to increasing the national income; to putting more people into private jobs; to giving security and the feeling of security to all people in all walks of life.

I believe that improvement in Government and business practices must go hand in hand with recovery -- that they should be, and will be, a definite aid to recovery. While I do not wish in this Message to over-emphasize some of the needs, I do want to say that I believe that we must be definitely aware of certain of them -- the elimination of future tax exempt bonds of all kinds of Government agencies; the subjecting of Government salaries and wages of all kinds to Federal and State income taxes; a serious undertaking to solve the railroad problem and the problems of monopolistic practices and price fixing. These are no new subjects; nor have I anything to add to them except the statement that their solution will help and not hurt business.

At the same time, I must repeat what I believe the overwhelming majority of both Houses of the Congress will agree to -- that the Congress and the Chief Executive can ill-afford to weaken or destroy great reforms which, during the past five years, have been effected on behalf of the American people. In our rehabilitation of the banking structure and of agriculture, in our provisions for adequate and cheaper credit for all types of business, in our acceptance of national responsibility for unemployment relief, in our strengthening of the credit of state and local government, in our encouragement of housing, slum clearance and home ownership, in our supervision of stock exchanges and public utility holding companies and the issuance of new securities, in our provision for social security, the electorate of America wants no backward steps taken.

We have recognized the right of labor to free organization, to collective bargaining; and machinery for the handling of labor relations is now in existence. The principles are established even though we can all admit that through the evolution of time administration and practices can be improved. Such improvement can come about most quickly and most peacefully through sincere efforts to understand and assist on the part of labor leaders and employers alike.

The never-ceasing evolution of human society will doubtless bring forth new problems which will require new adjustments. Our immediate task is to consolidate and maintain the gains achieved.

In this situation there is no reason and no occasion for any American to allow his fears to be aroused or his energy and enterprise to be paralyzed by doubt or uncertainty.

Our situation is vastly different from that which we faced five years ago. Let us use the tools already forged and laid out on the bench.

At this immediate time we suffer from a failure of consumer demand. The hoped for reemployment of this Spring is not proceeding fast enough to create an economic upturn.

Therefore the problem calls for action both by the government and by the people.

It cannot be disputed that the national income which was thirty-eight billions in 1932, sixty-eight billions in 1937 is now running at the lesser rate of about fifty-six billions. If it can be increased to eighty billion dollars in the course of the next year or two the whole economic picture will be different. Hundreds of thousands more people will be employed in private industry, hundreds of thousands fewer will be in need of relief, and consumer demand for goods will be greatly stimulated. I do not set eighty billion dollars as the national income goal. It ought to rise in the next decade to more than one hundred billions. I want to make it clear that we do not believe that we can get an adequate rise in national income merely by investing, lending or spending public funds. It is essential in our economy that private funds be put to work and all of us recognize that such funds are entitled to a fair profit.

As citizen income rises, let us not forget that government expenditures will go down and government tax receipts will go up.

How and where can and should the Government help to start an upward spiral?

I propose to the Congress three groups of measures:

1. In the first category I place additional appropriations for the fiscal year beginning July 1938. These will not put more money in the hands of the consuming public than we are spending in the current fiscal year, but they will prevent men and women from being thrown out of work on July 1. They will stop the spiral from continuing its downward course:

(a) I recommend an appropriation of one billion two hundred and fifty million dollars for the Works Progress Administration, to be used during the first seven months of the next fiscal year. Such a grant is ammunition of the highest grade for attack on recession. It will not greatly increase the present rate of expenditure, but ought to be sufficient to care for the additional men and women who have come or are coming to an end of their unemployment insurance payments.

(b) For the Farm Security Administration an appropriation of one hundred and seventy-five million dollars for the next fiscal year.

(c) For the National Youth Administration the sum of seventy-five million dollars to cover the full fiscal year.

(d) For the Civilian Conservation Corps the sum of fifty million dollars additional to maintain the existing number of camps now in operation.

I call your attention to the fact that these appropriations will avert the laying off of people now receiving assistance from the Federal Government.

b.

In this same category of stopping the downward spiral, I also place the authorization recently given for the lending of money to business enterprises by the Reconstruction Finance Corporation. I do so because the greater part of such loans will go to businesses which are in grave danger of shutting down and throwing people out of employment. Some of the money, but, in all probability only the smaller part of the loans, will enable businesses to employ more people or start new enterprises.

2. In the second category, the Administration proposes immediately to make additional bank resources available for the credit needs of the country. This can be done without legislation. It will be done through the de-sterilization of approximately one billion four hundred million dollars of Treasury gold, accompanied by action on the part of the Federal Reserve Board to reduce reserve requirements by about three-quarters of a billion dollars. The Federal Reserve Board informs me that they are willing to do so. These measures will make more abundant the supply of funds for commerce, industry and agriculture. By themselves, however, monetary measures are insufficient to start us on a sustained upward movement.

As a part of better administration I hope that federal banking supervision can be better coordinated. In addition, I am requesting that the Securities Exchange Commission consider such simplification of regulations as will assist and expedite the financing, particularly, of small business enterprises.

3. I come, therefore, to the third category which I consider to be vital. The first two categories -- maintenance of relief and the expansion of credit might prove sufficient -- but in my judgment other measures are essential. You and I cannot afford to equip ourselves with two rounds of ammunition where three rounds are necessary. If we stop at relief and credit, we may find ourselves without ~~ammunition~~ before the enemy is routed. If we are fully equipped with the third round of ammunition, we stand to win the battle against adversity.

This third proposal relates solely to definite additions to the purchasing power of the Nation by providing new work:

(a) I ask for certain amendments to the United States Housing Authority Act to permit the undertaking of the immediate construction of about \$300,000,000 of additional projects. The Federal Housing Administration is prepared to increase the already mounting volume of home and apartment construction.

(b) I ask for a renewal of Public Works projects. I believe that by the expenditure of \$450,000,000, and the granting of authority to loan up to \$1,000,000,000 to states and their sub-divisions, a vast number of well thought out, needed and permanent public improvements can be undertaken this summer and autumn. I believe that the aid of the Federal Government should be put in optional form -- either the existing method of 45% grant and 55% loan, or the advancing of the whole sum as loans to states and their sub-divisions without interest. Under such a plan the Federal Government would assume the payment of interest and the borrowing authority would assume the payment of the principal by amortization or rental.

Under either method the ultimate cost to the Federal Government and to the states and their sub-divisions is approximately the same.

It is my thought that the total ultimate out of pocket cost to the Federal Government by either or both methods should be limited to one billion dollars, and furthermore that no loans or grants should be made on any state or local projects which cannot be started within six months of the date of the enabling legislation, and completed within a year or a year and a half from the commencement of work.

(c) I recommend the appropriation of \$100,000,000 to the Bureau of Public Roads for highways in excess of the amount I have previously recommended in the budget for the fiscal year 1939, but I request that this additional amount be used only for projects which can be definitely started this calendar year.

(d) I recommend an appropriation of \$37,000,000 over and above estimates for the immediate undertaking of flood control and reclamation works to be expended on projects already authorized by this or former Congresses.

(e) I recommend the appropriation of \$25,000,000 additional for Federal buildings.

A summary of these recommendations falls into two categories:

1. Expenditures from the Treasury for work:

Works Progress Administration.....	\$1,250,000,000
Farm Security Administration.....	75,000,000
National Youth Administration.....	75,000,000
Civilian Conservation Corps.....	50,000,000
Public Works Administration.....	450,000,000
Highways.....	100,000,000
Flood Control.....	37,000,000
Federal Buildings.....	25,000,000
	<u>\$2,062,000,000</u>

2. Loans from the Treasury for work:

Farm Security Administration.....	100,000,000
Public Works Administration.....	550,000,000
United States Housing Administration....	300,000,000
	<u>\$950,000,000</u>

It should be noted that state and local public works undertaken on a loan basis instead of a loan and grant basis will reduce the item in the first classification and increase the item in the second classification.

Let us unanimously recognize the fact that the Federal debt, whether it be twenty-five billions or forty billions, can only be paid if the Nation obtains a vastly increased citizen income. I repeat that if this citizen income can be raised to eighty billion dollars a year the national Government and the overwhelming majority of state and local governments will be "out of the red." The higher the national income goes the faster will we be able to reduce the total of Federal and state and local debts. Viewed from every angle, today's purchasing power -- the citizens' income of today -- is not sufficient to drive the economic system at higher speed. Responsibility of government requires us at this time to supplement the normal processes and in so supplementing them to make sure that the addition is adequate. We must start again on a long steady upward incline in national income.

I have set my hope, my aim on stabilized recovery through a steady mounting of our citizens' income and our citizens' wealth. And in that process, which I believe is ready to start, let us avoid the pitfalls of the past - the over-production, the over-speculation and indeed all the extremes which we did not succeed in avoiding in 1929. In all of this, government cannot and should not act alone. Business must help. I am sure business will help.

We need more than the materials of recovery. We need a united national will.

We need to recognize nationally that the demands of no group, however just, can be satisfied unless that group is prepared to share in finding a way to produce the income from which they and all other groups can be paid. Unjust claims defeat themselves. You, as the Congress, I, as the President, must by virtue of our offices, seek the national good by preserving the balance between all groups and all sections.

We have at our disposal the national resources, the money, the skill of hand and head to raise our economic level -- our citizens' income. Our capacity is limited only by our ability to work together. What is needed is the will.

The time has come to bring that will into action with every driving force at our command. And I am determined to do my share.

The responsibility for making this national will effective rests on every individual whether in the government or in industry, or in finance, or in labor, or in the professional fields. Every man and woman in the United States has the great privilege of making this will productive. And the beneficiary will be the whole of the American people.

Certain positive requirements seem to me to accompany the will -- if we have that will.

There is placed on all of us the duty of self-restraint. We still rely on personal responsibility -- a responsibility guided by a common conscience. That is the discipline of a democracy. Every patriotic citizen must say to himself or herself, that immoderate statement, appeal to prejudice, the creation of unkindness, are offenses not against an individual or individuals, but offenses against the whole population of the United States.

Use of power by any group, however situated, to force its interest or to use its strategic position in order to receive more from the common fund than its contribution to the common fund justifies, is an attack against and not an aid to our national life.

Self-restraint implies restraint by articulate public opinion, trained to distinguish fact from falsehood, trained to believe that bitterness is never a useful instrument in public affairs. There can be no dictatorship by an individual or by a group in this Nation, save through division fostered by hate. Such division there must never be.

Amid the voices which now seek to divide group from group, occupation from occupation, section from section, thinking Americans must insist on common effort in a common endeavor and a common faith in each other. Let every business man set out to use his strength of mind and heart and his confidence in his fellow man and his country. Let every labor leader find not how work can be stopped but how it can be made

- 8 -

to proceed smoothly, continuously and fairly. Let every public official consider that his task is to use his authority so that the service he renders is adapted to curbing abuses and helping honest effort. Let every one of us work together to move the life of the Nation forward.

We, a successful democracy, face a troubled world. Elsewhere schools of thought contend that democracy is doomed to failure. They tell us that free speech and the free exchange of views will destroy democracies. My conviction on the contrary is that the United States retaining free speech and a free exchange of views can furnish a dynamic example of successful government, provided the Nation can unite in practical measures when the times call for united action. The driving force of a Nation lies in its spiritual purpose, made effective by free, tolerant but unremitting national will.

In the Western Hemisphere the good neighbor policy has so strengthened the American Republics that a spiritual unity in our relations now prevails. Can that good neighbor message be accepted and practised in our national life?

If we accept that high and splendid road this free democracy will give successful answer to the fears and questionings which today trouble the minds and souls of men and women the world over.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

April 14, 1938.

April 14, 1938.
11:05 A.M.

H.M.Jr: How are you?
Senator
W.H.King: Oh, sick and tired of working. I've got two
Committees on my hands - three.

H.M.Jr: Yeah.

K: Immigration, and the two tax bills - the District of
Columbia and the other.

H.M.Jr: Well, who can handle them better than you?

K: Ah, well, you could. (Laughs.)

H.M.Jr: Oh, no.

K: What I wanted to call you up for, I - to
apologize. Ah, we've got that Tarver bill here
which got past the House the other day, which puts
the, ah, the Federal Government back into the
whiskey business and enforcing the law, and, ah,
I've ordered a hearing on the bill, before the
Senate now, and, and the - it occurred to me that,
perhaps Berkshire isn't - well, whoever's the
strongest man that you've got that could explain
that, and present it.

H.M.Jr: What is the bill, please?

K: The Tarver bill.

H.M.Jr: I don't happen to be

K: Well, it, it passed the House - it, it's a bill
that will re' - that - ah, requires the Federal
Government to, ah, to ah, enforce the state laws -
that's what it means, in regard to liquor. That -
ah

H.M.Jr: Oh, yeah.

K: If you have it there - it's a very, very far-reaching
bill.

H.M.Jr: Yes.

- K: And, ah, Mr. Berkshire and some of the boys have spoke to me about it, but I just suggested - you'll pardon me, and I
- H.M.Jr: Certainly.
- K: don't want to discredit anybody - talked with Magill, and - you'd better have your strongest man - men there - look into that, and be ready to come and testify.
- H.M.Jr: When will that be, please?
- K: Why, it'll be in the next day or two.
- H.M.Jr: Ah, I'll see that, ah, we give you the best people we got.
- K: I know that. Thank you, my dear friend.
- H.M.Jr: And thank you for
- K: And I know you'll bother - pardon me for bothering you.
- H.M.Jr: You - you never can bother me.
- K: Oh, that's - well, that's nice of you.

April 14, 1938.
11:53 a.m.

H.M.Jr: Hello.
Jesse
Jones: Hello, Henry.
H.M.Jr: Hello, Jesse.
J: How are you?
H.M.Jr: I'm alive.
J: (Laughs.) Well, you saved a little money yesterday, didn't you?
H.M.Jr: Yeah.
J: I thought you did.
H.M.Jr: Yeah. Saved, ah - we saved some money, and we got - I haven't read it, but he said last night he'd limit the thing that they had to have it working within six months. I don't know whether that's it or not.
J: Uh huh.
H.M.Jr: I don't know

J: Well, I just - (coughs) if they do that, why

H.M.Jr: That means that he said it. It was there - it was put in while I was there, that the bill would say that the money, ah, the - that the pump-priming part

J: Yeah.
H.M.Jr: Ah, would have to be started before the first of October.
J: Yeah.
H.M.Jr: After that all the money would lapse.
J: Uh-huh.
H.M.Jr: Now, we agreed to that, and that the aggregate amount should not exceed a billion dollars.

- 2 -

- J: Yeah.
- H.M.Jr: That is, ah - loans and grants.
- J: That is, instead of two billion?
- H.M.Jr: Yep.
- J: Well that's - I thought that was a fine piece of work.
- H.M.Jr: So ah, ah, we got that, and, and it has to be started by the first of October.
- J: Yeah.
- H.M.Jr: So ah, ah, I say that's what they agreed to last night. I, I, ah, I don't know whether that's still in there or not. Let me just see. Ah, I don't know. We've got some of these recommendations - "Expenditures for Treasury for work, two billion dollars; Loans for Treasury, nine hundred and fifty." See?
- J: Uh-huh.
- H.M.Jr: So, ah, that's really a three billion dollar program. I think - I guess he did - I guess he stuck to it, as far as I can tell. Huh?
- J: Fine. I kind of - was going to call him last night, but I got tied up here and didn't get a chance.
- H.M.Jr: Well l
- J: I knew you'd been over there most of the afternoon.
- H.M.Jr: Yeah. We were there for about two and a half hours. I think we got a little something.
- J: Yeah, I think you did. And whenever we can lose some more time, I've got some ideas I want to give you as soon as I get a chance.
- H.M.Jr: Well, whenever you're ready. I'm here over the week-end. I'm not going away.
- J: All right. Well I'm - I'll see you probably tomorrow or the next day then.

H.M.Jr: Ah, give me a ring.

J: I'll certainly do that.

H.M.Jr: We're having a - a - God-awful time of drawing up this bill for Ickes.

J: Yeah.

H.M.Jr: But Taylor's doing it, and I told him to make it just the same as the C. C. C. - to use that as a model.

J: Yeah.

H.M.Jr: That's a good model.

J: The ah

H.M.Jr: Your Commodity Credit bill.

J: How many has he - is he going to sell his own securities?

H.M.Jr: That's what they're talking about.

J: Be better if he could avoid that.

H.M.Jr: Well. Wayne's working on it. If you've got any ideas talk to him.

J: All right. Fine. I will.

H.M.Jr: Thanks for calling.

J: All right, Henry. Goodbye.

RE NEW FINANCING PROGRAM AND
GOLD DESTERILIZATION

April 14, 1938.
2:50 p.m.

Present: Mr. Taylor
Mr. Oliphant
Mrs Klotz
Mr. Bell
Mr. Haas
Mr. White
Mr. Upham
Mr. Bernstein
Mr. Eccles
Mr. Mansom
Mr. Goldenweiser
Mr. Gardner
Mr. Gaston

H.M.Jr: Now, we'll continue the hundred million dollars worth of bills Monday, until we have time to think.

But normally Bell would have called for about 35 million dollars worth of gold - would have called in 35 million dollars from

Bell: Well, it's gone; I think we can put in about a hundred by next Wednesday.

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

April 14, 1938.
2:52 p.m.

75

H.M.Jr: Hello.

Operator: Dr. Burgess. Go ahead.

H.M.Jr: Hello.

Randolph
Burgess: Oh, hello, Henry.

H.M.Jr: Hello, Randolph.

B: Well, I've been working away here, to see what I
can get at.

H.M.Jr: Yeah.

B: I don't know all the elements of the problem, but
just to - to give you my reaction, let me run off
about the kind of a program I would have in mind.

H.M.Jr: Please.

B: First, I think to satisfy the psychology of the
thing you need to do something fairly vigorous, ah,
fairly promptly.

H.M.Jr: Yeah.

B: I would deposit five hundred million in the Reserve
Banks immediately.

H.M.Jr: Yeah.

B: And, ah, say you make further deposits as you find
use for the funds. Then, I would reduce the sale
of Treasury bills from a hundred million a week to
fifty million a week.

H.M.Jr: Uh-huh.

B: So you'd be paying off fifty million a week.

H.M.Jr: Uh-huh.

B: And that'd be putting out fifty million a week.

H.M.Jr: Uh-huh.

- B: Ah, second, I'd allow, ah, I'd allow anybody who wanted to, to pay for the bills by book credit.
- H.M.Jr: Uh-huh.
- B: So that, ah, that to that extent, also, you'd be paying off. Now, if the rate were over eleven hundred they would do that.
- Ah, third, I think you'd have to discontinue the permission of banks to, ah, to prepay their war-loan deposits. Otherwise, the money you put out would come right back again.
- H.M.Jr: I see.
- B: Ah, into the, ah, into the Reserve Banks. And, ah, four, I'd, ah, participate with us on any, ah, support operations. I don't think there'll be any for a while. (Laughs.)
- H.M.Jr: Well, ah, I have an understanding with the Federal Reserve Board
- B: Yes.
- H.M.Jr: that they're going to assume entire, ah, ah, ...
- B: Responsibility.
- H.M.Jr: ... responsibility for this.
- B: I see.
- H.M.Jr: But, ah, ah, I'm going to ask Eccles, who's coming here at three,....
- B: Yeah.
- H.M.Jr: To call together the Executive Committee of the Open Market, say, for Tuesday.
- B: I see, yeah.
- H.M.Jr: And at that time I think we ought to discuss this thing more fully.
- B: Has it been announced when the Board is going to, ah, take its step?

H.M.Jr: Well, the only thing I saw was on the ticker, and they said they thought they were going to do it Saturday.

B: Yes.

H.M.Jr: But, ah....

B: Of course, that really puts out all the money that the market can use now.

H.M.Jr: True. But I don't want to find myself in the position as the President announced it, that, ah, we haven't carried out his - his orders.

B: I can see that. That's why I suggested that you will need to do something, ah, right off the bat.

H.M.Jr: With five hundred million deposited with the Federal Reserve Bank, ah, it doesn't put any of it to work.

B: No, but this bill program would.

H.M.Jr: True.

B: No, I don't know what your other requirements - I imagine that you're not getting many more out-payments than you are in-payments.

H.M.Jr: Well, we would have normally called today

B: Yeah.

H.M.Jr: We would have had to have a call today for about sixty million.

B: I see. Well, and

H.M.Jr: And, we postponed - we didn't make that, you see.

B: Yeah. Yeah.

H.M.Jr: So that - that would put sixty million dollars to work.

B: Yes. Well those, ah - that would take care of, say fifty million a week, possibly, and then if you'd pay off fifty in bills, you're putting into the market a hundred million a week.

H.M.Jr: Yeah.

B: The big problem here, ah, ah, Henry, is going to be the timing of this thing so it doesn't, ah, ah, shake this Government market all to pieces.

H.M.Jr: Right.

B: The market's going up terribly rapidly today. We're not selling today because, after talking it over with the Board fellows, we didn't think we ought to do anything to offset the first psychological effect as it appears in the market, to this action.

H.M.Jr: That's right.

B: There ought to be a natural reaction to it, that people can see.

H.M.Jr: That's right.

B: Ah, but I think that after a day or two we ought to operate and try to stabilize both ways.

H.M.Jr: Well, ah

B: Ah

H.M.Jr: As I say, ah, my understanding with the Board is it's going to be your responsibility, but

B: I see.

H.M.Jr: Ah, I would like to, ah, from time to time, discuss the policies and naturally be kept advised.

B: Yes. Well, we'll be giving more thought to it.

H.M.Jr: I'm, ah, - one thing that would occur to one, of course, is to discontinue selling bills altogether, and pay off those that are outstanding.

H.M.Jr: Well, that's why I thought we ought to have an Open Market meeting, say Tuesday, which gives everybody a little time.

B: That's right.

H.M.Jr: Ah - because you people don't like Wednesday, do you?

- B: No, I don't care. Wednesday's all right for me. I think John Sinclair has a meeting Wednesday.
- H.M.Jr: Yeah. Well, Tuesday would be all right.
- B: Yeah.
- H.M.Jr: And
- B: Well I thought sure that he does - may be Thursday. I think it'd be a great mistake to, ah, to pay off all the bills. Because that rate would just go down to zero, and then when you start borrowing again later, you'd get the rates going up.
- H.M.Jr: Well, of course
- B: This whole program involves putting out a lot of money now, and spending a lot of money later.
- H.M.Jr: Yeah.
- B: Now, the two things ought, as far as possible, to be "gee'd" together, so that
- H.M.Jr: Yes, because we don't want to pay off a lot of the obligations and then have our borrowings increased
- B: That's right.
- H.M.Jr: six months from now.
- B: That's right, yes. So it be - make for a much more orderly market, if you reduced the amount of bills, but kept on selling some.
- H.M.Jr: Well, I - I'm very calm, and, ah, very philosophical, and, ah - and I want to do the thing technically as well as I know how.
- B: Yes. Exactly.
- H.M.Jr: And, ah, after all, you have, ah, Monday in New York, and then could come down here Tuesday
- B: Yeah.
- H.M.Jr: I should think we could do something

B: That'll be fine. I think that's an awfully good idea, Henry.

H.M.Jr: Right. Well thanks so much.

B: Fine. We'll be giving thought to it. I feel just about the way you do.

H.M.Jr: Right.

B: Calm and philosophical.

H.M.Jr: Good.

B: (Laughs.)

H.M.Jr: Good. Thank you.

B: All right, Henry.

-2-

H.M.Jr: Glad he didn't see me yesterday.

(Laughter)

Oh, I didn't get excited at any time here. Been extremely calm.

Well, that's the problem, and I think we've got to watch our P's and Q's. I don't think - was it you (Bell) said deposit a billion dollars?

Bell: Not me.

~~H.M.Jr:~~ Who was it? Oh, Jake Viner - put a billion dollars in the banks.

Bell: Not the way National City is paying in 25 million tomorrow.

H.M.Jr: On - off....

Bell: War Loan account.

Haas: I think there is some advantage in Jake's suggestion. I mean just offhand. I haven't given it any thought.

H.M.Jr: Oh, I understand. That's the purpose of the meeting.

(Gaston comes in)

White: I think we all think that some of the psychological effect can be either reduced or enhanced the way this thing is handled. When do you have to make up your mind?

H.M.Jr: Fortunately for us, in order not to make a mistake, we're going to sell a hundred million dollars worth of bills Monday, see? We didn't change the program, so as not to make any mistake. The only decision we had to make at noon was, should we call in 60 million dollars worth of deposits. We decided we wouldn't, we'd pay that off in gold. Now, I would think that how much gold we're going to deposit - I think we ought to do that - well, fairly promptly, and But the question whether we're going to - after all, isn't that the first step anyway? I mean no matter what we did, isn't that the first step? Isn't that the first step anyway?

-3-

- Bell: Depositing gold??
- H.M.Jr: Yes, with the Federal Reserve Banks.
- Bell: Yes, that's the first step, before it can be spent.
- H.M.Jr: Before you spend it, you've got to deposit it with the Federal Reserve Banks. Then the question is - the next question is, how do you get it from there into the blood-stream?
- White: The first step you will take in any case.
- H.M.Jr: Then the question is how much should we do. I raised the question, talking of a billion four, that we only deposit five hundred million. I think the question was raised in good faith.
- White: There is, I think, some advantage in putting a whole billion four in, but I
- Kieley: Mr. Eccles.
- H.M.Jr: Please. Send in another chair or two.
- White: If before crystallizing we could think it over
- H.M.Jr: As to what?
- White: As to whether to put the whole billion four in.
- (Eccles, Ransom, and Goldenweiser
come in)
- H.M.Jr: Now, is anybody missing from the Treasury? Oliphant.
- Well, I didn't know whether - what we want to talk to you (Eccles) about is the gold, and all that. Is there anybody else you want from the Fed?
- Eccles: We ought to have Gardner over here. Don't you (Golden.) think we should?
- Golden.: I think we should.
- Eccles: He'd really know ... I would think Gardner. Would you think anybody else?
- Golden.: No.

-4-

H.M.Jr: (On phone) Tell Mr. Eccles' office, please, that he'd like to have Mr. Gardner

What's his first name?

Golden.: Walter.

Eccles: Walter Gardner.

H.M.Jr: come to my office at once, please. Tell Mr. Eccles' office that he'd like to have Mr. Walter Gardner come to my office at once, please.

Shall we talk about our problem first?

Eccles: Whatever you

H.M.Jr: Well, after all, when and if you gentlemen would tell us when you're going to announce your change in your reserve requirements - I don't know whether you've come to that decision or not.

Eccles: Not definitely. I had talked to Mr. Ransom. I talked a little this morning. Tomorrow's a holiday up in New York, and with the statement today and the radio broadcast tonight we felt that it would possibly be better to wait until the first of the week, that there would be no point in coming immediately tomorrow to that. Now, I haven't discussed it with the rest of the Board, but I feel sure that they would be agreeable to deferring taking any action until, say, Monday or Tuesday, the first of the week. That would be, unless there is some - unless you know of some reason that we should do it tomorrow.

H.M.Jr: No, let me explain. Unfortunately, I have a press conference every Thursday morning. So they pressed me very hard - what am I going to do? And I said that this is a very complicated technical position, that the Treasury would like to think, that they did their things only after careful thought, and I didn't think that 24 hours in which to work a thing like this out was too long; and that the Federal Reserve members were coming over this afternoon to advise with us. They asked, would we have a statement after the meeting? I said I wouldn't make any promises. But I told them that you were coming and I said I wouldn't make any promises: I might or might not.

-5-

So the boys - naturally, they're being pressed by their home offices. And this is part of the speech. "What are you going to do?" I don't know what Gaston thinks, but my own reaction is that I don't see much to be gained in delaying it, if we know how we're going to handle it.

Ransom: Well, we also had in mind, Mr. Secretary,

H.M.Jr: I mean I'm talking now about our stuff, and I suppose we could do it at more or less the same time.

Ransom: We had in mind not reaching a decision until we had had the conference with you this afternoon. That was a factor to be considered, of course.

H.M.Jr: Well now, here's the thing which we had to decide this morning: Should we get out - what shall we do about our bills for Monday? Well, I didn't want to make any move on that until I had a chance to talk to you people, so we decided we'd sell another hundred million dollars worth of bills Monday.

Eccles: I think that's all right.

H.M.Jr: See? I mean the wires had to go out. Bell lost five pounds waiting for me to make up my mind what I was going to do. So we finally decided - Taylor and Bell and I - that we would do that.

Then the other decision we had to make was, would we call on the banks for 60 million dollars, and we deferred that.

Eccles: Deferred drawing on them.

H.M.Jr: We did not draw on them. So whatever gold we did deposit - that we would use that in order to maintain our balances with you people of about a hundred million dollars.

(Oliphant comes in)

So that's - I mean this morning we decided we would continue on Monday selling a hundred million dollars, postpone any call for cash. Bell needs 60 million dollars - Saturday?

- Bell: Monday.
- H.M.Jr: But you have to deposit the gold?
- Bell: Monday or any time - before Wednesday, that's all.
- Eccles: The bills that you sold would
- H.M.Jr: Offered Monday, payable Wednesday.
- Eccles: But not for book credit.
- Bell: That's a roll-over.
- Eccles: That's a roll-over.
- H.M.Jr: Now, on this question of the bill thing, I would like to suggest that we have an Executive meeting of the Open Market Committee either Tuesday or Wednesday.
- Eccles: I think that's advisable. I think we ought to get Burgess and Harrison down.
- H.M.Jr: By that time they can have the feel of the market. And if you'd like to say now whichever date is the better for you, either Tuesday or Wednesday
- Eccles: Wednesday would give us a little more time. If we met Wednesday morning, I think that would be a little better. That would - we could take action on reserve requirements - say we did it Monday, it would be out Tuesday. Sort of bunches things.
- And we ought to - we haven't had a meeting ourselves of the Executive Committee in session. I think if they're coming down for this, like to get them together
- H.M.Jr: See them before. Shall we say Wednesday at 11 o'clock? We usually meet on Wednesday, you know.
- Eccles: That's right, that's when we usually meet.
- H.M.Jr: We usually meet on Wednesdays and our announcement goes out Thursday. So that gives us plenty of time. So shall we have a meeting Wednesday?

-7-

- Eccles: Wednesday morning, at 11 o'clock, with the Executive Committee.
- H.M.Jr: Now, my own feeling - I mean then at that time we'll decide what our bill program is going to be, also re-examine the borrowing program in light of the spending. The boys have been asking. That gives me a chance to say, "Pending the meeting with the Fed crowd, I won't have anything to say before next Thursday."
- Eccles: And that's your press conference.
- H.M.Jr: Thursday morning press conference. I mean I won't have anything at all. If you people think it's a little bit hot, either do it Wednesday night or Thursday morning.
- Eccles: I was going to say, in the meantime I suppose we could get figures as to what the cash picture is going to look like, the needs, and revenue, and so forth. This is going to change the whole picture.
- H.M.Jr: You want it for Tuesday?
- Eccles: Well, if we could get it before we come over Wednesday, then I think we could be much more helpful than merely coming over here cold on it.
- H.M.Jr: If you will have someone come over to see Mr. Bell - any time after Monday?
- Bell: (Nods yes)
- H.M.Jr: Tuesday morning?
- Bell: Monday afternoon be all right.
- H.M.Jr: Have somebody come over to see Mr. Bell. Mr. Bell will sit down and in confidence give him the picture.
- Eccles: That's fine. Then we'd have it Tuesday so we'd be
- H.M.Jr: What? How's that?
- Eccles: How's that for you, Dan?
- Bell: That's all right.

H.M.Jr: Well, I'd say if you could see Taylor and Bell together - how's that?

Eccles: Fine.

H.M.Jr: If you'd see Taylor and Bell together. Is that all right?

Taylor: (Nods yes)

H.M.Jr: So fix it up that Taylor and Bell will see you and will go over the thing together.

Eccles: All right.

H.M.Jr: I mean whoever decides to come over. Then you get that, and at that time we'll talk about bills and so forth.

Now, the only thing is, certainly we don't want to call on the banks for any more money, do we?

Eccles: No, I wouldn't call for another thing, because that merely means that that's already distributed. So why call it in again, in lieu of the fact that what we're trying to get on this program is a further distribution. So I don't think it's advisable to call it at all. I'd put gold out now just as

H.M.Jr: Well, we postponed our call at noon today.

Eccles: I think that was advisable.

H.M.Jr: Now, my inclination, inasmuch as this thing - see, I haven't had a chance to discuss this with my own crowd, because this is more or less the first time I've come up for air. My own inclination - and as I say, I haven't talked - whatever I'm going to do, might just as well make up my mind this afternoon that I'm going to deposit so much gold with the Federal Reserve Banks. Is that what you call it?

Bell: Yes, sir.

H.M.Jr: What?

Bell: Yes, sir.

-9-

H.M.Jr: And have it - it will go in Saturday, won't it?

Bell: Go in tomorrow if you want to.

(Gardner comes in)

H.M.Jr: How do you do.

Bell: Just New York is closed tomorrow, isn't it, Marriner?

Eccles: Yes, New York is the only one closed. I don't know of any place but New York.

Bell: As a matter of fact, we could put it in tonight yet.

Eccles: That is, in New York.

Bell: All over the country. They're open until about five or six.

H.M.Jr: Well, I personally ...

Gardner, I'll just sketch what we're doing. We're talking about this. We had this morning to make up our mind whether or not we'd sell any bills on Monday. So we're going to sell a hundred million dollars worth of bills, just as usual. With Mr. Eccles, we have decided we're going to ask the Open Market Committee to come down Wednesday and discuss future bill program and financing program.

Normally today we would have called on the banks for 60 million dollars, and we postponed that. I mean we're not going to call on them. So we need 60 million dollars.

The question I'm asking advice on, is, when should we deposit the gold, and how much? That's as far as we've got.

Bell: Before you leave that calling from the banks, I'd like to bring up the question of prepayment that Burgess mentioned. We have allowed the banks pretty wide discretion in prepaying War Loan accounts. I don't believe we should discontinue it.

H.M.Jr: I called up Burgess a little while ago and asked him what he thought.

-10-

- Eccles: What did he think?
- Bell: He thought we should not permit them to prepay.
- Golden.: What does that mean, Dan?
- H.M.Jr: (To Goldenweiser) Thank you!
- (Hearty laughter)
- Much obliged. One honest man.
- Bell: I didn't think of that.
- H.M.Jr: Dan's got to get out his dictionary.
- Ransom: I thought I was the only man in the room that didn't know the answer.
- H.M.Jr: That's the second good laugh I have had this week.
- Bell: Well, the War Loan depositaries have balances to the credit of the Government for the proceeds of the sales of Government obligations. From time to time we call upon them for money as we need it to meet our obligations. Now, from time to time they have more money than they need, so they ask us if they can prepay a War Loan account without us calling it; in other words, just deposit it in the Federal Reserve Bank.
- Eccles: In other words, they refuse to keep the deposit.
- H.M.Jr: Didn't National City do that today?
- Bell: National City is paying in 25-million dollars.
- Golden.: It's just that the word is an awkward one. They want to return the deposits without your calling for it.
- Bell: The reason for it is that they have to pay insurance charges on that deposit. Naturally, they want to get rid of that charge if they have no use for the money.
- Eccles: I'm somewhat in sympathy with Burgess's position on that, for this reason. That is, you give the banks these deposits and when they subscribe to the War Loan deposits they - now, they can upset the thing pretty badly if they all want to pay off, see? You see, you

-11-

better know in the first instance whether or not they're going to keep it or not. When you give them the option, it might very well work against the - to the disadvantage, certainly, of the Federal Reserve System, because it puts the control in the hands of the banks. That is, it seems to me that it is - that it is likely to do that. Why not let them say in the beginning, "Now, here, we can keep this deposit until the Government wants to draw it," or "We won't take it"?

Bell: Well, what's the difference whether it's credited to a reserve account or credited to the Treasury of the United States with the Reserve Banks?

Eccles: Well, of course, if it's to the credit of the Treasury in the Reserve Banks, then it's out of the - it is no longer an excess reserve of the member banks; it ceases to be excess reserves. To the extent that it is in the hands of the member bank, the member bank carries it with the Reserve Banks, it is excess reserves.

Bell: But still dead money.

Eccles: But if you want excess reserves, which is the thing that a lot of people feel we want - if you want excess reserves, then don't let the banks pay off the War Loan account, because the minute they pay it off the excess reserves go down by that amount.

Bell: My point is there won't be enough to hurt anything, even if it is a hundred million dollars, or 150 million.

H.M.Jr: May I interrupt a minute? Does that decision have to be made today? I mean isn't that something that can be taken up between now and - with the Open Market Committee?

Bell: Yes.

H.M.Jr: I mean couldn't our technical people, our staff, be thinking about that, get together, then come in with a recommendation on Wednesday?

Eccles: I think I would do that too; I don't see why it can't wait until then.

Bell: That's right.

-12-

- H.M.Jr: Upham, Haas, and the rest of them - and your people - and Bell.
- Bell: Unless you had some over the week-end - now, I accepted the National City yesterday.
- H.M.Jr: Well, if it gets pressing - but I would say that that is something that would come in a recommendation to the Open Market Committee - to the Executive Committee of the Open Market Committee.
- O.K., Marriner?
- Eccles: Yes, I think so.
- H.M.Jr: I mean this is just - this thing might go on for hours, huh?
- Eccles: Well, there may be aspects, too, that we haven't got. It's a thing that ought to be studied before you make a decision.
- H.M.Jr: That's what the staffs are for.
- Taylor: It ties into your supply of bills and your bill rate more than almost any other thing.
- Eccles: That's right.
- H.M.Jr: Shall we leave that for recommendation of the staffs?
- Bell: That's all right.
- H.M.Jr: What?
- Eccles: I would recommend that we do leave it for recommendation of the staffs until next Wednesday, when the Committee meets.
- H.M.Jr: Now, what - then we come back again to the question, how much gold should the Treasury deposit and when?
- Eccles: Just offhand, if it's a psychology we want to help to create in this thing, as well as consider it from mechanics, it would seem to me that if the Treasury might de-sterilize immediately a substantial sum, even though it does of course become a large deposit in

-13-

the Federal Reserve but doesn't get out into excess reserves, yet the very announcement of the fact that you have desterilized, say, five hundred million - it means then that it is there to be spent as you need it. It means your balances are high, of course, in the Fed until that goes out. If you discontinue offering bills or discontinue the turnover, it will go out fairly fast. It would seem to me that it would be desirable to do something of a substantial nature instead of doing it piecemeal - 50, or 100, or 150 million. Now, that's just my personal view.

Then, when it comes to our action on reserves

H.M.Jr: Sense of humor all right?

Eccles: What?

H.M.Jr: Is your sense of humor all right?

Eccles: Well, I'm willing to have it tried out. I'm not - after ...

H.M.Jr: All right, I won't try it. O.K., I won't try it. I'll make sure and wait until Monday.

Eccles: After this last week, I'm not sure just ...

Bell: Sure you got one?

Eccles: I'm not sure what I've got.

H.M.Jr: We'll pass it, if you have any doubts. If you have any doubts.

All right. Well, we're still back to, how much?

Eccles: Well, I merely mentioned five hundred

H.M.Jr: Well, I'll tell you what I'd like to do. I like to play games. Everybody got a piece of paper? Everybody put down how much they think we should deposit, and when. Two things.

(Upham distributes slips of paper)

Eccles: Well, it's as good a way as any. As good a way as any.

- H.M.Jr: How much, and when.
- Oliphant: You talking about how much interval between the announcement of it and the message today?
- H.M.Jr: No.
- Eccles: The amount.
- H.M.Jr: Well, there are three questions: When should we announce it? How much should we deposit? And, on what day should it be deposited?
- Eccles: Announce it on the day you deposit it.
- H.M.Jr: Might announce it tonight, or say no decision - I mean when should it - when should we announce it, how much, and what day?
- Oliphant: May I ask a question before I write mine? The markets are closed tomorrow? I just want to
- H.M.Jr: Yes.
- And just so that we play the game, the winner gets the prize (little toy automobile).
- Golden.: Do you want the ballots signed, Mr. Secretary?
- H.M.Jr: I certainly do. I'm going to sign mine.
- Eccles: This timing it is another question. You can't do this tomorrow, can you? New York ...
- Bell: You write that; we'll get it in.
- Gaston: It's only 3:20, Marriner.
- Eccles: What about Saturday?
- Gaston: It's only 3:20. Bookkeepers still at work.
- H.M.Jr: This is more fun than I've had in a long time.
- Upham: (Collecting ballots) He (Ransom) doesn't trust me. Didn't you vote before?
- Ransom: No, I haven't voted before. It's an honest election,

as I understood it.

- H.M.Jr: Got any good mathematicians? Read them off. Got to have a tally.
- Ransom: Anybody to check Cy?
- Bell: What's George doing, writing a thesis?
- Upham: Yes.
- Haas: Wasn't quite finished, but I'll sign it as it is.
- Gaston: We've got to straighten your books out.
- H.M.Jr: Anybody else?
- Upham: Gardner.
- H.M.Jr: Have you (Taylor) played?
- Taylor: Oh yes, I didn't hold back a thing.
- Ransom: That's the way to get what's known as a concensus.
- H.M.Jr: Well, we've done it with our own crowd, but I don't think we've ever done it with you.
- Eccles: No. It's not a bad idea. I think it's all right. The next time we get in a jam over there with those twelve together, by God, I think we'll have to resort to something like this.
- Ransom: I think it's a brilliant idea.
- H.M.Jr: All right. O.K. Now I'll try to read them so we'll get as to the day. Who's going to tally this?
- Oliphant: Don't read the names.
- H.M.Jr: Why not?
- White: That's four-fifths of the fun.
- H.M.Jr: Anybody object to their names being read?

(Chorus of "No's")

- H.M.Jr: Now wait a minute, Cy, you've got to explain. You say "tonight."
- Upham: That's right. Dan said it could be deposited tonight.
- H.M.Jr: Well, how about announcing it?
- Upham: Well, it's been announced, in my opinion. The President announced it.
- H.M.Jr: But when you going to announce - the action should be announced when?
- Upham: Well, when it is done - tonight. You deposit tonight, announce it tonight. I'm sorry.
- H.M.Jr: Upham says, "Announce tonight, deposit tonight, a billion four."
- Upham: That's right.
- H.M.Jr: Is somebody writing this down?
- Upham: Dan is.
- H.M.Jr: H.M.Jr. - "Announce this afternoon, deposit Saturday, one billion."
- Gaston: Huh, huh, huh!
- H.M.Jr: Am I good?
- Gaston: We're working in perfect harmony.
- White: Herbert admits it.
- H.M.Jr: Oh, Bernstein - "Announce Monday afternoon that one billion four will be deposited on next Wednesday." "Announce on Monday afternoon that one billion four will be deposited "
- Bernstein: On Wednesday.
- H.M.Jr: On the following Wednesday.
- Bell: Did you give an amount? Upham, I mean.
- Upham: Yes, one billion four.
- H.M.Jr: "G.C.H." Who?

Klotz: Haas.

H.M.Jr: Haas - "Deposit with the Federal Reserve as soon as possible"

Bell: That's tonight.

Haas: I didn't want to take any chance.

H.M.Jr: All right. ".... one billion four."

Haas: That other part - Cy took it away before I finished it - the point there

H.M.Jr: "This takes the amount off the daily statement."

Haas: Desterilization account, inactive account.

H.M.Jr: Anyway, his thing is to deposit it with the Federal Reserve tonight - one billion four, and announce tonight.

Haas: As soon as Well, I wouldn't care.

Gardner: It's announced by the action.

H.M.Jr: White - "Announce it Friday, deposit one billion four Monday."

Bell: Got too many votes here.

H.M.Jr: Eccles - "Five hundred million dollars today."

Eccles: "Announced tomorrow," I should have put on, because if you put it in today you could announce it tomorrow, couldn't announce it today. I mean there would be no occasion. I think be better to announce it tomorrow for the press Saturday morning.

H.M.Jr: "H.O." Oliphant - "Deposit five hundred million. Do it Tuesday. Announce it at 9:31 a.m. Tuesday."

Oliphant: Before the opening Tuesday, that would be.

H.M.Jr: I added the "1" to 9:30.

Haas: You're conservative, Herman.

Oliphant: That's right. Hair getting gray.

H.M.Jr: Ransom - "Announce on the 15th" - that's tomorrow - "five hundred million dollars, and deposit it immediately."

Ransom: Well, I mean immediately after the announcement. I didn't assume at that time that you could deposit it today.

Klotz: Friday.

Ransom: If you could do it today, so much the better.

H.M.Jr: Today.

Gardner - "Announce immediate desterilization of initial amount of 200 million next week."

Gardner: Might have added to that that the original announcement would be to the effect that the whole amount was to come out in a series of installments, that you merely begin with the 200 million dollar installment.

H.M.Jr: I see.

Gaston - "On the daily statement for today transfer all inactive account to working balance. Saturday, deposit one billion gold certificates. Announce both actions today." Are those - is that statement - I mean can you do that on a daily statement for today, transfer all ...

Gaston: You could do that on today's statement, couldn't you, Dan?

Bell: Yes. Come out Saturday morning.

Gaston: It will come out Saturday morning, but it will be for today and it will show the inactive abolished and all of it in the working balance.

Eccles: And you could release it to the press, if you want, by Saturday morning, because that is when your statement would come out.

-19-

- H.M.Jr: How much is the inactive gold?
- Bell: One billion, 182 million; 209 in the working balance of free gold - 196 free gold and 12 million tied up behind National Bank notes.
- H.M.Jr: What Gaston is suggesting - if we transfer the one billion one
- Gaston: That would show a working balance of about a billion, 390. And then follow it on Saturday by depositing a billion of it in the Federal Reserve Banks, which would leave you a working balance of 390, of which 12.8 is for ~~National~~ Bank notes.
- H.M.Jr: You mean gold in the working balance.
- Now, the daily statement today - you mean tomorrow's statement.
- Gaston: The one that is compiled today, dated today, comes out Saturday.
- Eccles: Saturday morning?
- Gaston: Saturday morning, yes.
- H.M.Jr: What Gaston has suggested is wiping off all inactive gold and transferring it to the working account.
- Bell: Right.
- H.M.Jr: Working balance. And then deposit a billion of gold on Saturday.
- Eccles: That is, a billion of gold from the working gold account; by making the transfer you'd have a billion four approximately in the working account, then you'd lose a billion of it, leaving about 400 million in the working account.
- Gaston: Yes.
- Bell: But that transfer to the Federal Reserve Banks will not show up until the statement of Tuesday morning. Of course, you announce the ...

- H.M.Jr: Action. "Announce action today," he says.
- Ransom: May I say, Mr. Secretary, that I like that suggestion.
- H.M.Jr: I do too. I like that. I like Gaston's suggestion. I like that.
- Bell: Why wouldn't you like to deposit today, so that would also show up?
- Gaston: I'd agree to that. Deposit your billion today.
- Bell: So your announcement would state that you had deposited with the Federal Reserve Banks. Your inactive gold fund would be wiped out at the same time.
- Eccles: Irrespective of how much is deposited, I think the idea of getting rid of the inactive gold fund and putting it in the working balance is good. And then, if you deposit five hundred million or a billion, why, it wouldn't make any difference to me. But I think that suggestion would be a darn good one.
- H.M.Jr: Goldenweiser - "Announce today, deposit Saturday one billion four."
- Taylor - "One billion four. Deposit all and announce Saturday."
- Bell: You mean deposit today?
- Taylor: I mean to have the whole thing show as of Saturday.
- Bell: When would you announce it?
- Taylor: Announce it when it shows.
- H.M.Jr: Bell - he's very brief. He's an economizer. He says, "Five hundred million, April 14. Bell." Just like a telegram. "Why sign it - they know I mean Bell."
- Golden.: Dan, you forgot to say "Regards."
- Bell: That's understood.
- Taylor: Maybe you forgot to say "Goodbye," Dan.

- H.M.Jr: My father sent me a radio telegram when he was coming around from San Francisco through the Canal - something about "Thanks very much for arranging my going through Panama," and they put on there "Unsigned." So I sent him back one word, "O.K." - a wire - "Unsigned." I thought I'd go him one better. He showed it to everybody on the boat.
- Well, I think, going around - I think - I imagine that everybody would agree on this, that as of today we wipe out the sterilized account. What? Does anybody object to that - that as of today we just wipe that out and transfer that to the working balance?
- Eccles: That will show up in the Saturday morning statement.
- H.M.Jr: Saturday morning statement. Does anybody What?
- Ransom: It's a good thing. All right.
- Eccles: I think it's a good thing to do.
- H.M.Jr: Well, now we have agreed on that, then the question is ... See, the next statement comes out Saturday morning?
- Bell: The next one that could be affected by any action here.
- H.M.Jr: Would be Saturday morning. Well, I think whatever we're going to do, do it so it will show up on Saturday's statement.
- Bell: And in order to get it into all the banks, it ought to be done yet tonight.
- H.M.Jr: O.K.
- Bell: Some banks be closed tomorrow.
- H.M.Jr: Then the question is just how much. How many ...
- Bell: Six are for the billion four.
- H.M.Jr: Yes.
- Bell: And two for a billion. Four for a half a billion. One for 200 million.

-22-

- Gaston: To get the full billion four we either have to take some of it out of the gold profit or have to get some from the Stabilization Fund to make up the full billion four.
- Bell: Well, that was the round figure - billion, 391, or billion, 380.
- Eccles: You wouldn't want to do that, would you? Gold - one billion, 383 ought to be enough. That would be the full sterilized account, and the rest is not so important.
- H.M.Jr: How much is it?
- Golden.: One billion, 183.
- Eccles: That is now ...
- H.M.Jr: I'd be willing to take the one billion, 183.
- Eccles: That is the amount now in the sterilized account.
- H.M.Jr: I think that would be keeping full faith with the President.
- Eccles: But if you transferred the whole thing and then you transferred a billion of it - but why transfer a billion rather than that full amount, the billion, 183?
- H.M.Jr: No, I say a billion, 183.
- Eccles: That's what I say. I think if you're going to go above five hundred million, then you ought to go the billion, 183.
- H.M.Jr: I would.
- Ransom: That closes that.
- Gaston: Make it even money by taking a little money out of the working balance and making it a billion two.
- Taylor: It's even more effective if you take the odd amount.
- H.M.Jr: Take what is in the sterilized account, exactly what

-23-

is in the sterilized account, and deposit that with the Federal Reserve.

- Golden.: Either that or the full one four that the President mentions in his message.
- White: There is something to be said for the full amount that the President mentioned, and I don't quite see the advantage of not taking that additional amount. It seems to me it has everything that can be claimed for the one one plus the other.
- Upham: I agree with Harry, but I am more willing to compromise than he is.
- White: How do you know?
- Upham: I said I think.
- H.M.Jr: Harry's a champion compromiser.
- Klotz: That's saying something.
- Golden.: That would be just to support the President's figure. He said ...
- Ransom: He said "approximately."
- Bell: He said "approximately." He knew how much - a billion, 390 - but used the round figure.
- Eccles: What's the difference between the billion, 183 and the billion four?
- Bell: 209 million dollars of free gold in the General Fund.
- Eccles: That hasn't been deposited.
- Bell: Hasn't been deposited and hasn't been transferred to the inactive account.
- Golden.: Mostly National Bank notes, isn't it?
- Bell: 12 million of that is held behind National Bank notes.
- Eccles: Got to continue to hold that.

-24-

- Bell: Don't have to. All by administration. It can go in - just as well lie in the Federal Reserve Bank as in the Treasury. Put the whole thing in. Eventually forget the National Bank notes.
- H.M.Jr: From the publicity standpoint, what have we done today? We have taken the sterilized account, wiped it out, put it in the General Fund, and deposited it with the Federal Reserve as of tonight.
- Ransom: That's a clean-cut operation.
- H.M.Jr: Now, what about the other? Well, we've wiped that out.
- White: I think it's probably a little more important if you could double the publicity, which I think you'd be able to do if you announced it before Sunday, let the Sunday papers carry it.
- H.M.Jr: Herbert is going to tell the boys tonight.
- White: And then postpone the actual deposit until Monday. Then you'll get double the publicity, won't you?
- Gaston: No.
- White: No?
- H.M.Jr: My own feeling - whatever we do, he'll tell the newspapermen; as a result of this meeting, we take such and such action now.
- Gaston: We'll have two stories anyway. We'll get the Friday morning story and the Sunday morning story.
- Eccles: You mean by
- Gaston: ... telling them tonight.
- Eccles: Do you want a Friday morning story?
- Gaston: While the iron is hot.
- Eccles: I think there will be so many other things. Why not keep this for a Saturday morning or Sunday morning story? Tomorrow you have the President's

-25-

radio talk, and you have this message today, and this - this could be ...

Oliphant: That's what I mean - spacing.

Eccles: Now, it's my judgment that this should come along on a Saturday morning. If you act today, the story has got to come Saturday, because the statement is out anyway. But it would be more - it would be perfectly logical to follow up here the very next day after the press is commenting on this radio speech.

H.M.Jr: Of course, the financial newspapers won't be published tomorrow.

Gaston: No, the financial newspapers won't be published. Of course, the boys will be keen to know what mechanics have been decided upon.

Upham: If you don't do it, the public won't understand why you're delaying it. Get a lot of unfavorable publicity if you don't do it.

H.M.Jr: I don't see any reason - I think we ought to do it tonight.

Eccles: You mean for the papers in the morning? Gosh, to follow the ...

H.M.Jr: Another reason why - it's better for the President's sake. The boys said this morning - when I wasn't ready this morning to tell them, so - oh, this thing was so sudden and so unprepared, wasn't thought through, "so you really don't know what you're doing."

Eccles: Well, I don't think the - the amount doesn't make so much difference, if it's large.

Gaston: You're putting it on today's statement, and you're holding out from the boys something that they will find out later you have done today, and there's no sensible reason, except a matter of newspaper space, for not telling them. I think it'd make them pretty sour.

Eccles: Couldn't do it for release on Saturday morning?

- Upham: So patently a bid for publicity.
- Gaston: The effect of prompt action is far better than the kind of head it gets in the paper.
- Eccles: Well, I
- Gaston: And you'll get it again on Sunday.
- Upham: Yes. Will you!
- Taylor: If you make your announcement on Saturday, why, that will take care of that gap, won't it?
- Eccles: We didn't figure doing anything until Monday.
- Taylor: Get both Saturday and a follow-up on Sunday.
- Eccles: We figured that possibly by Monday there will be a little gap, and bring that in Monday. I was hoping that this could come Saturday and then we could come in there Monday.
- Bell: Is your action going to be effective immediately?
- Ransom: Yes, it has to be immediately.
- Eccles: Have to be a date that it goes into effect. First of the month, for instance. Got to give a date. Effective such and such a date.
- Ransom: Probably the first of the month - the first period that you strike.
- Bell: Really don't have to give any effective date far in the future when you go down. Going up, you do, but going down
- Eccles: Yes, they have to figure their reserves, calculate their reserves on a weekly basis.
- Gaston: The President is announcing that this is going to be done, and the effect of your not announcing the mechanics is just an effect of delay.
- H.M.Jr: Gentlemen, I've been - there's six people - the President announced a billion four; I think we better

-27-

do what the President said. I think we better do a billion four tonight.

Bell: He said, however, "gradual," didn't he?

H.M.Jr: No.

Bell: In that draft he had "gradually."

H.M.Jr: Who's got the speech?

Eccles: Well, what - of course, he didn't - he said ...

H.M.Jr: There are six people here said that Has somebody got his speech?

Golden.: I haven't his speech. I have the message.

H.M.Jr: I haven't got the speech either. I mean the message.

Bell: You mean the billion four - the exact amount. The exact amount that is in the

H.M.Jr: What is it?

Bell: A billion, 392.

H.M.Jr: A billion, 392.

Bell: Yes.

Gaston: "This can be done without legislation. It will be done through the desterilization of approximately one billion four hundred million dollars of Treasury gold, accompanied by action on the part of the Federal Reserve Board..." etc.

H.M.Jr: Well, it's a billion, 392 - is the figure we gave.

White: Notice the way that statement

Bell: I remember - I thought it was in there yesterday.

H.M.Jr: Well, it isn't in there.

White: Notice the way the statement reads: "It will be done." It's almost like an order.

-28-

- H.M.Jr: But I don't want - I mean that's what he said and I think we better do it. And as I say, we're voting and there's six people
- Bell: That's right, six people in favor of the billion four.
- Ransom: Well, if he doesn't use the word "gradual" in there, if it's contemplated it should be
- H.M.Jr: Would you mind reading
- Ransom: He's read it. I'm satisfied it isn't in there. I thought it was.
- H.M.Jr: Well, it isn't.
- Ransom: Well, that does put a somewhat different aspect on it.
- H.M.Jr: I mean he can perfectly well say, "Well, Henry, why didn't you do a billion four?"
- Bell: Let's make sure. Let's make sure and do it.
- H.M.Jr: It would be a billion, 392, wouldn't it?
- Bell: That's right.
- White: I'm impressed with Herbert's argument, that to do it tonight seems to indicate the definite support - no lapse. He said it would be done; it is done that night. No possibility for criticism or doubt, or "Is there confusion?" and so on.
- Bell: I agree.
- White: It loses possibly some of the advantage that you (Eccles) claim, but I think it is outweighed by this other advantage.
- H.M.Jr: If you gentlemen had been in my press conference with me this morning and seen how the boys pressed me on answers
- Eccles: Well, I would I certainly wouldn't have any objection to doing the whole thing. Certainly it is

-29-

going to be done, and whether it's done tomorrow or whether it's done part tomorrow and part next month and part a month from then, I - it's just a question of which would be the most favorable psychologically. And it would seem possible that that statement could be interpreted that it would be done immediately, and if it isn't done immediately it could be said that it was being done grudgingly, and of course you don't want to get that impression.

- Oliphant: I've changed my mind. I think that obviates everything else. I've changed my mind.
- H.M.Jr: And the other thing, Marriner - after all, the public shouldn't know that we didn't have time to think this over.
- Eccles: Well, there's a lot
- Upham: That's the sense of humor touch.
- Eccles: Well, there's a lot of things that, if the public did know, it would be too bad.
- H.M.Jr: Plenty.
- White: You said it.
- H.M.Jr: I think unless somebody says something - I think I'll let Mr. Gaston advise the press - I don't see any reason for my seeing them, Herbert -
- Gaston: No, I don't think so.
- H.M.Jr: ... that we have decided that we'd deposit tonight a billion, 392 - whatever it is.
- Gaston: Whatever the sum is in the
- Bell: Right down to the cent.
- H.M.Jr: Right down to the cent.
- Bell: And I'll deposit the National Bank note gold.
- H.M.Jr: Huh?
- Bell: And you deposit the National Bank note gold. Might

-30-

as well be in the Federal Reserve Banks as be here.

Gaston: The entire amount of the gold in the inactive and the working balance.

H.M.Jr: Is that one billion four

Bell: Yes, sir, it's only 12 million.

H.M.Jr: How much?

Bell: 12 million. And of course, the next couple months, before you lose this billion, 100 million dollars worth of gold, those National Bank notes will have come in.

H.M.Jr: Of course, we have - this does not take care - I mean include the gold in the Stabilization Fund.

Bell: Neither does it include that gold out of the increment to make loans to industry in the Federal Reserve Banks - about 141 million dollars.

Oliphant: What is it, Dan?

Bell: About 141 million.

H.M.Jr: Plus the gold in the Stabilization Fund. So Got time, Dan?

Bell: No, you're not rushing us any.

Gaston: So I think I could tell them, couldn't I, about the cancelling of the 60 million call, and the fact that we'll roll over the hundred million of bills, and that the Executive Committee will meet with you on Wednesday morning to talk about the general financing situation, and the fact that we're making this deposit.

H.M.Jr: Now let's go - now let's - anybody, please, who doesn't think that this is wise or the best way to approach it, please say so.

Upham: Well, Mr. Secretary, I just wondered if Mr. Gardner had any well thought out reason for his installment plan - more or less academic.

-31-

- Gardner: No, I certainly did not. So long as the whole program is announced at one time, it seemed to me there was no hurry in making the transfers, but I don't feel the slightest objection to doing it all at once.
- Ransom: Just being cautious.
- Eccles: It will be spent in installments anyway. Just a question of its lying idle on balance in the Reserve Banks
- Taylor: ... or whether it's here.
- Eccles: Or whether ~~it's~~ it's here. You'll spend it in exactly the same way. The only thing is, you get the full psychological benefit of it all being deposited.
- H.M.Jr: Anybody else? I mean this is important.
- White: Just one point. In order to squeeze the maximum effect and not to confuse the public with the phrase "working balance," which they will not understand and wonder what it is you are transferring - I wonder whether it wouldn't be possible to say that there is one billion, 392, de-sterilized at once; because if you say "from the inactive account and the working balance," they'll ask a lot of questions and it will not be clear.
- Gaston: Well, if the boys want to know, I can tell them the facts.
- Bell: I think they know pretty well those two accounts on the daily.
- Eccles: The way they write the story - that there was a de-sterilization of a billion, 392 million; that's the way the story would head.
- Taylor: By the way, I gather this is Archie's preference too.
- H.M.Jr: What?
- Taylor: This seems to be Archie's preference.
- H.M.Jr: I didn't know
- Taylor: I say I talked to him.

-32-

H.M.Jr: Well, this is what he'd like to do. Grand.

Eccles: I vote "Yes."

Ransom: Suits me.

H.M.Jr: Dan?

Bell: O.K. by me.

Bernstein: (Nods yes)

Upham: Yes indeed.

Oliphant: The discussion has changed my mind.

H.M.Jr: Pardon me?

Oliphant: The demonstration of the ability of the administration as a whole to act in unity and promptly, I think, outweighs all the considerations I originally had in mind.

Ransom: I agree with Mr. Oliphant on that.

H.M.Jr: George?

Haas: Yes.

Golden.: (Nods yes) Yes, Mr. Secretary.

Gaston: I agree entirely.

White: (Nods yes)

Gardner: (Nods yes)

Taylor: (Nods yes)

H.M.Jr: All right.

Eccles: It's unanimous.

H.M.Jr: You (Klotz) don't want to vote "No," do you?

Klotz: I better not.

-33-

- H.M.Jr: Well, isn't that
- Upham: Mr. Bernstein raises this point: What does the President say in his speech tonight? Does he say it will be done or it has been done?
- H.M.Jr: I don't know that it necessarily - well, this is a message to Congress.
- Oliphant: Yes, you're acting on the official document when you act on the message.
- H.M.Jr: I'd make this for release for tomorrow morning's papers, not for tonight. The President is, I take it - his speech this evening is an interpretation of his message to Congress.
- Eccles: It might be very well to advise him of the action in case it would be necessary to change any
- Bell: He might stop in the middle and say, "By the way, the Treasury"
- Eccles: And say, "It has been done."
- Gaston: No, he'll say, "Flash!"
- Bell: "How quickly we act! It's already been done."
- Taylor: And those babies move, too.
- H.M.Jr: I don't think I want to call him up today.
- Klotz: I wouldn't.
- H.M.Jr: What? I don't see ...
- Oliphant: You're acting on the official document, the message to Congress.
- Eccles: I think you're safe enough. But he might incidentally, if he did know it, state that it has been done.
- H.M.Jr: Well, you (Gaston) can tell Steve Early.
- Gaston: I'll tell Steve Early.
- H.M.Jr: You tell Steve Early.

-34-

Gaston: You (Bell) can do it still?

Bell: Oh yes, I'll get it in there.

H.M.Jr: And also tell them the question of bills and future financing will be decided on Wednesday.

Gaston: Will be discussed with the Executive Committee on Wednesday.

H.M.Jr: Thank you.

On daily statement for today
transfer all inactive gold
to working balance

~~Tomorrow~~
Saturday, deposit
one billion gold certificates

Announce both
actions today

Walter J. Gaston

114
Deposit with
Fed. Res.

as soon as
possible
1.4 bil.

This takes this
amount off
daily statement
WJG

\$500,000,000-

April 14,

Bill

Announce on 15th

\$ 200,000,000

Deposit immediately
Ransom

1. Announce today
2. Deposit Saturday
3. \$ 1,400,000,000
E. O. Goldwater

1,400,000,000

Deposit all and
announce Saturday,
W.E.J.

Advance immediately
distribution of initial
amount of \$200,000,000
next week.

Gardner

1,400,000,000

Donight

Lyon

1. announce this afternoon.
2. deposit 1 billion
3. deposit Saturday.

Jm J.

Amk 50000000

To-day

W. Lewis

Announce it Friday
Deposit.

1.4 billion - Monday.

White

Deposit 500 mil.

Do it Tuesday

Announce it at -

9:30 AM Tues.

JLO

announce on Monday
afternoon that 1400,000⁰⁰⁰
will be deposited
on next Wednesday

B. B. B. B. B.



TREASURY DEPARTMENT
WASHINGTON

124

April 14, 1938

TO THE SECRETARY:

At a conference today in the Secretary's office with the Treasury Staff and representatives of the Federal Reserve Board present, it was decided that, to carry out the suggestions made in the President's message, immediate steps should be taken to deposit all of the inactive gold and all of the free gold in the working balance, aggregating \$1,391,907,809.30, with the Federal Reserve Banks.

After discussing the matter with Mr. Eccles, I approved the deposits specified in the attached letter.

WVB

For Secy's file

125

April 14, 1938

To the Treasurer of the United States:

Instructions contained in my memorandum of December 24, 1936, to segregate as inactive gold in the general fund of the Treasury the net amount of all gold received daily on and after December 23, 1936, including gold received at the old value of \$20.67+ per fine ounce; to show such inactive gold separately on the Treasurer's record of classified assets and liabilities in the Treasury and to change the form of the Daily Treasury Statement so as to show this inactive fund separately from the free gold in the working balance of the general fund; the instructions contained in my memorandum of November 4, 1937, regarding the handling of gold transactions simultaneously as between the Treasury and the Stabilization Fund; and the instructions contained in my memorandum of February 15, 1938 to deposit in the gold certificate fund, Board of Governors, Federal Reserve System for credit of the Federal Reserve Bank of New York in multiples of \$500,000, the equivalent of daily accretions of gold in the Treasurer's account up to an aggregate of \$100,000,000 each quarter, are hereby revoked.

In this connection, you are authorized and requested to transfer the balance of the inactive gold in the general fund of the Treasury, amounting at the close of business on April 13, 1938 to \$1,182,974,522.81, to the free gold in the working balance of the general fund and to deposit this sum today, together with the amount of free gold already held in the working

- 2 -

balance amounting to \$208,933,286.49, or a total of \$1,391,907,809.30, in the gold certificate fund, Board of Governors, Federal Reserve System, for account of the following-named banks in the amounts indicated, with corresponding charges in the Treasurer's general account as transfers of funds to such banks:

Federal Reserve Bank of Boston	\$50,000,000.00
Federal Reserve Bank of New York	541,907,809.30
Federal Reserve Bank of Philadelphia	50,000,000.00
Federal Reserve Bank of Cleveland	50,000,000.00
Federal Reserve Bank of Richmond	50,000,000.00
Federal Reserve Bank of Atlanta	50,000,000.00
Federal Reserve Bank of Chicago	250,000,000.00
Federal Reserve Bank of St. Louis	50,000,000.00
Federal Reserve Bank of Minneapolis	50,000,000.00
Federal Reserve Bank of Kansas City	50,000,000.00
Federal Reserve Bank of Dallas	50,000,000.00
Federal Reserve Bank of San Francisco ...	<u>150,000,000.00</u>
Total	1,391,907,809.30

Included in the above-mentioned free gold contained in the working balance as of the close of business April 13, 1938 is the sum of \$12,855,760.45 held for retirement of National Bank notes in accordance with the instructions contained in the Secretary's letter of June 28, 1935. This memorandum does not involve any change in this instruction and you should continue to charge the retirement of the National Bank notes against this fund until the total retirements effected after April 13, 1938 reach \$12,855,760.45, and you should consider that the gold deposited on April 14 for credit with the Federal Reserve banks to this extent was merely anticipating the retirement of such National Bank notes.

Beginning with April 19, 1938 you should make no further deposits

- 3 -

of accumulations of gold in the general fund unless instructed by this office. This will permit the gold to accumulate in the usual manner and be held in the working balance of the general fund as "free gold".

DWB Bell
Assistant to the Secretary

DWB/gwm



TREASURY DEPARTMENT

WASHINGTON

April 14, 1938

TO THE SECRETARY:

Confirming the understanding reached in your office this morning, it was decided to approve the Treasury bill program for this week in the usual manner, namely, \$100,000,000; that there would be no call today on government depositaries; and that any additional funds needed would be provided through deposits of gold through the Gold Certificate Fund.

This entire matter will be discussed this afternoon at 3 o'clock with members of the Federal Reserve Board.

dwfB

April 14, 1938.

WJW

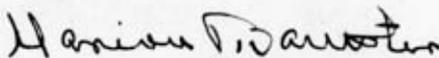
The Honorable,
The Secretary of the Treasury.

Sir:

The Federal reserve banks named below need funds in the Treasurer's account to meet current disbursements, and the gold in the general fund of the Treasury is in excess of legal requirements and current needs. Therefore, it is respectfully requested that deposits of the following amounts be authorized in the Gold Certificate Fund to the credit of the banks named, with corresponding charges in the Treasurer's account as transfers of funds to such banks:

Federal Reserve Bank, Boston	\$50,000,000.00
Federal Reserve Bank, New York	541,907,809.30
Federal Reserve Bank, Philadelphia	50,000,000.00
Federal Reserve Bank, Cleveland	50,000,000.00
Federal Reserve Bank, Richmond	50,000,000.00
Federal Reserve Bank, Atlanta	50,000,000.00
Federal Reserve Bank, Chicago	230,000,000.00
Federal Reserve Bank, Saint Louis	50,000,000.00
Federal Reserve Bank, Minneapolis	50,000,000.00
Federal Reserve Bank, Kansas City	50,000,000.00
Federal Reserve Bank, Dallas	50,000,000.00
Federal Reserve Bank, San Francisco	150,000,000.00
	<u>1,381,907,809.30</u>

Very truly yours,



Assistant Treasurer.

April 14, 1938.

Deposits authorized:



Assistant to the Secretary.

RDB

MEMORANDUM

April 14th, 1938.

To: Mrs. Klotz

From: Mr. McReynolds

I have read the record of the Secretary's telephone conversation with Senator King this morning about the proposal to require by legislation that the Federal Government protect state borders in connection with the enforcement of tax laws relating to alcoholic beverages.

The situation legislatively is:

- (1) Senator Lea introduced an amendment to the tax bill covering this subject and the item is, therefore, before the conference committee on tax legislation; and
- (2) What is known as the Tarver Amendment, covering the same subject, is before a sub-committee of the Judiciary Committee of the Senate, presided over by Senator King.

Mr. Hester had been informed that Mr. Magill would take care of this subject, in view of the fact that it is necessarily before the tax bill conference. For that reason, he had not followed up the contacts with Senator King's Committee.

I have now arranged with Mr. Magill and Mr. Hester that Hester will assume full responsibility for presenting the Treasury's attitude before Senator King's sub-committee and that Mr. Magill will handle the matter before the conference committee on the tax bill. This is entirely satisfactory to both Mr. Magill and myself; Magill having promised that he will call on Hester for detailed assistance before the conference committee if he finds himself in need of such assistance.



April 12, 1938.

Col. Strong telephoned to say he received a report that Mr. Tetsuzu Horikoshi, Ex-Chief Comptroller of the Bank of Japan, left Yokohama March 31st for Seattle with two assistants on a secret mission to investigate the possibility of establishing additional credits for Japan in the United States.

EG

GRAY

Paris

Dated April 14, 1938

Rec'd 8:05 a.m.

Secretary of State,
Washington.

603, April 14, 11 a.m.

Reference my 601, April 13, 8 p.m.

Parliament adjourned last night until May 31.

WILSON

KLP:CSB

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE April 14, 1938.

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF FRANCE.

J. W. McKeon

Mr. Knoke called Mr. Cariguel at 9:48 this morning. There was a definite change of sentiment, Cariguel said, throughout France due to the recent change in the Government; all eyes were on Daladier, and provided he could handle the strike situation satisfactorily, things promised to work out all right.

The French Fund had purchased yesterday the equivalent of about £5,500,000 (which includes our sale of approximately 74,000,000 francs on Tuesday afternoon, equivalent of £465,000). Today he had purchased approximately £1,250,000. In view of the fact that England holds approximately 4,000,000,000 francs of gold in Paris, Cariguel is anxious to build up their gold holdings in London, with the result that at least for the present, exchange obtained from the sale of francs in London will be converted into gold in London.

As another hopeful sign of improved conditions, he mentioned the fact that in his opinion British and Italian authorities are finally getting together and that this time they would get somewhere. The Spanish situation also looked brighter and within two or three months the difficulties there might be settled, which, of course, would help Europe generally.

Mr. Knoke asked him if he was satisfied with the execution of his exchange orders the last few days, and Cariguel very definitely stated that he was pleased.

HM

GRAY

Paris

Dated April 14, 1938

Rec'd 9:25 a.m.

Secretary of State,
Washington.

RUSH.

604, April 14, 11 a.m.

FROM COCHRAN.

Chase Bank buyer dollars for French control at 31.72. Total of dollars purchased yesterday by Guaranty for control was 3,000,850. At 11 o'clock the control had also begun to acquire sterling actively at 158.13.

Market was impressed by unanimous passage last night by the Senate of Daladier's special finance bill and encouraged by fact that Parliament having adjourned until May 31 will give him favorable opportunity to begin reconstruction. Acceptance by the Senate of Chamber's bill of March 25 positively stipulating that total proceeds of eventual liquidation of stabilization fund and of fund for supporting rentes shall be applied to definite reimbursement of advances made by Bank of France to the state, also favorable received.

WILSON

HPD

EG

GRAY

London

Dated April 14, 1938

Rec'd 1:20 p.m.

Secretary of State,
Washington.

309, April 14, 5 p.m.

FOR TREASURY FROM BUTTERWORTH

I had a word with Waley who said that he had made indirect inquiries and ascertained that Monick had not yet returned to London and that his office did not know when to expect him. Waley said that in any case there was no chance of any important discussions taking place in London during the Easter holidays and for his part he was not returning until Wednesday.

All London markets will be closed until Tuesday with the exception of the foreign exchange market which will be open on Saturday morning.

I am leaving tonight for three days visit near Paris and can be reached through Cochran.

Daladier's initial success in the labor situation and his equally striking achievement in the obtaining of financial powers has created a favorable and somewhat hopeful reaction in this country. The FINANCIAL TIMES

GOES

-2- #309, April 14, 5 p.m. from London

goes so far as to say that although his Government "is not one of National Union, nevertheless it may prove an equally effective substitute, having reached what appears to be a point of stable equilibrium through the exclusion of the forces of the Extreme Right and Extreme Left.

THE TIMES is more cautious and predicts that "the real test will come when Parliament reassembles, having had time to study the decrees which will have been issued before then and to note their effect upon the financial and economic situation and upon opinion in the country. The Daladier Government's program for restoring equilibrium may be described roughly as M. Blum's plan shorn of the drastic proposals such as the capital levy and the supervision of exchange operations, which made it unpopular with the radicals. It adheres more closely to orthodox methods than M. Blum thought practicable in the circumstances. In the opinion of some critics it does not go deeply enough into the root of the evil to be effective. But the real evil is loss of confidence. The way in which the program is received is thus more important than its actual contents." (END SECTION ONE)

KENNEDY

HPD



REB

PLAIN

London

Dated April 14, 1938

Rec'd 2:35 p. m.

Secretary of State,
Washington.

309, April 14, 5 p. m. (SECTION TWO)

The Financial News concludes its editorial:

"If M. Daladier is able on the one hand to handle the industrial disputes and to hold the confidence both of the employers and the unions, and if he is able on the other hand to prevent a further deterioration of the national finances and at the same time intensify rearmament, then his prospects of forming a Government of National Union at some later date should be good. That must now be the objective. The Daladier Government, as it is at present, is not likely to be sufficient for the real solution of France's problems even by the exercise of dictatorial powers. But if the Prime Minister handles the position properly, then his Government should be able to prepare the way for the Government for which public opinion, not only in France but also in all the democratic countries,

REB

2-#309, From London, Apr. 14, 5p.m.
(Sec. Two)

countries, has been waiting ever since Hitler marched into Austria."

Dealings in both dollars and francs have been small due to the coming holidays. Gold sovereigns continue to decline in price with sales at 34.01.

(END MESSAGE)

KENNEDY

WVC

GW

EG

GRAY

Paris

Dated April 14, 1938

Rec'd 2:35 p.m.

Secretary of State,
Washington.

609, April 14, 5 p.m.

FROM COCHRAN

With offerings from New York this morning dollar was well supported against sterling and franc. In Paris Chase evidently obtained good amount of dollars for the French control. Guaranty alone gave Chase \$400,000 and sold 250,000 directly to the control. Sterling was not liquidated as heavily as yesterday but understand control was well satisfied with the amount it received on this holiday eve. Forward franc continues to improve but bidding therefor slightly restrained because of some market dislike for Government's new policy on discounting trade bills drawn on the state. There is a marked demand for two year national defense bonds and consequent tightness in money market. French rentes and shares strong.

Bank of France statement as of April 7 showed further drawing of 980,000,000 francs by Treasury.

European

-2- #609, April 14, 5 p.m. from Paris

European financial papers carry report of Eccles' recommendations for gold desterilization but so far have not expressed opinion as to appropriateness of such a measure coming just at the moment when dollar has been weakened by pump priming plans and when Europe appears to be taking a real turn for the better with early possibility of withdrawing gold from the United States against which shock the sterilized holdings would seem to offer the ideal cushion.

WILSON

KLP

RECEIVED
APR 15 1933
TREASURY DEPARTMENT
WASHINGTON, D. C.

141

IS ANSWER NECESSARY: *no*

ANSWERED BY:

Distribute to:

GRAY

Secretary *ye*

Mr. Haas *ye*

Mr. Taylor *ye*

Mr. Harrison *ye*

Paris

Mr. Cliphant

Dated April 14, 1938

Rec'd 9:25 a.m.

2 COPY
A. LOCHHEAD

HM

Secretary of State,
Washington.

RUSH.

604, April 14, 11 a.m.

FROM COCHRAN.

Chase Bank buyer dollars for French control at 31.72. Total of dollars purchased yesterday by Guaranty for control was 3,000,850. At 11 o'clock the control had also begun to acquire sterling actively at 158.13.

Market was impressed by unanimous passage last night by the Senate of Daladier's special finance bill and encouraged by fact that Parliament having adjourned until May 31 will give him favorable opportunity to begin reconstruction. Acceptance by the Senate of Chamber's bill of March 25 positively stipulating that total proceeds of eventual liquidation of stabilization fund and of fund for supporting rentes shall be applied to definite reimbursement of advances made by Bank of France to the state, also favorable received.

WILSON

HPD

FILE COPY
A. LOCHHEAD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Tokyo, Japan

DATE: April 15, 1938, 10 a.m.

NO.: 247

CONFIDENTIAL.

The Commercial Attache has been told by the Vice Governor of the Bank of Japan that on the thirteenth of April a shipment of gold was made from Kobe per SS KINAI MARU to San Francisco in the amount of 20,000,000 yen.

GREW.

EA:LWW

DEPARTMENT OF STATE

CABLE

From: Tokyo

Date: April 15, 1938

#247.

The Commercial Attache has been told by the Vice Governor of the Bank of Japan that on the 13th of April a shipment of gold was made from Kobe per S.S. Kinaimaru to San Francisco in the amount of 20 million yen.

MEMORANDUM FROM
EDWARD S. GREENBAUM
285 MADISON AVENUE
NEW YORK CITY

144

April 16, 1938

Dear Henry:

This is crudely and hastily done. It contains numerous quotations, most of which have no quotation marks, from the speech of November 10. It is also repetitious but is passed on for what it is worth. I have sent a copy to Herb Gaston.

E.S.G.

CC Hon. Herbert E. Gaston
Mr. Earle Bailie

In November I referred to the underlying conditions that made deliberate deficit spending the wisest kind of policy during depression and stated that such deficit spending was not needed during the process of recovery. I pointed out that the basic need was the full application of the driving force of private capital and that we wanted to see capital go into the productive channels of private industry and see private business expand. Unfortunately the past six months have shown no general improvement in business conditions and the flow of private capital has not yet started with sufficient force. Further impetus is needed. In order to supply this impetus further government spending is now needed. That is the objective of the President's program that was presented to Congress last week. Of necessity this program temporarily postpones immediate efforts toward the balance of the federal budget. The adoption of this program, however, does not mean that the Treasury has lost sight of the necessity of achieving a balanced budget. as soon as underlying conditions warrant further steps in that direction. We are fully aware of the dangers inherent in a permanent policy which would not include a balanced budget.

Last November I stated "I wish to emphasize that in no event will this Administration allow anyone to starve, nor will

it abandon its broad purpose to protect the weak, to give human security and to seek a wider distribution of our national income." It is hoped that the adoption of the present program will take care of these needs. The Administration realizes that the success of the present program depends upon private initiative and the cooperation of private enterprise. Without that cooperation there can be no national recovery. Governmental aid is a supplement to and not a substitute for private initiative and the driving force of private capital in the productive channels of industry. There may be honest differences of opinion as to the best method at a given time, to accomplish this, but there can be no difference of opinion as to the rightness of the objectives.

It is not the policy of the Treasury Department to hamper recovery. It realizes that of necessity taxation is always a burden and therefore unpopular. It has no desire to make this burden oppressive. Recently a great deal has been said and written for the purpose of making it appear that the retention of the undistributed profits tax as provided in the House bill is intended as ~~an effective measure~~ a punitive and will hamper recovery. Nothing could be further from the truth.

(Here make strong statement showing that undistributed profits tax in form proposed by House cannot hamper business. Also try to get in something about efforts made for general tax reform as outlined by Ros Magill in his speech before the Bar Association referring to eight years effort on the part of the Royal Tax Commission in England.)

To summarize, the Treasury is fully conscious of the danger of a permanently unbalanced budget. It is fully aware of the necessity of achieving a balanced budget at the earliest possible moment. The basic need today is to foster the full application of the driving force of private capital and the President's program is intended as an aid in this direction and not a substitute for private capital in industry. The Treasury Department contemplates no step which will hamper this program.

There is nothing in the President's program which contemplates the Government competing with business. The only expenditure contemplated which could possibly be used to compete with private industry is the proposed grant to P.W.A. It is entirely consistent with the President's program for the Congress to provide that no loans or grants should be permitted which would be in competition with existing or contemplated private industry, including utilities, or other like industries. I wish to emphasize that the underlying purpose of these expenditures is to supplement and not to supplant private industry and initiatives.

THE WHITE HOUSE
WASHINGTON

April 16, 1938

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

Can you get me the amount of tax exempt bonds--Federal, State and local--in the hands of income tax-paying individuals who have net incomes of fifty thousand dollars and up, and the tax savings made to them thereby? If this could be done in several categories of income and also separating the federal holdings from state and local holdings, it would give a pretty good picture.

FDR F. D. R.

Ph. Secy
HO
7

FROM BUSINESS WEEK of APRIL 16, 1938.

BASING POINT CONFERENCE

Worried about the Treasury edict that all cement bids must be made on an f.o.b. mill basis, representatives of steel, paint, and other industries using a delivered price system met this week to discuss the advisability of trying to induce the Treasury to rescind its order and halt its attack on basing points.

April 16, 1938.
12:20 p.m.

H.M.Jr: Hello.

Operator: Mr. Jones. Go ahead.

H.M.Jr: Hello, Jesse?

Jesse
Jones: Yes, how are you?

H.M.Jr: I'm alive.

J: Good for you. I understand you're on the top of the world this morning.

H.M.Jr: (Laughs) I understand you want to talk a little bit about financing.

J: Yes.

H.M.Jr: Are you all tied up this afternoon?

J: No, I'm not, I'm free.

H.M.Jr: Well, would you care to drop up to the house around, say, four o'clock?

J: At four o'clock.

H.M.Jr: How would that be?

J: That would suit me exactly.

H.M.Jr: That doesn't break your afternoon up, does it?

J: No, but it would be good to break it up, maybe, on a Saturday afternoon.

H.M.Jr: Well, if you would come up there, I'll be alone and

J: All right.

H.M.Jr: ... I'm very anxious to talk to you, because I think the time to strike is now.

J: All right, I'll be up there at four o'clock.

H.M.Jr: And I tell you, if you could have somebody, one of your people, draw up a little memo - I mean for both

-2-

of us -

J: Yes.

H.M.Jr: I mean how much - what's the maximum you could borrow and over what term - I mean month or year.

J: Yes. All right.

H.M.Jr: But I - I haven't got that.

J: I'll have it with me.

H.M.Jr: And if you'd bring that along, then we could sit around and

J: Talk it over.

H.M.Jr: ... talk it over.

J: Fine. I'll be there.

H.M.Jr: You know where I live?

J: Yep.

H.M.Jr: And I'll see you at four.

J: Fine.

H.M.Jr: All right.

April 16, 1938
12:24 p.m.

HMJr: Hello.

Operator: Dr. Burgess. Go ahead.

HMJr: Hello.

W. R. Burgess: Hello, Sir.

HMJr: I hear you sold a few bonds?

B: Well, we - we had a pretty hard time keeping things in order today.

HMJr: Uh huh.

B: The whole world wanted to buy your commodities.

HMJr: Commodities?

B: Yes.

HMJr: You mean

B: They thought you made a better "mouse-trap" and they're wearing a - a path to your doorway.

HMJr: I see.

B: (Laughs)

HMJr: I hear you sold 40 million?

B: We sold 65 million.

HMJr: 65 million?

B: Yes.

HMJr: Uh huh.

B: But the market's more orderly at the close. They're - they're more able to meet buyers - put buyers and sellers together.

HMJr: I see.

B: But it's up at least half a point.

HMJr: Uh huh.

B: On most issues - from the previous close.

HMJr: Yeah.

B: It was pretty important to keep it orderly, Henry.

HMJr: Yeah.

B: It was just crazy - ah - You'd have this thing growing up to a point where it would be very vulnerable.

HMJr: You're going to like our spending program, huh?

B: Well, all the markets certainly like it this morning.

HMJr: Uh huh.

B: Except wheat; I don't know why wheat didn't go up more.

HMJr: Uh huh.

B: Of course wheat went up Thursday.

HMJr: Uh huh.

B: But stocks are up...

HMJr: Well.

B:

HMJr: You're coming down Tuesday, aren't you?

B: Yes.

HMJr: Well.

B: Yes, sir.

HMJr: We'll see.

B: That's right.

HMJr: All right.

B: Yeah.

HMJr: Thank you.

B: All right, Henry.

HMJr: Goodbye.

B: Goodbye.

Monday
April 18, 1938
8:56 a.m.

HMJr: Hello.

O: Mr. Eccles.

HMJr: Hello.

O: Go ahead.

HMJr: Hello.

Marriner
Eccles: Good morning.

HMJr: Good morning, Marriner. Ah - Marriner, the reason I'm calling you is this. Hello?

E: Yes.

HMJr: Is that all of us seemed to overlook the fact when we met on Thursday - that we had a so-called - a hundred million dollar quarterly plan on gold. Hello?

E: Yes.

HMJr: It doesn't seem to me to make much sense to keep that in existence, - now - to keep it in existence now and maybe a month or so from now we'll be faced with the thing and then it becomes of importance. And - I'd like - I've got a press conference at four and they're going to ask me about it because all the newspapers mentioned it, that we didn't do anything about it and they took it for granted that that thing is still in existence.

E: Well, that - -

HMJr: Well...

E: We never thought of it in time. I noticed it in the paper.

HMJr: All of us sat around here and we all overlooked it. And what I thought was this: if it's agreeable to you could you bring the same people over around eleven o'clock and then we could take a little time and talk about it and decide it.

E: This morning?

HMJr: Yes.

-2-

- E: Well, you have a press conference this afternoon, don't you?
- HMJr: Yes.
- E: All right.
- HMJr: And that's why I'm calling you at home, I mean, to give you
- E: Yes. Yes, all right then. I'll - I'll bring them over then
- HMJr: The same people?
- E: Yes.
- HMJr: I'd appreciate it.
- E: Yes.
- HMJr: Because, I'd hate to do something a month from now and ...
- E: Well, we've either got to say that - it seems to me what we possibly should do is either - is either discontinue it
- HMJr: Yes.
- E: ...altogether...
- HMJr: Yes.
- E: ... or sterilize everything. I mean, this idea of a hundred million seems senseless. It either ought to be one thing or the other...
- HMJr: Right.
- E: Either complete discontinuance ...
- HMJr: Well, what's the sense of starting sterilizing after we've just desterilized a billion four?
- E: Well, there's only this - there's only the - the question if a lot of gold should come in some time in the future what are you going to do about it, I mean....

-3-

- HMJr: Well, then I think we'll have to meet it, but I think that
- E: Well, that's - that's right.
- HMJr: But I think - a hundred million
- E: We've got so - we've got so darn much now - the Federal Reserves of course at the present time are - should be up to about four billion...
- HMJr: Yes.
- E: And so it's just a record down there. As you say, the - we couldn't keep it down, as a matter of fact, with their system
- HMJr: But the hundred million and a quarter - that plan in light of what happened, just looks silly.
- E: Yes. It doesn't mean anything.
- HMJr: Don't you think so?
- E: Yes, I think so. I think that a hundred million and a quarter is - it ought to either be discontinued altogether ...
- HMJr: Yeah.
- E: ... or merely say we're going to sterilize everything that comes in; - we've put this billion and three hundred million out;..
- HMJr: Yes.
- E: ..we've decreased reserve requirements now - how much more may come in we don't know but we'll just take whatever - any that comes in and we'll sterilize it until such a time as we decide what to do about it. Either that or discontinue it.
- HMJr: Well, I think it's worthy of your talking about it...
- E: Yes. Well, I think it's got to be settled, of course.
- HMJr: Well, if you'd bring your gang over at eleven I'd appreciate it.
- E: Yes. All right.
- HMJr: Thank you.

GROUP MEETING

April 18, 1938.
9:30 A. M.

Present: Mr. Magill
Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Taylor
Mr. Gibbons
Mr. Lochhead
Mr. Upham
Mr. Bell
Mr. McReynolds
Miss Chauncey

H.M.Jr: What I was doing - What?

Bell: Excuse me.

H.M.Jr: So that's what you did in Atlantic City.

Bell: What was that?

H.M.Jr: (Indicates throat - Mr. Bell has cold.)

Bell: Yes, I had it before I went.

H.M.Jr: I was just shooting awfully fast, and nothing is jelled, so you people can stop

I sent for Diggs, and I asked him where he stood on O'Connor, and he gathers that O'Connor, when he gets to Los Angeles, which may be indefinite, will send in his resignation - in order to save Mr. Oliphant any embarrassment (laughs), and also the Committee of four that has not yet reported.

McReynolds: The Committee has been asking me when we'd have a meeting. We can't have a meeting until we get legal advice.

Oliphant: We have legal advice - I signed it Saturday.

H.M.Jr: Great! A great crowd we have in the Treasury.

Taylor: He may have signed it Saturday, but he's kept it a secret until now.

- 2 -

H.M.Jr:

Mr. Oliphant will now investigate his "tickle" system. It's about time, isn't it? (Laughter.)

Well, in the meantime, if the understanding is that having seen the handwriting on the wall, Mr. O'Connor's sent in a formal resignation - well, anyway, that's what we believe, so I've done two things, none of which have jelled yet. I've suggested that every morning at 9:15 Mr. Diggs and Mr. Upham get together and Mr. Diggs tell him what, of any importance, has transpired, and Mr. Upham come in here at 9:30 and if it's important tell us about it. Furthermore, I have one Mr. Smythe who lives, as they say, in Uvalde - a friend of the Vice-President - and he's here and he's the receiver for that bank down there, and the Vice-President thinks extremely highly of him.

When I told Mr. Diggs that I wanted him also to keep me informed of what's going on at F. D. I. C. he said he has no man, or "pipe-line", over there, so I suggested that he take Mr. Smythe back to his office and talk to him and see if Mr. Smythe looks like a fellow he could appoint, who would be a go-between for F. D. I. C. and the Comptroller's office. Chances are nine out of ten - take it. And then the three, Upham, Smythe, and Diggs, could get together every morning and he could come in here and keep us informed what is going on in both places. How does that sound to you?

Taylor:

Sounds fine.

H.M.Jr:

Plenty of time.

Taylor:

Sounds fine.

H.M.Jr:

Bell? It's out of your line.

Bell:

Out of my line, but sounds all right to me.

H.M.Jr:

I mean, we have a way of knowing every day what's going on - things like, for instance, I see Straus; he tells me there's been a ruling in the Comptroller's office making it legal for banks to buy ten per cent of the cities' - that's supposed to put up on housing. (Shrugs.) Well, maybe it's a good buy - I don't know.

In the old days, my papa brought me up to think if we loaned sixty per cent on the first mortgage that was about all that was a good loan. And I think the former President of a bus company of New York, thirty years ago, had to buy a second mortgage of ten per cent - (laughing) - he about passed out. Maybe we're thirty years behind times. What? Huh?

Taylor: These aren't seconds at ten.

H.M.Jr: What are they? Well, anyway, the point is - the point is, in view of the President saying, in his message, he wants this bank coordination, and all of this thing - we've got to know more of what's going on.

Furthermore, I told Cy to give me a written memorandum on what he recommends on banking - or anybody else - anybody else who's got any ideas, I'd like to have it in writing, please. But I think that this idea of Smythe and Diggs and Upham getting together every morning and Upham coming in and telling us what happens, makes sense. Don't you, Mac?

McReynolds: Perfect.

Gibbons: Smythe know anything about banking?

H.M.Jr: Yes. He was receiver for the bank in Uvalde.

McReynolds: He was one of the officers of the bank down there, a long time.

H.M.Jr: He was the Cashier of the bank down there. He wound up this bank in Uvalde.

Gibbons: He has one hundred per cent confidence in the Vice-President?

H.M.Jr: One hundred per cent. Well, he knows - he's made a living - he's made a good living in Uvalde, running a bank and a little farm and trading store, etc. He's small town, but he's made a good living, has had lots of troubles and paid all his debtors, came through solvent, and has about a thousand per cent confidence in the Vice-President - thinks he's about the smartest person in Washington.

- 4 -

Well, you fellows think it over, and if anybody thinks I am moving too fast they've got time. There is nothing settled.

Taylor: (Shakes head negatively.)

H.M.Jr: Huh?

Taylor: No, I think that's fine.

H.M.Jr: Now the other thing, tomorrow for lunch I want people who have to do any borrowing, between now and the first of October to Eccles and Ransom will be here, normally. Mr. Taylor will be here; Mr. Bell will be here; and Mr. Upham will be here. Now, one J. Jones. He's in the market for money. One Bill Myers.

Bell: Commodity Credit - but I don't know whether Jones

H.M.Jr: Jones is taking care of that.

Bell: Home Loan Bank system.

H.M.Jr: Represented by Fahey.

Bell: I should think Delano - he's Governor.

H.M.Jr: You'd better ask Fahey. Huh?

Taylor: I think Delano is probably right on that.

Bell: He is the Governor of the System.

Upham: He handles the financial end.

H.M.Jr: Well, you want to find out. I don't want two.

Taylor: John Fahey is saving his today for you.

H.M.Jr: Saving his day for me?

Taylor: Saving his today for you.

H.M.Jr: Who wants to find out?

Bell: I should think Mr. Taylor.

H.M.Jr: Will you find out and let us know?

Taylor: You just want one.

H.M.Jr: Just one. Huh? What's this you see?

Taylor: I think it ought to be Fahey if it's only one.

H.M.Jr: One. Representing Home Owners' Loan. Fahey. Well, one person from there. You see, we've got now, one, two, three, four, five, six, seven, eight,

Bell: What about Straus?

H.M.Jr: Think so?

Bell: Well, he isn't - probably will tell you he will need fifty to seventy-five million before December 31. I don't think he will, but he'll tell you that.

H.M.Jr: Well, let's have Straus. Who else? One, two, three, four, five, six, seven, eight, nine, ten.

Taylor: Ickes.

H.M.Jr: Huh?

Taylor: Ickes.

Bell: He hasn't any authority yet.

H.M.Jr: No, and his money goes through Jones. He can't borrow.

Bell: Of course, they contemplate it under this new bill - borrowing. But he has no authority.

Taylor: He hasn't got any authority yet, so you can have a special session on that.

H.M.Jr: I wouldn't ask him. He isn't going to get his bill?

McReynolds: That was the report.

Gaston: The President's plan apparently was to give him authority to borrow a billion.

H.M.Jr: What's the use of talking to him now? This can always be added.

Taylor: (Nods "Yes.")

H.M.Jr: What I want to know is how much money these boys need between now and the first of October.

McReynolds: The report, up on the Hill - they weren't going to give him the bill - all he could get was an appropriation to extend his authority.

H.M.Jr: There will be other times. Well, we can always do this thing.

Cy, you invite the people, with the exception of Home Owners' Loan, and please get word to each person that they should come with a memorandum of how much money their organization will need between now and the first of October, and please come with a memorandum in writing. I think October first is far enough, isn't it?

Bell: (Nods "Yes.")

H.M.Jr: Jesse, incidentally, was up to my house Saturday and told me he wants about a hundred seventy-five million dollars for Commodity Credit, and that he will not need any money for R. F. C. because he is taking in enough money with R. F. C. to take care of his outfit. He brought up a plan which, after I talked to him about it, I made several suggestions - he'd better buy for twelve months and nine months - take two bites. A fifteen months obligation - I told him I didn't like it, and it didn't sell as well. Better sell some nine months and some twelve months. He liked that.

Incidentally, I had a chance to tell the President I was going to do this, and he is most enthusiastic about it; in view of the fact that his Reorganization bill has not passed, he is most enthusiastic about this.

Upham: When you say how much they will need between now and the first of October, do you mean from the Treasury or borrow?

H.M.Jr: Borrow - from the market.

Mr. Eccles is coming at eleven to talk about what all of us overlooked, namely that we have a desterilization plan in existence.

Gaston: A hundred million. Several of the boys have asked me about it.

H.M.Jr: The boys are partly agreed on it. It leaves Archie in the beautiful position of saying if he had been here he'd brought it up.

Bell: I thought it was to be discussed Wednesday.

H.M.Jr: A nickel it wasn't mentioned.

Bell: The whole policy was to be discussed Wednesday.

H.M.Jr: No, the hundred million dollars wasn't brought up by anybody.

Bell: I had it in mind because I thought it was to be brought up Wednesday.

H.M.Jr: The question was what about continuing this plan of taking deposits - a hundred million dollars every three months. No one raised that question.

Gaston: The President settled it. He says, "We are only going to borrow a hundred million."

H.M.Jr: Want that nickel?

Bell: No, I don't think so.

H.M.Jr: Well, I've got a good record. I've won three bets.

Gaston: Straight?

H.M.Jr: Straight. I haven't collected them yet.

At eleven o'clock I want Bell, and inasmuch as "Fed" is coming in, Cy, you be here; Archie Lochhead, and Taylor, and we'll - well, let's have our whole group at a quarter of eleven to talk about it a little. Will you (Lochhead) tell White to be here. George. (Nods to Mr. Gaston.) Herman? You and Bernstein.

Oliphant: I

H.M.Jr: . Got another meeting? Let Bernstein come. Huh? What are you hesitating about?

Oliphant: When?

H.M.Jr: Quarter of eleven. We're going to have a meeting and Eccles is coming at eleven.

- Oliphant: You asking about what's on my mind yet?
- H.M.Jr: No, not yet. You're worrying about that report.
- Oliphant: No, I'm not. I'm sitting easy on that. You don't know what the answer is, in my opinion.
- H.M.Jr: Well, no use getting an answer if he's resigned.
- Oliphant: (Inaudible.)
- H.M.Jr: Pardon me.
- Oliphant: He's not - hasn't resigned.
- H.M.Jr: Well, Diggs said he handed in his formal papers.
- Oliphant: You hadn't seen my paper.
- H.M.Jr: Apparently no one else has either. Where do you put your opinions? Where do they go?
- Oliphant: Put them in the out-going box.
- H.M.Jr: Well, where do they go? Do they get to the State Department, do you have a seal put on them?
- Taylor: Was it addressed to anybody? (Laughter.)
- Oliphant: We'll wait and see how it works out. Maybe Miss McGuire
- H.M.Jr: Well, he's just itching to go out. While everybody's here, you go out and ask Miss McGuire where it is.
- Oliphant: Did he say when he's going to telegraph his resignation?
- H.M.Jr: According to Diggs, for some reason or other, he wants to file it from Los Angeles, and he's going to file it there today - yesterday - coming by air mail.
- McReynolds: Of course, the only question is, he's already drawn his pay for the first half of the month.
- H.M.Jr: The answer to that is, he has. (To Mr. Oliphant:) Oh, go on and find out what happened to that.
- Magill?

-- 9--

- Magill: I don't know anything except what appeared in the paper.
- H.M.Jr: Well, Mr. Magill and I have had a short conver - we've had a short conference this morning, and we decided we are going to stand on the President's tax exempt message and oppose the member. Again, having told nobody but Magill and myself, anybody having any objections to that, there is still time to act. The reason is twofold. One. We hope to have a conference on overlapping taxes and if the Congress doesn't do anything it's the only really good thing we've got, and second, with the message coming up from the President, he should support that, and not this thing, which is a half-baked thing. Anybody? All right. It's unanimous.
- Herman?
- Oliphant: I'd like pretty soon to have you meet Mr. Cox. He came down from New York a week or so ago. I mean, I want you to meet him.....
- H.M.Jr: Yeah.
- Oliphant: since Kent's going away.
- H.M.Jr: (To Miss Chauncey:) Well, let's make a note, will you.
- Oliphant: I'd like for you to visit with him, say ten minutes.
- H.M.Jr: Has Magill met him?
- Magill: Not yet.
- Oliphant: Magill was down at the Hill when he was down here; everybody else around here has met him.
- H.M.Jr: What else?
- Oliphant: Helium.
- H.M.Jr: Stay behind, will you, and we'll look at it. Anything else?
- Oliphant: No.

H.M.Jr: Herbert?

Chauncey: (Question inaudible.)

H.M.Jr: Well, just keep after me, that's all.

Gaston: Well, the only thing I had in mind is that hundred million.

H.M.Jr: We'll meet at eleven and then I'll try to get clearance from the President. He asked me for lunch, so we'll be ready at four o'clock.

Incidentally, between now and eleven will you fellows decide whether I have to sign anything, or how do we do that? Say, probably, Mr. Oliphant, will you advise me?

Oliphant: (Nods "Yes.")

H.M.Jr: What else, Herman?

Gaston: That's all.

Oliphant: Will you let me have a little note for Cox so I can get him down here?

H.M.Jr: Anything else, Herbert?

Gaston: No, nothing else.

H.M.Jr: (Nods to Mr. Haas.)

Haas: (Hands Secretary black book.) I'll have more at eleven.

H.M.Jr: Send it in.

Haas: Yes sir.

H.M.Jr: Taylor?

Taylor: John Fahey.

H.M.Jr: Well, Do I have to spoil my day? O. K. Three o'clock.

Oliphant: Cigar and all, huh?

- 11 -

- H.M.Jr: My God, keep his damned - excuse me - out of here. I don't want that to stink me - I'm referring to the cigar. (Laughter) Three o'clock.
- Taylor: I have a letter here from Senator Smithers (Smathers)
- Upham: Smathers.
- Taylor: All right, Smathers. My mistake. on the subject of a bill he is going to introduce on banking, et cetera, wishing to have your personal views on it.
- H.M.Jr: Well
- Taylor: I gather we use the same - only reports to members - chain of comments.
- H.M.Jr: What ever it is, yeah.
- Taylor: (Nods "Yes.")
- H.M.Jr: I'd let Cy handle that.
- (Over telephone.) Congressman Boland, of Pennsylvania, has been trying to get me, hasn't he? I'll talk to him if he's in. Leave word to call if he's not in.
- Taylor: (Hands Secretary letter.) To read before your three o'clock meeting.
- H.M.Jr: O. K. (Nods to Mr. Taylor) Anything else?
- Taylor: (Nods "No.")
- H.M.Jr: (Nods to Mr. Lochhead.)
- Lochhead: No markets
- H.M.Jr: What?
- Lochhead: Have had no opening in the market yet.
- H.M.Jr: (Looks at Mr. Gibbons.)
- Gibbons: Nothing.
- H.M.Jr: They brought me the commission of one McGrath.

McReynolds: It's on its way back with the copies signed.

Gibbons: What about it.

H.M.Jr: I didn't sign it.

McReynolds: I know, but it's on its way back with the signed copies of his resignation.

Gibbons: It's all cleared, through me. He did exactly what I told him, ten days ago. He gave one to Jim Farley, and Farley said he had it, and he gave me a letter to the duly elected officers of the state organization.

H.M.Jr: Have they appointed his successor?

Gibbons: No, I don't know whether Farley has appointed someone or not.

H.M.Jr: Where does Farley come in?

Gibbons: Well Farley is the National Chairman and appoints State Chairmen.

H.M.Jr: (Shakes Mr. Gibbons' hand.)

Gibbons: I got the carbon copy of the one he sent by mail to the state officials, and he said he sent it to Jim Farley as National Chairman, and I asked Jim and Jim said, yes, he had it.

H.M.Jr: (To Mr. Gaston:) Will you let the newspapermen know.

Gaston: Yes. Yes. Yes, they've been asking me quite frequently.

H.M.Jr: I think it's more dignified for you to do it. I don't usually stand on my dignity, but don't you think so?

Gaston: I told them, as a matter of fact, that he'd have to abide by the rule everybody had to abide by.

Gibbons: I, I hadn't - I asked Mac about holding them, and first sending two through, and then sending the other two - but hold the four. That's exactly what I told him to do. If anybody's to blame

McReynolds: (Inaudible - too many talking.)

Gibbons: He's a very fine fellow, I can tell you, regardless of what Jimmy Roosevelt or Jim Farley says; he's got his own ideas; he's really a very high class fellow.

H.M.Jr: (On telephone.) Hello. Well, leave word I called.

Gibbons: He's a protege of John Maynard.

H.M.Jr: (To Miss Chauncey:) Have photostats of these made. (Certificates signed by Secretary.)

Gibbons: As the boys say, there will be no two-timing on his part. He said, "I am only going to do this one way. I won't accept this commission unless I can get out clear." They were trying to get him to stay in and have a card under the table. He's really, I think, a very strong fellow.

H.M.Jr: Herbert, you get the photostats.

Gaston: Yes.

Gibbons: On account of that Hurley thing up there, him being State Chairman, I told them to check his income tax backward and forward, and they did and he's lived within his means, and he's perfectly a very fine fellow.

H.M.Jr: I still think, in view of the publicity from our side of the story, that it's best to let the boys know. Don't you?

McReynolds: I think it will be helpful to him, as a matter of fact, to have that.

Gibbons: They've got a hot one on the Collector of Internal Revenue. I'll talk to you some time about that.

H.M.Jr: Where?

Gibbons: Boston. I said to Jimmy, "Why don't you a switch - take this woman in Immigration and put her in as Collector of Internal Revenue?" and he said, "That's a good idea." Got a high class woman up in Immigration - the President wanted for this place.

McReynolds: You trying to sell that? Glad it's out of the Treasury.

- Gibbons: He's out of the Treasury.
- H.M.Jr: I can give you a good laugh. Senator Duffy came in.
- Gibbons: About the Collector of Customs in Philadelphia?
- H.M.Jr: No, Pittsburgh. He came in with the Pennsylvania ambassador.
- Gibbons: The fellow from
- H.M.Jr: I said, "What can I do for you?" He said, "I'll do anything as long as it's only slightly illegal." Joe said, "You know I don't do anything that's illegal. Listen, you were tough on me when you wanted to get rid of that Collector in Philadelphia and I didn't want to. Now this fellow up in Pittsburgh, I don't know what you have out of him, but make it enough, because I want you to get rid of him - because this fellow, I want you to get rid of." I just howled.
- Gaston: That's Dave Lawrence, isn't it?
- Gibbons: No, he isn't the collector now. He used to be. But he wanted the Collector in Philadelphia to be manager of the primary campaign and still be Collector, and I said, "Nothing doing."
- H.M.Jr. He can kid a little bit; he doesn't mind being kidded.
- (Nods to Mr. Upham.)
- Upham: No.
- H.M.Jr: You've got your work cut out for you the next couple days. If you don't feel all right, go home and
- Danny?
- Bell: I have nothing.
- H.M.Jr: Swell! I see you have a big bank account. Where did you get it from? Jumped up just over night, like that (snaps fingers).

- Bell: Enabled the Federal Reserve Banks to pull their Governments for securities in notes. Got a hundred per cent cover now.
- Gaston: Yeah. Yeah, they had the hundred per cent cover plus their securities.
- Bell: Well, there were a couple banks had about fifteen million of Governments - Atlanta and Minneapolis.
- Gaston: They are gold certificates.
- H.M.Jr: Mac?
- McReynolds: What you talked to me about yesterday. Peoples is not in town.
- H.M.Jr: He's not in town?
- McReynolds: I told him, after you talked to him the other day, we wanted him Monday sure. He telephoned in from Atlanta - said he will be in tomorrow morning.
- H.M.Jr: I'm going to make a record call for him. (Over telephone:) I'd like to talk to Admiral Peoples at his office. If he's not there please leave word I called. Admiral Peoples, at his office.
- Well, keep everybody interested in cement advised about what I told you yesterday.
- All right.

April 18, 1938.
10:10 a.m.

H.M.Jr: Hello.

Operator: Peoples' secretary.

H.M.Jr: Hello.

Miss Ruth
Chamberlin: Good morning, Mr. Secretary.

H.M.Jr: Who is this, please?

C: This is Miss Chamberlin speaking. I'm Admiral Peoples' secretary.

H.M.Jr: Now Mr. McReynolds tells me that he spoke to you Friday, and asked you to convey a message to Admiral Peoples it was all right for him to leave town over the week-end, but that I personally wanted him here Monday morning.

C: Well, I didn't get that message personally but I understood that it did come in, Mr. Secretary.

H.M.Jr: Well who did get it?

C: Ah, one of the other girls in the office took the message.

H.M.Jr: Well, was that message conveyed to Admiral Peoples?

C: It was delivered to Mrs. Peoples, as the Admiral had not reached home at the time.

H.M.Jr: But it was delivered to Mrs. Peoples?

C: Yes sir.

H.M.Jr: What girl delivered it to him?

C: Ah, Mr. Dunning's secretary delivered it to Mrs. Peoples that night.

H.M.Jr: Who?

C: Mr. Dunning's secretary. Miss Martin is her name.

H.M.Jr: And where did she deliver it to him?

C: She called out to the house and the Admiral had not arrived home so she gave the message to Mrs. Peoples.

H.M.Jr: What day?

C: That was, ah, Thursday evening, I believe.

H.M.Jr: Thursday evening?

C: Yes sir.

H.M.Jr: Uh huh. But Mrs. Peoples got that message?

C: Yes sir.

H.M.Jr: That I wanted him here Monday?

C: Yes sir.

H.M.Jr: Ah, have you had any word from him?

C: Ah, he called this morning and said he had stayed over and that he will be in late this afternoon. Now I don't know where he called from.

H.M.Jr: All right. Well, Mr. - Mr. McReynolds may talk to you later.

C: All right, sir.

H.M.Jr: Thank you.

RE GOLD POLICY

175

April 18, 1938.
10:50 a.m.

Present: Mr. Taylor
Mr. Haas
Mr. White
Mr. Gaston
Mr. Lochhead
Mr. Upham
Mr. Bernstein
Mr. Eccles
Mr. Ransom
Mr. Goldenweiser
Mr. Gardner
Mr. Bell

H.M.Jr: If anybody has the nerve to tell me that on Thursday afternoon they raised the question about a hundred million quarterly, I'll smack them. I've got a stenographer's notes. Anybody want to start something?

Harry's - I can't pick on poor Harry.

White: I've already started.

Upham: You've already been smacked.

H.M.Jr: Well, I'll just tell them that I told Oliphant - told Gaston to give it out and he forgot all about it - I mean Gaston. I told

Gaston: Sure, that'll be all right.

H.M.Jr: Just forgot all about it.

I don't like this succession. "One o'clock the President sees Secretary Morgenthau. Two o'clock, greets egg rollers."

Gaston: "Three o'clock, greets log rollers."

H.M.Jr: No, 2:30 he goes to the ball park.

Gaston: Are we going to have a ball game or a press conference? The boys want to know, are we going to go to the ball game?

H.M.Jr: My God, if I can get out of a press conference....

-2-

- Gaston: If you'll promise to go to the ball game, I'll get you out of it.
- H.M.Jr: I have no tickets. Tell the boys to go to the ball game.
- Gaston: They don't want to go to the ball game.
- H.M.Jr: What do you recommend?
- Gaston: Why, I suppose unless you're going to go to the ball game - I think better hold a press conference.
- H.M.Jr: I'm not going to the ball game, but anybody wants to go to the ball game can.
- Can anybody give me a good reason why we shouldn't say at four o'clock this afternoon that all plans for deesterilization* have been discontinued for the time being?
- Taylor: For sterilization.
- Upham: Sterilization.
- H.M.Jr: For what?
- Taylor: Sterilization.
- H.M.Jr: Birth control. What? All birth control recommendations are off.
- Gaston: We won't sterilize any more gold until further notice.
- White: I jotted down a couple disadvantages, merely to make certain they are considered.
- H.M.Jr: All right.
- White: So you can give them their weight.
- H.M.Jr: Well, just a second, and let's see whether you're a minority. Well, anyway, go ahead.

* Apparently means sterilization.

-3-

- White: Well, I couldn't be in a minority. I'm not taking a position. Merely making certain they are given consideration.
- H.M.Jr: You're not being consistent.
- White: I think I've convinced myself.
- H.M.Jr: Hope you did a good job.
- White: The advantages are probably obvious. The disadvantages are probably two.

Once the step is taken to eliminate sterilization of gold the reimposition of the step will be taken only with great hesitation and probably only under extreme conditions. Yet it is quite conceivable that within the next year or two gold inflows may be so heavy that sterilization of those inflows would be wise policy, without too much delay.

Were we to continue the present procedure - that is, sterilizing only in excess of a hundred million - additions to the inactive account could be permitted only if business conditions warranted it. If recovery were not in full swing, the accumulated gold could be desterilized as it accumulated in blocks of 50 or 100 million dollars as desired. This might even have some slight favorable psychological effect. If the recovery should be in full swing, it would be desirable to sterilize for two reasons: First, the ordinary obvious reason that it would help to prevent excess reserves from increasing too rapidly without requiring any action by the Federal Reserve Board. And B: - and this may be of some significance - it would force the Government to borrow at a time when it is easy to borrow, that is, when gold is flowing in, and thereby provide a cash surplus against a time of deficit financing, which is bound to recur some time in the future. Deficit financing in large sums will be made easier because of the existence of a large sum in the inactive account some time in the future, just as it has at the present time.

There is an added advantage which is difficult to evaluate: that the existence of an inactive account

-4-

gives to the Secretary of the Treasury somewhat additional bargaining powers at crucial times in dealing with the Federal Reserve Board that may conceivably be of some value.

Those are the only two things I could find in favor of continuation.

H.M.Jr: And when you're through arguing, give me a clean-cut recommendation - yes or no. I mean that's the problem.

White: Well, yes, I would be inclined to say not to do anything, leave things stand as they are, because you're committed in no way, on the one hand, to move in either direction, which gives you a flexible instrument; whereas if you once stop, I have very serious doubts whether you'll continue or whether you'll be in a position to reimpose it except under extreme difficulties. I don't quite see the disadvantage of letting things stand as they are.

H.M.Jr: Well, the disadvantage is this. In two or three weeks - let's say three weeks, we have a hundred million. Then immediately, what are we going to do?

White: Yes, that's the real disadvantage, that the reappearance of the inactive account on the statement may give rise to unfavorable comment. That's the one ...

H.M.Jr: "Why did you do it? Then you didn't believe in what you did." And all the rest. I'm sore at everybody, including myself, that we didn't do this thing Thursday.

Haas: Aren't your arguments, Harry, the same for any of these instruments - the difficulty in reversing them. We've got to take it for granted you can reverse them.

White: Yes. In other words, once you stop you won't be able to reverse your position.

Taylor: No. No.

Gaston: Why?

White: Well, let's face the facts. A decision to reimpose

-5-

an inactive account, once it's been stopped, some time in the future will be a pretty difficult decision to make.

Gaston: Of course, you don't have to have an inactive account. Just let the gold accumulate in the working balance.

Lochhead: Without saying

White: How large

Gaston: Any time you feel like it.

White: How large is that - how large can you let that become? Then the same thing is true. If you're considering the wisdom of maintaining an instrument, then now is the time to consider the pros and cons.

H.M.Jr: Instrument of what?

White: It gives you an additional instrument of flexible control. I wouldn't want to exaggerate its importance.

H.M.Jr: Well, we had that and these fellows have taken it away from us.

White: You had it and gave it up, and now you're using it. It is well that you had it now; if you didn't have it now, the only effect would be that your outstanding debt would be lower. That wouldn't make borrowing any easier. Whereas actually having a billion and a half cash does mean that you have to borrow that much less this next year.

Kieley: Mr. Eccles.

H.M.Jr: Let's hear the Fed.

White: I just wanted to give you

(Eccles, Ransom, Goldenweiser, Gardner
come in)

Eccles: Back again.

-6-

- Ransom: Thank you, Mr. Secretary. I was on the witness stand last week explaining why the Board increased reserve requirements and was due back there this morning.
- H.M.Jr: Couldn't give a satisfactory explanation?
- Ransom: Well, I haven't finished it, I'm glad to say. Rather be here.
- H.M.Jr: Anyhow - well, all of us last Thursday afternoon overlooked the fact that we had a desterilization* program and that we deposit, if and when gold comes in, a hundred million dollars during any quarter with the Bank, and anything over and above that we desterilize. Some smart newspapermen picked it up the next day and raised the point, what we going to do about it?
- Eccles: We talked about it on the way back in the car. We said, "By gosh, we overlooked something."
- H.M.Jr: I think we did. And I have a press conference at four o'clock every Monday and they're sure going to ask me, so I think we better make - I got to make a clean-cut decision one way or the other. Shall we keep it as is or wipe it off the books? That's the question.
- Eccles: A hundred million a quarter seems - desterilization after a desterilization of a billion 400 million seems pretty trivial, doesn't it?
- H.M.Jr: Well, it seems to me, in light of what we have done, just plain silly. I mean we worked out, after very careful talks and study, that we thought that that would be the wise thing to do, and then in a short time after that we're called on to deposit all of the gold in the sterilization fund, which we have done. Now, in view of that, to leave a mechanism which was set up under entirely different circumstances - to leave that in effect - it's silly. I'm talking now just very frankly. I mean it isn't a mechanism which suits the present conditions.

* Again apparently sterilization - frequently thru meeting.

-7-

- Eccles: Well, it seems to me that one of two things would be the advisable thing to do. Either a complete discontinuance of the whole policy of sterilization, which - instead of the hundred million a quarter, why, just discontinue.
- H.M.Jr: Excuse me a minute. I don't know whether Bell forgot this or not. Should be here.
- (On phone) I don't know whether Mr. Bell forgot this meeting, but I'd like him here, please.
- Eccles: The other course would be to sterilize everything, which has been done in the past from the time the sterilization program was announced until September, when you announced a - desterilized an even amount of 300 million, then the announcement of a desterilization of up to a hundred million a quarter. There's never been an announcement of a discontinuance of the policy of sterilization. You've sterilized everything and then you've desterilized certain amounts from time to time.
- Now, this billion 400 million hasn't been a question of discontinuance of sterilization. It was a question of desterilizing everything that had been sterilized up to a given time. Now it seems to me that to get rid of this hundred million a quarter it would be necessary to announce a discontinuance of sterilization or merely a continuation of sterilization until some indefinite period. But discontinue the desterilization of a hundred million in lieu of the billion 400 million that has been desterilized.
- H.M.Jr: Well, what - let's see if I get your point. We could announce discontinuance of the plan to deposit a hundred million every three months.
- Eccles: Because you put the billion four in.
- H.M.Jr: All right. Then we could say we have discontinued that, but keep on sterilizing any new gold.
- Eccles: Yes, the whole thing. In other words, nothing more

-8-

H.M.Jr: Start right all over again.

Eccles: That's right. You've got in the System now approximately

(Bell comes in)

... approximately four billion - between - what would it be - very close to four billion of excess reserves. The Board at some time could reverse action to the extent of a billion seven. They've got securities - short-term ones, of close to two billion, forgetting the 500 million of longs. Or if at some time in the future it was necessary, they could extinguish up to about two billion 750 million of the existing reserves, leaving a billion - from a billion to a billion and a quarter. That would be the below minimum that they had power to go; I mean we'd have no powers left, we'd have used all the power that we had, based on the present excess reserves, and there would be at least a billion to a billion and a quarter left. Now, to the extent that is added to, there would be just that much more excess reserves that at no time would the Board, unless it got increased powers, be able to deal with.

H.M.Jr: Well, of course, I think that's all water over the dam, and all these people have brought all this pressure to bear to do this thing - I take it for granted thought the thing through, know what the answer is and everything else, and

Eccles: So far as I'm concerned, I don't think it makes very much difference at the present time. If we're going to get a substantial amount of gold, if we're going to continue to buy silver, it means that as far as any future responsibility for the monetary situation is concerned, the Board hasn't got it, the power doesn't exist to meet it. And I'm perfectly willing to let pass - cross that bridge in the future and depend entirely on Congress to take responsibility for it.

H.M.Jr: Stop all desterilization.

Eccles: Yes. Either one or the other.

-9-

- H.M.Jr: Well, having gone this far, why, I think it is much better to set the thing up and stop all sterilization. It's a matter of politics now, it isn't a matter of economics.
- White: As a matter of politics, Mr. Secretary, isn't it a comparison between the abandonment of a policy on the one hand, which would be the case, I think, if you stopped all sterilization, and on the other hand not an abandonment of a policy but merely the adjustment and the carrying through of a policy, adapting it to the given conditions?
- H.M.Jr: What's the sense, Harry, of starting sterilization all over?
- Eccles: You've never discontinued it.
- H.M.Jr: What?
- Eccles: You've never discontinued it.
- H.M.Jr: Oh well - but if we had done this thing Thursday - that was the time we should have done it. It's just most unfortunate we didn't.
- White: Not unless you decide it was an unwise policy to continue.
- H.M.Jr: It isn't a question of wise or unwise. Who stopped to think whether it was wise or unwise to deposit a billion four? I mean I'm not going to be - I'm not going to be in a position that tomorrow morning I've got to go up on the Hill and defend starting sterilization all over again. I'm not going to do it.
- Bell: It seems to me it is inconsistent with what you did last week.
- H.M.Jr: Sure. I'm not going to do it.
- White: I think a defense could be made.
- H.M.Jr: If you don't mind, Harry, I'm not asking for economic advice. I mean I'll be perfectly frank; it isn't a matter of economics, it's just a matter

-10-

of politics. And this move having been made, I'm not going to go up tomorrow morning and have to go all through the thing and give these people an argument. "Well, if he thinks he should sterilize, then why did he de-sterilize a billion four?" It just doesn't make sense.

Eccles: Well, when you de-sterilized

H.M.Jr: It just doesn't make sense. They've been doing the tunneling now for a couple months. We've got the thing; let's go the whole hog and face the thing. As a result of all these midnight meetings and everything else, this thing is done. We did it promptly, we did it quickly, and just as quickly as it could be done, and it's done. And I think the only way to do is to hold the thing right up. Now, this thing has been going on and it's what you (Eccles) wanted. And the only way to face the thing is to have the thing right up. Let's have it right up - I mean no sterilization.

Eccles: Well, of course, that's a different policy. Now, it's one thing to de-sterilize and another thing to discontinue sterilization. Last summer you de-sterilized, so that - you de-sterilized 300 million. We announced recently a de-sterilization of a hundred million a quarter. So the problem of de-sterilization wasn't new. Now, it's true the amount that was de-sterilized at this time was very large. You took everything in the fund and it was a complete de-sterilization. But at no time when de-sterilization has been made has it been announced that you would discontinue further sterilization, and that's a - that's quite a - it seems to me that involves another question of policy.

And I - although at the moment I don't think it's important, the amount of excess reserves is so large - to announce a de-sterilization under present conditions, I think, would make very little difference.

H.M.Jr: You mean a discontinuance.

Eccles: Yes, at this particular time. I do think, though, that at some time in the future, if you were going to sterilize again, it would be much more difficult.

It would seem to me it gives you a better control to sterilize even if you should desterilize further. That isn't - it isn't announcing a discontinuance of a policy, because when you adopted the policy of sterilization it was stated at the time that you of course not only reserved the right to discontinue, but also the right to desterilize all or a part of it. Now you have desterilized parts of it and finally all of it, but you haven't yet announced a discontinuance of a policy.

H.M.Jr: Well, that's what we

Eccles: That's right, and it does seem to me there is some little different question there between the abandonment of a policy and merely a complete desterilization at a given time.

Taylor: Well, aren't you perfectly free to go back and sterilize any time you want to?

Eccles: That's correct.

Taylor: Under certain circumstances.

Eccles: And there may be some

Taylor: It seems to me it might be even a more forceful gesture, having to say, "All right, now we're going to turn on everything we have," rather than do this hocus-pocus every quarter, whatever it might be that you were doing. I mean if you're going to utilize it as a control gesture in the future some time

Eccles: The announcement of it would have some value.

Taylor: Would have more value than it would if we go through this 50 or 100 or so on.

Eccles: Well, I don't think you should go through with the 50 or 100. I would think that either one thing or the other - either a complete discontinuance, an announcement of the discontinuance of sterilization, or an announcement of a complete sterilization until further notice. In other words, you sterilize everything until further notice or you cease

-12-

sterilizing altogether.

Bell: Suspension.

Eccles: Suspension. Either suspension or complete sterilization until further notice.

Taylor: Don't you think it would be under the circumstances more effective to let everything flow in; then if conditions change, why, then you hold the flag up and say, "Now conditions have arrived at a point where we wish to sterilize again."

Eccles: I think psychologically it would likely have some value to say you're going to sterilize again.

Ransom: As a matter of fact, Mr. Secretary, the developments over last week are going to force us all to reconsider the whole problem of excess reserves and what the mechanisms are.

H.M.Jr: Of course it is. And I think the only way to face this thing is to wipe everything off the slate, then start all over again.

Taylor: But reserve all rights, which you can do.

H.M.Jr: But I think the only way to do is - I mean certainly I can't explain how on Thursday night we deposited a billion four and on a Monday afternoon at four o'clock I say, "Well, we have discontinued the hundred million thing, because that doesn't work any more, but we're starting a new sterilization fund all over again beginning today."

White: There's a third alternative. I don't know that it's been mentioned.

H.M.Jr: What's that?

White: That is to say absolutely nothing. That last order still stands.

H.M.Jr: We can't.

White: I say that's the third alternative.

- H.M.Jr: I can't. The newspapermen come here, they're entitled to an answer.
- White: The answer is, we go on as before.
- H.M.Jr: Which is with the hundred million plan.
- White: The last announcement was not to sterilize up to a hundred million. I mean that's the third alternative, which the boys had difficulty
- H.M.Jr: It is, but I - my own feeling is, if you're ever going to have the people study this thing and realize what it is, then we better clean the whole slate and start over new.
- Ransom: We've both got a very serious problem confronting us.
- H.M.Jr: Very. And we just haven't had time to consider it. And then I think Taylor makes a very good point that if we do wipe this thing off and have no - just go back to where we were, so whatever gold comes in we deposit, then if we should start desterilization, then it has some effect. But if we just continue, we waste what might be a very useful instrument. What?
- Gaston: My understanding at the time we adopted sterilization was that it was a special policy to meet a special situation and not a permanent monetary policy of the Government. That special situation doesn't exist now. What we're talking about now is the possibility of continuing as a permanent policy of the administration a process by which acquisitions of gold are not allowed to have their effect on the monetary system. It seems to me it would be a very serious thing to adopt a policy of that sort, which is practically in negation of our gold-based currency. It seems to me the ordinary policy, the normal policy, has been to permit gold to have its effect. If there are at any time special circumstances which require us to do something different, why, then they can be taken
- Ransom: If you had a different point in the cycle.
- Gaston: Yes.
- H.M.Jr: Well, the point, if my memory serves me right - that when we did this gold thing of sterilizing gold, we

-14-

made the move in order to permit the Federal Reserve to use the authority that they had and to make it effective, so that if the Federal Reserve wanted to raise reserve requirements, our constantly depositing gold wouldn't completely neutralize it. On that basis we went ahead and sterilized gold. Wasn't that your understanding?

- Eccles: Yes, that was one of the factors. I felt at the time it was best to have the Reserve move first and the Treasury move immediately after; but that's neither here nor there. It was done for the purpose of controlling the amount of excess reserves, and the amount of excess reserves couldn't be controlled without sterilization.
- H.M.Jr: Right. Now, if we leave this thing on, in the first place, it puts - in light of what we have done, it puts me in an impossible situation. I mean immediately I'm on the defensive. I think if we simply announce, "Well, of course, we took that for granted, that thing is wiped off," then I hope we'll have time to think this thing through in an intelligent manner.
- Golden.: Mr. Secretary, may I say a word?
- H.M.Jr: May I finish - just a second.
- Golden.: Excuse me.
- H.M.Jr: And then, whatever we decide, we still can de-sterilize gold, and if we should then begin once more to de-sterilize gold, it's news, but - and it's there - but to continue it now - I think it just makes us more of a laughing stock than we are.
- Golden.: I just wanted
- H.M.Jr: I'm talking just for the Treasury.
- Golden.: I just wanted to make a suggestion which I haven't any expectation to have accepted. But it seems to me that you're in a position where you've got three months, pretty nearly - two months and a half before the end of the quarter, and I don't see why you couldn't, with perfect consistency and in a perfectly

good position - wouldn't be in a perfectly good position to say to the press today that "we are not sterilizing gold up to a hundred millions, and therefore we don't have to cross that bridge until we've got the hundred million, and we don't know what the circumstances are going to be then, and therefore we are just not going to do anything about it or announce anything about it, just watch the situation; and the only time we'll have to have a decision is when we have exceeded a hundred million." Why not wait and see what develops? It seems to me you're preserving your weapons, you're not burning your bridges, and it would be much easier to resume sterilization if you keep the instrument on your books than if you wipe it off your books.

H.M.Jr: Well, I'll try to answer you that question. If I said to you, "Dr. Goldenweiser, set me up an instrument today,"

Golden.: Yes.

H.M.Jr: ... I greatly question whether you'd set up the hundred million a quarter one now.

Golden.: No, I wouldn't.

H.M.Jr: Exactly. Therefore, why continue something, in the light of what happened, that you wouldn't set up now?

Golden.: Well, just for the simple reason - as I say, I don't want to convince you, because it seems rather impossible for any two minds to get together on this thing, but it seems to me that you're just under no pressure to make any decision on that today.

H.M.Jr: Well, you take my press conference at four o'clock.

Golden.: I'll do that. You let me. I'll satisfy your press completely.

H.M.Jr: And then go up on the Hill.

Golden.: I'll do that for you.

H.M.Jr: And then go up on the Hill.

-16-

- Eccles: That's where he's got to go. On his way up there this morning.
- Bell: We've already taken in 37 million dollars in gold the first two weeks, and I understand there's 30 million on the way.
- Lochhead: 30 million on the way.
- Bell: You're going to have that problem right on your doorstep.
- H.M.Jr: I don't want it there. I don't want it in a month. It might be most embarrassing to have it in a month. In other words, I don't want that thing forced on me at a time that I can't control. I want to take it up when I feel like it, when the Federal Reserve Board feels like it. Now I wipe everything off and then we can begin to plan and we can decide at what time, if any, we want to again de-sterilize. But this thing would be brought to me at a time over which I have absolutely no control, in a couple, two or three weeks from now, maybe at a most embarrassing time. But if I do it now everybody will take it for granted and then we can face the time if and when we want to continue de-sterilizing, start a new de-sterilizing fund. Don't want a gun at my head in two or three weeks, or one week - the Japanese send a bunch of gold and suddenly I find this thing - "Mr. Morgenthau, what you going to do about this?" And it may be the worst possible time.
- Eccles: I agree that the present instruments of control are bad. There isn't any question that the division of the responsibility and the different types of mechanism that we now have are bad. And I for one would raise no objection at all to a complete discontinuance, and so announcing it. With the amount of gold we are likely to get, and as long as we've got a silver policy and that's being dumped in, this idea of thinking that the Treasury and the Federal Reserve System ought to control the situation without further legislation just doesn't make sense to me. And if the reserves are built up to five billion or six billion, or wherever they go, we've got a problem to meet; maybe a year from now we can go to Congress

-17-

and if Congress wants the Treasury to borrow money to sterilize, let them say so; then there will be no crack about borrowing money to buy gold. If, on the other hand, they want to give some other mechanism - and as things are I don't want it up to the Reserve Board to deal with it. Let Congress do it. But I think today both the Treasury and ourselves are on a terrible spot, have been for the last six or eight months, year, on this thing; and let's let the damn reserves build up with excess gold coming in and with silver, until the situation gets so that we'll face the whole thing realistically. And let Congress take the responsibility. Now, that's - I'm willing to wash my hands of it just that way, because I don't think the mechanisms are satisfactory at all, with the instruments we now have.

Bell: You have no control now.

Eccles: Huh?

Bell: You have no control now, from the practical standpoint.

Eccles: Well, we haven't had for a good long while, alone.

Bell: Demand for money, rates go up, have to sell your Governments at a loss. Never do that.

Eccles: Well, most of our stuff is short; two billion 200 million is short, wouldn't cause you much trouble.

Golden.: Mr. Secretary, since I feel very strongly on the subject, may I have one more word?

H.M.Jr: You can have three more words.

Golden.: I'd like to just suggest that if you're going to say that you're going to discontinue it, you tell the press that in light of the present situation and the actions that were taken last week, there is no purpose in continuing sterilization, and for the time being there would be no sterilization, but that that does not mean that you're abandoning any policy; you're just adapting your policy to the present circumstances, and you may resume it whenever you feel that the circumstances have changed again.

H.M.Jr: I have no

-18-

- Golden.: If you do that, you're keeping the instrument still at hand, you're not saying that the instrument is discredited and discarded; you're not changing your policy, you're changing your action under the policy. If you'll do that
- Taylor: Well, that's reserving all rights.
- Golden.: But to make it clear to the press that you're reserving the ...
- Haas: He says "until further notice."
- Golden.: They'll ask questions. They ask you, "Will you ever resume again?" You say, "I can't tell today. It depends on circumstances."
- Ransom: I think that's saying, perhaps more tersely, what both Chairman Eccles and I have said, Mr. Secretary, that the existing instruments are not satisfactory to deal with the problem that can well develop on the existing base.
- H.M.Jr: To make it plain that I've lost my amateur standing, can't go back to that any more. What?
- Ransom: I don't know that you've lost your amateur standing at all. The thing has become highly professionalized; I'll admit that.
- H.M.Jr: Let's go around. Gardner?
- Gardner: I think that's the logic of the situation.
- H.M.Jr: Excuse me?
- Gardner: I think that's the logic of the situation. I mean that sterilization at the moment is over.
- H.M.Jr: Over. Then say so, but say that we reserve the right to renew it at any time. Huh?
- Gardner: Yes. I think that if reliance is to be placed on that instrument, you may have to renew it in a different form, not merely sterilizing what comes in, but sterilizing retroactively, and I think that that might be considered one of the unsatisfactory instruments.

-19-

- H.M.Jr: One of the what?
- Gardner: Unsatisfactory instruments. It's a question of whether it should be used in that way and on a scale that would be necessary, in the future.
- H.M.Jr: Anything else?
- Gardner: That's all.
- H.M.Jr: George?
- Haas: I'd say it was over, that the statement Friday superseded this - the way I would put it: "until further notice."
- H.M.Jr: Meaning what, George?
- Haas: In other words, I wouldn't try to make out that you had especially considered this, but that the statement Friday superseded this.
- H.M.Jr: Superseded what?
- Haas: This former gold sterilization program.
- H.M.Jr: And ...
- Haas: And just let it ride on that basis.
- H.M.Jr: What does that - "Well, what does that mean, Mr. Haas? Does that mean you have or haven't discontinued the hundred million a month?"
- Haas: Oh, it's all wiped out.
- H.M.Jr: All wiped out.
- Bell: But under that statement, just as you made it, you don't reserve any rights.
- Haas: Oh yes - "until further notice." I think any statement you make - it isn't permanent forever.
- H.M.Jr: Well, my teacher tells me that once you're no longer an amateur, you're no longer an amateur. But it's all right.

Wayne?

Taylor: Turn her loose, but reserve rights.

H.M.Jr: O.K.

Bernstein?

Bernstein: If you're going to emphasize the fact that you might resume this thing in the future, mightn't you be more likely to be asked, "Why did you abandon it on Thursday?"

Taylor: Because you want to give gold its full and maximum effect on our economy. Period.

H.M.Jr: When we do things in a big way, we do them in a big way.

Taylor: Any time that we want to change that, why, ...

Bernstein: Of course, you reserve the right anyway. You don't have to say anything about reserving the right. You have the power.

H.M.Jr: Sure.

Bernstein: Right.

H.M.Jr: Harry?

White: I'm afraid the logic of the position seems to me to be to say absolutely nothing. If you are asked what you intend to do, just say that we're going to continue the present policy. No gold is coming in in excess of the amount anyhow. When gold comes in in excess of a hundred million dollars, then you can merely say that, in line with our present policy and in view of the current situation, we're going to cease sterilizing gold until further notice. But I don't see that any action is called for now.

H.M.Jr: When?

White: Whenever that happens, maybe a month from now, or two or three. Very simple statement called for at that time. Seems to me it's a little bit illogical to make additional statements now; I gather the

-21-

impression of a little bit of fuzziness about this thing; whereas you can merely say, "Well, of course, that isn't our problem yet. We'll meet that problem when the occasion arises."

H.M.Jr: If you don't mind my saying, the way you put it it would leave it fuzzy.

White: I don't see how. We just continue our present policy.

H.M.Jr: The main thing, the reason I don't like your suggestion - I don't want the time fixed by somebody else ~~as to when I've got to make a statement.~~

White: Well, that's political.

H.M.Jr: No, it's just ... - what? But you wouldn't be very much upset

White: No, no, I think there's very little difference between the position as stated by Mr. Taylor and my position.

Lochhead: Well, I think to be consistent we'd have to answer any questions with regard to the hundred million by telling them that we had ceased to sterilize, but I still think it is consistent under the original policy, from your very original press release - you said here, "Whenever it is deemed advisable and in the public interest to do so, to take appropriate action" - so I think this is just in line with your general policy, and you keep all your powers you originally had, but stop sterilizing; tell them you're stopping sterilizing.

Upham: I'm afraid I've been indiscreet. I was asked last Thursday night about this and I said that I couldn't speak officially for the Treasury and they'd have to get an answer from Mr. Gaston, but that in my opinion certainly there would be no more sterilization until the time came when conditions changed so that sterilization was necessary. That's the way

H.M.Jr: I wouldn't say you were indiscreet. I'd just say you were clairvoyant.

Upham: I don't know about that.

-22-

- H.M.Jr: Well, you still feel that way.
- Upham: I still feel that way.
- Ransom: I would discontinue sterilizing. I would also make some reference to the fact that these instruments of control have to be maintained and that at a different period, under different conditions, you reserve the right to reverse yourself. I think if you don't de-sterilize at the moment, Mr. Secretary, the action is going to be misunderstood and more confused than it is at the present time. For the sake of clarity I would make a clean-cut job of it. But I would not abandon the thought that you may have to come back to it, as we may have to come back to what we have done and ask for more power even than we have had.
- H.M.Jr: Marriner?
- Eccles: Ransom states my view about it.
- H.M.Jr: Danny?
- Bell: I would discontinue, leaving the thought with them that you might take it up again later on if the conditions justify it.
- H.M.Jr: Well, we've got a fairly ... - Herbert?
- Gaston: Well, I'd say for the present we won't sterilize any gold, will not be bound by the hundred million limitation.
- H.M.Jr: All right.
- Eccles: I think, too, that you might - I don't know what questions they'll ask, of course, but it doesn't necessarily mean, too, that you may not sterilize future gold. You could make the present action, as Gardner suggests - that all that is a possibility, but you're going to have to cross those bridges when you get to them; but at least the Treasury has all of the powers, and this action isn't a question of - it isn't a question of giving up any of them; it's a reversal of action. And I

-23-

know that so far as we're concerned we would say. "Now we've decreased reserve requirements, that doesn't mean we can't increase them again."

H.M.Jr: Oh no. I mean the statute is still there, the authority is still there, so we're all right.

Eccles: That's what I say. This whole action could be made retroactive or reversed.

H.M.Jr: Well now, Dan, as a matter of mechanics, supposing we announce this afternoon that desterilization is discontinued; then the gold that comes in goes in the General Fund, doesn't it? What?

Bell: Yes, sir, goes in the General Fund, and we pay for that gold by the issuance of certificates against it. So the gold that comes in pays for itself.

H.M.Jr: Pays for itself. Now, having deposited the billion four, and until that's used up, we might just as well let it accumulate in the General Fund.

Bell: Well, carrying out the policy that we announced at the time of the hundred million statement, why, it would go in the Federal Reserve Bank every day, as it accumulates. Now, if you want to, you can permit that gold as it comes in to accumulate in the General Fund as free gold, and deposit it from time to time, instead of daily.

Lochhead: But that's sterilizing gold, though.

Bell: It's the same thing as sterilizing.

H.M.Jr: I know. I got a little wrinkle. I was going all around the room, then I thought ... I don't know whether there's any significance, but my second son, Bob, sent his mother for Easter a white rabbit.

Gardner: Only one.

H.M.Jr: One to his mother and one to his sister, so we've got two. Now, I waited until we've got all around

Taylor: When is the last time you looked?

-24-

- H.M.Jr: Ought to send me one. I'll tell him, "You overlooked something." Got too many running around in the garden. Hope Senator Tydings, our neighbor, won't see them; he might think that we'd gone to raising them.
- Bell: Might run out of them.
- Ransom: You've got two you won't be raising.
- H.M.Jr: But I wondered why, until we saw the way this thing went - why, until that billion four was used up - why it wouldn't be perfectly proper to let that accumulate in the General Fund. Now, on your books, on your daily statement, there is no desterilization fund.
- Bell: That's right. That's wiped out - Saturday.
- H.M.Jr: That's wiped out, so the smart boys can't see it. But it's there, and if they ask why, "Well, there's no use choking the banks full; they've got the billion four and when that's used up we'll cross that bridge, and in the meantime we'll let it accumulate in the General Fund." Now, what's the matter
- Eccles: That's sterilizing it, for all practical purposes.
- H.M.Jr: I know, but it isn't called that.
- Gaston: All it is: we have wiped out the inactive fund - gold fund, and it will not be reinstited.
- Eccles: You build up a balance in the General Fund in a special account, covering gold that
- Gaston: No special fund. Regular free gold account.
- Gardner: Unused gold without a name.
- Eccles: Huh?
- Gaston: Gold in the working balance.
- Gardner: Unused gold without a special name.

-25-

- Eccles: It would be equivalent just to increasing the balances of the Treasury with the Federal Reserve - the effect that it would have.
- Bell: Decreasing them.
- Upham: Decreasing it.
- Bell: We pay for the gold, decrease our balances with the Federal Reserve Banks; when they run down, replenish them.
- Taylor: Aren't the two rabbits you got up there enough?
- Gardner: You're going to clarify only to slip it over. They'll tell their stories that this is all going into bank reserves, that the sterilization is over and all gold now goes into bank reserves, but actually we'll be reserving that decision until later.
- Bell: What you're talking about now is member bank reserves.
- Gardner: That is the ultimate destination of all gold now. True, it will take some time for it to go out.
- Bell: That would still be true.
- Gardner: No, on this decision - not unless the decision were later made to transfer the gold to the Federal.
- H.M.Jr: If they ask me about it - I mean this gives us a chance to turn around for a week or ten days. Normally if we did a thing like this the Federal Reserve and ourselves would have talked this over for a month.
- Eccles: What you'll do - you'll buy incoming gold 'out of the General Fund, won't you, and you carry in the General Fund any incoming gold, which would of course be available for use at such time as you decide to use it; in the meantime, it is sterilized for all practical purposes. It is sterilized in the General Fund instead of the special fund.
- Taylor: The minute that climbs up on you, why, you'll be faced with exactly the same questions that you don't

-26-

want to be faced with.

H.M.Jr: Yes, but I want - this gives me, oh, the rest of this week to turn around.

Gaston: There was close to 200 million gold in the working balance at the time we initiated this policy of sterilization, and there was 200 million in the working balance at the time we desterilized the other day.

H.M.Jr: What I'd like to do is, this gives me a chance to sit down with the economists - "What is good economy to do?" See? Then I don't want to talk politics. I've been talking politics up to now. Then I want to sit down and talk this thing out, and give you fellows a chance to think. I haven't had a chance to think.

White: You're maintaining the actual instrument, except you're avoiding the possible critical repercussions by eliminating the inactive account; but actually you're still at liberty to decrease or increase the amount of gold actually sterilized, within a large limit.

H.M.Jr: It gives us a chance to talk about it from the standpoint of economics. In other words, from the standpoint of politics, I want to wipe out the name "sterilization fund." I've done it. I've wiped that out. Then - now we have deposited a billion four. Now, what are we going to do about the rest? It gives us a breathing spell. No one's going to ask us - I wouldn't kid you people. But it gives us a chance to turn this thing over.

Eccles: Well, you have had in the active gold account all the time here a couple hundred million.

Gaston: 200 million, yes.

Eccles: And it's just

Gaston: And that was wiped out the other day. So it would be just rebuilding to what we have ordinarily carried.

Eccles: That's the 200 million in the active account. In

-27-

effect, it is sterilization, but you don't call it - you just don't call it that.

H.M.Jr: Marriner, just supposing, for instance, that the rest of the world - we can't tell, because their markets are closed today; all the markets of Europe are closed - but supposing they decided this was really inflation and they began to draw on us heavily for gold, see? I mean just let's suppose. I mean that's a possibility. And then I had to begin to draw down that billion four.

White: Or draw it out of the Stabilization Fund. In either case it would be bad.

H.M.Jr: In either case it would reverse what the President wants us to do. And I say if we can have a little "kitty" in the General Fund, I think it's just good common sense. But it hasn't got the political

Eccles: It isn't the target the other was.

H.M.Jr: It isn't the target. I wanted to go all around and then do this thing this way.

Eccles: Possibly couldn't build it up to a couple hundred million without its being noticed. But a couple hundreds would be a pretty good "kitty" for a little while.

H.M.Jr: I mean with you people certainly I'm going to have all my cards on the table.

Taylor: The minute it gets to be an appreciable amount, then you've got to face your

H.M.Jr: But look, Wayne, that isn't like a 'hundred million, which is a fixed amount, and when it reaches that limit, damn it, I'd have to say something that day. There's a gun to my head. "What you going to do about that?" This thing we can talk back and forth. Maybe we want a hundred million, maybe we want 150, maybe it's 200; we'll say amongst ourselves. But that thing can be decided by us in this room, see? And nobody is holding a gun to me, because the hundred million isn't fixed. See? And we can decide. Gardner may say, "Well, I'd let the thing go up to 300." White might say a hundred, and

Goldenweiser might say two hundred. We'll sit down. "How much do you think we ought to have? How much is safe?"

Eccles: Be well to say it's in the active gold account.

H.M.Jr: "Well, why do you carry it? I thought you discontinued sterilization." "Well, we have, but we're carrying it in the active gold account. And the Treasury doesn't need it. We've got these balances, and if at any time the situation comes to where we need it, why, we'll just use it."

And my other - until we've worked off that billion four, what's the use of piling up a lot more?

Eccles: That's right. You've got that as a reason. You've got that billion four. You don't need it. Just let it build up in the active account here, to be used when we need it.

H.M.Jr: When the billion four is absorbed, why, we'll see what we do.

Eccles: And that's going to give you nearly a year's leeway.

Bell: Use it from time to time if you wanted to.

Eccles: Balance of this year.

H.M.Jr: You're talking fiscal or calendar year?

Eccles: No, I'm talking calendar year.

Lochhead: Dan, before the sterilization program was started, how much did you keep on hand in the free gold account? How much did that run up to?

Eccles: I'm assuming just let it - just keep the picture where it is today, without borrowing any more or paying any off, see?

Lochhead: 50 or a hundred. So you had 50 or a hundred even before this - the sterilization program started.

H.M.Jr: Don't you (Eccles) think it sounds all right?

Eccles: I think it's a darn good idea. I think it's a good idea.

H.M.Jr: Subject to daily consultation - I mean daily - you can call me up and say, "Henry, I've thought this thing over," or I'll call you. But I do want our staffs to get together very much, and this gives you fellows a breathing spell - I mean White - go on the monetary end and get together with you fellows and think this thing through. And I'd like very much a memorandum.

Excuse me.

(On phone) Hello. - Thank you. (Has conversation with Sumner Welles)

Well now, let's put it this way. In order to save everybody's time - don't want to keep Mr. Ransom from testifying on the Hill.

Ransom: Through for the day, thank you, sir.

H.M.Jr: Who thinks that this isn't a good plan for a 24-hour basis thing? Put it that way: good for a 24-hour basis. Who thinks this isn't a good plan?

Upham: Why, I think it's a good plan, but I see one danger in it. If you tell me this afternoon that you're not going to sterilize any more, then I see a few days from now that you have some gold that you didn't put in the Federal Reserve, why, I'll say you're sterilizing. Now, if you avoid that difficulty

H.M.Jr: We announce that we'll discontinue the desterilization fund.

Golden.: The inactive gold fund.

H.M.Jr: We discontinue the inactive fund.

Upham: Because this will be noticed at once.

H.M.Jr: We discontinue - Gaston should make a note - discontinue the inactive. Does that satisfy your

Upham: Yes.

-30-

- H.M.Jr: ... conscience?
- Taylor: Got to say more than that. Got to say we're going to sterilize no more gold.
- H.M.Jr: Oh no, no. I've never, since I've been here ...
- Gardner: You can't honestly say that.
- H.M.Jr: I wouldn't, I never have - never misled the newspaper men consciously.
- White: No more necessary to say, Mr. Secretary, than it is necessary to make an explanation of the fact when you let your balances with the Federal Reserve rise and fall, which is equivalent in effect on the excess reserves.
- H.M.Jr: I simply say - you (Gaston) work out the technical language - something like this - a very good point -: that the inactive fund has been discontinued.
- White: Until further notice.
- H.M.Jr: Yes.
- Eccles: They're going to say, "Well, does that mean you're going to discontinue sterilization?"
- H.M.Jr: I don't think they're smart enough.
- Eccles: Don't you think so?
- Bell: I don't think this is sterilization.
- Taylor: As a matter of fact, you've already eliminated the inactive account.
- H.M.Jr: Well, we'll get out the statement on a hundred million; we'll stop that, and stop the inactive account.
- Golden.: Your gold is just as much sterilized when it is on balance with the Federal Reserve as when in the General Fund, so that the General Fund and the Federal Reserve balances can be considered as one thing, and in which of these two funds you keep it

-31-

is a matter of bookkeeping and makes no difference to the public.

- Eccles: If you've got in your active gold account a couple hundred million, what's the difference whether it's there or whether you put it in the Federal Reserve to build up your balances?
- H.M.Jr: But you see what I've got in my mind.
- Eccles: Oh yes.
- H.M.Jr: It gives the staffs a chance to get away from what is good politics and get down to what is good economics.
- Eccles: Well, I think a couple hundred million in that fund may be a good thing. If for a week or two weeks you've got gold going out, you've got that fund to take it out of. You don't have to touch the Stabilization Fund then, do you? You've got that fund to take it out of. You've got ...
- Bell: Got the Federal Reserve balances to take it out of.
- Golden.: Got 1400 millions anyway.
- White: Go out of the Board's balances.
- H.M.Jr: Marriner, I got out of this thing - this meeting is the closest consultation..... We've been close. We should stay as close or closer, and as we make any move on our balances keep you people informed all the time, which we will cheerfully do.
- Bell: Might, Mr. Secretary, handle that free gold something like this: There are nine banks in which I put 50 million dollars - smaller Federal Reserve Banks. Now, from time to time it will be necessary for me to replenish those balances in those smaller banks. I might do it out of the free gold rather than transfers from New York, Chicago and San Francisco.
- H.M.Jr: How about the free silver?
- Bell: I couldn't get that.
- H.M.Jr: Everybody happy?

ESTIMATE OF TREASURY WORKING BALANCES AT THE END OF

206

EACH MONTH FROM APRIL TO DECEMBER, 1938.UNDER THE VARIOUS CONDITIONS STATED

(In millions of dollars)

Month Ending	Balances after providing for deficit	Balances after providing for deficit and June special bills	Balances after providing for deficit, June special bills, and \$50M a week of regular bills	Balances after providing for deficit and all Treasury bill maturities
April 1st *	2,519	2,519	2,519	2,519
April	2,209	2,209	2,159	2,109
May	2,084	2,084	1,834	1,584
June	2,184	1,934	1,434	1,134 (\$250M Spec.) (\$200M Reg.)
July	2,009	1,759	1,059	--
August	1,849	1,599	--	--
September	1,904	1,654	--	--
October	1,599	1,349	--	--
November	1,399	1,149	--	--
December	1,434	1,184	--	--

(*) Includes gold deposit of \$1,392M on April 14th.

SUB

ESTIMATE OF CASH POSITION

APRIL - DECEMBER, 1938

(In millions of dollars)

	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Balances at beginning of periods	1,127	2,209	2,084	1,934	1,759	1,599	1,654	1,349	1,149	1,127
Gold deposit	1,392	-	-	-	-	-	-	-	-	1,392
Receipts:										
General revenue	270	350	750	350	410	740	290	350	720	4,230
Unemployment Trust fund.....	25	65	40	30	50	30	25	50	30	345
U. S. Savings bonds	40	35	30	30	25	25	25	25	40	275
Total available	2,854	2,659	2,904	2,344	2,244	2,394	1,994	1,774	1,959	7,369
Expenditures:										
General.....	340	330	330	340	340	340	340	340	340	3,040
Emergency	230	200	200	220	220	230	230	240	240	2,010
Interest on public debt	70	10	170	15	20	155	70	10	160	690
Special transactions	- 10	20	- 10	- 5	50	- 10	- 10	20	- 10	35
Debt redemptions	15	15	280	15	15	25	15	15	25	420
Total	645	575	970	585	645	740	645	625	755	6,185
Balances at end of periods	2,209	2,084	1,934	1,759	1,599	1,654	1,349	1,149	1,127	1,127
Refunding operations:										
Treasury bills:										
Regular	400	400	600	550	500	500	550	500	500	4,500
Special	-	-	250	-	-	-	-	-	-	250
Treasury notes	-	-	618	-	-	596	-	-	433	1,647
	400	400	1,468	550	500	1,096	550	500	933	6,397

April 18, 1938.

208

Shall sterilization of gold be completely suspended?

Advantage:

Now is the opportunity to get rid of an unpopular policy. Should the opportunity not be grasped now, it will be somewhat more difficult to do so later. If, as is quite possible, net acquisitions of gold amount to more than \$100,000,000 during the three months ending June 30, the Inactive Account will again have to appear on the Daily Statement. Reappearance of the Inactive Account on the Balance Sheet may attract attention and renew criticism against a procedure that could be characterized both as expensive and unnecessary.

Disadvantages:

1. Once the step is taken to eliminate sterilization of gold the reimposition of the step will be taken only with great hesitation and probably only under extreme conditions. Yet it is quite conceivable that within the next year or two gold inflows may be so heavy that sterilization of those inflows would be wise policy.

In continuation of the present procedure (i.e., if gold only in excess of \$100,000,000 a quarter is sterilized) additions to the Inactive Account could be permitted only if business conditions warranted it. If, on the other hand, recovery were not in full swing, accumulated gold could be desterilized as it accumulated in blocks of \$100,000,000. (In fact, the desterilization of blocks of \$100,000,000 might even have a slightly favorable psychological reaction. effect.)

2. If recovery should be in full swing, it would be desirable to sterilize for two reasons.

a. It would help prevent excess reserve from increasing too rapidly.

b. It would force the Government to borrow at a time when it was easy to borrow (i.e., when gold is flowing in) and thereby provide a cash surplus against a time of deficit financing which is bound to recur. Deficit financing in large sums will be made easier because of the existence of a large sum in the Inactive Account just as now.

3. There is the added advantage, difficult to evaluate, that existence of an Inactive Account gives to the Secretary of the Treasury additional bargaining power at crucial times in dealing with the Federal Reserve Board that conceivably may be valuable.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 18, 1938

TO Secretary Morgenthau
FROM M. A. Harris

A short review of the U. S. Government
security market during the past week

The market for U. S. Government securities was very quiet from Monday until noon Thursday and the volume of trading declined to the lowest level in several months. Although both buying and selling were sharply curtailed as the market tended to await further developments, prices moved higher. Following the President's message on Thursday, the market became active with both bonds and notes in good demand and prices at the close of the day were up $1/4$ to $1/2$ of a point. The Treasury's announcement on the desterilization of gold and the Federal Reserve Board's announcement of a decrease in reserve requirements coming over the Friday holiday resulted in prices opening sharply higher on Saturday morning. Large orders came into the market and dealers found difficulty in completing orders at substantially higher levels. To meet this strong demand the Federal Reserve System sold about \$65 million of Treasury bonds during the two hour session. Treasury notes were also in strong demand, with the longer maturities advancing as much as $1/2$ of a point. New highs for the current year were reached by both bonds and notes.

The net increase in prices of Treasury bonds for the week as a whole ranged from about 1 point to $1 \frac{3}{8}$ points, with the exception of the three shortest maturities, which were up about $5/8$ of a point. The average

-3-

price of 11 bonds due or callable after 8 years advanced $1 \frac{1}{8}$ points. The intermediate issues show the largest gains, although the longer maturities were by far the more active. For notes, the gains ranged from 6 to $12 \frac{3}{32}$ nds for the short maturities, 12 to $22 \frac{3}{32}$ nds for the intermediate issues and $22 \frac{3}{32}$ nds to 1 point for the long issues. This sharp rise in prices for notes reduced the average yield on the 3 to 5 year maturities 0.22 percent to 0.86 percent and, at their present level, the highest yield to be obtained is about 0.96 percent. The $2 \frac{7}{8}\%$ notes maturing 6/15/38 are currently quoted at a premium $1 \frac{1}{8}$ points above a "no yield" basis.

Corporate Bonds

The announcement last Tuesday of the deferment of May interest on Atchison, Topeka and Santa Fe Railway Company $4\frac{1}{2}\%$ adjustment bonds resulted in a sharp downward reaction in railroad bonds. Although prices rallied Saturday, Moody's AAA railroad bond price average decreased $7 \frac{7}{8}$ ths of a point and the BAA rail average dropped $2 \frac{3}{8}$ points for the week. However, industrials and utilities were higher for the same period, with the AAA industrial average advancing $\frac{1}{2}$ point, the AAA utility average $\frac{3}{8}$ ths of a point, the BAA industrial average $\frac{3}{4}$ of a point and the BAA utility average $\frac{7}{8}$ ths of a point.

Dealers' Portfolio

Dealers increased their holding of U. S. Government securities 53.8 million during the past week. Increase in bonds accounted for the largest part and, as can be seen by the trend for the week given below, this took place largely the latter part of the week when prices were moving sharply upward.

(In millions of dollars)

	<u>Holding</u> <u>Apr. 9</u>	<u>Holding</u> <u>Apr. 16</u>	<u>Change</u>
Treasury bonds	- 1.3	37.8	+ 39.1
" notes (maturing within 1 yr.)	36.8	34.4	- 2.4
" " " " 1-5 yrs.)	20.6	29.3	+ 8.7
" bills	16.9	18.4	+ 1.5
H. O. L. C. bonds	- 0.8	6.3	+ 7.1
F. F. M. C. bonds	<u>1.5</u>	<u>1.3</u>	<u>- 0.2</u>
	73.7	127.5	+ 53.8

Trend of position during the past week:

	<u>Bonds</u>	<u>Notes</u>
April 11	- 1.4	15.4
12	1.5	18.5
13	6.2	20.0
14	14.9	25.6
16	37.8	29.3

Treasury Accounts

There were no purchases or sales made in the market for investment accounts during the past week.

System Account

On Saturday the System sold for delivery April 18th, \$64,697,000 of various issues of Treasury bonds and \$1,000,000 of Treasury notes and purchased in replacement \$61,750,000 of Treasury bills and \$3,500,000 of Treasury notes. The excess of sales, amounting to \$497,000, will be replaced before the end of the statement week so that no net change will be shown in the System security holdings.

-4-

The above transactions reduces the System bond holding from about 785 million to 720 million and reverses a considerable portion of the 81 million of bonds bought in support of the market since March 1, 52 million of which were purchased in the previous two weeks.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

213

DATE April 18, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Adjustment of Treasury financing program to use of desterilized gold

SUMMARY

I. It does not appear advisable that any of the balances arising from the deposit in the Federal Reserve banks of the newly desterilized gold should be utilized for ~~debt reduction~~ (other than for the retirement of the June bill concentration). If no interim debt reduction other than the retirement of the bill concentration is attempted, and if no securities are offered for new money (other than sales of regular United States Savings Bonds) the Treasury will, nevertheless, be in the market for new money not later than December and possibly as early as September. There appears, therefore, to be no fiscal reason for interim debt reduction and we believe that the balance of monetary arguments is also against such a reduction. The present volume of excess reserves is exceedingly ample and we believe that a gradual increase in such reserves resulting from the disbursement of the newly desterilized gold would be preferable to a sudden increase at the present time.

II. There seems to be no reason for the acceptance of War Loan credit for new bill issues during the next several months, or

III. For the prohibition of the prepayment of War Loan deposits outstanding at the present time.

Proposals II and III have appreciable disadvantages in their effects upon the Treasury's normal dealings with the money market and in its public relations, in return for which they would yield only the doubtful advantage of a slight acceleration in the rate of disbursement of the newly desterilized gold.

This entire memorandum deals only with the domestic aspects of the situation and does not consider the possible effect of the decrease in reserve requirements and the desterilization of gold upon international capital movements.

Secretary Morgenthau - 2

I

1. As of April 14, 1938, the Treasury's balance in the Federal Reserve banks amounted to \$1,524 millions and that in special depositories, account of sales of Government securities, amounted to \$776 millions, a total of \$2,300 millions. These balances give effect to the deposit in the Federal Reserve banks of the entire amounts of the Inactive Gold Account and of the gold in the Working Balance, which amounted on the previous day to \$1,183 millions and \$209 millions, respectively, or to a total of \$1,392 millions.

Mr. Bell has tentatively estimated that, assuming the adoption by Congress of the President's program in its entirety, the rolling over of the regular weekly bill maturities and of the June note maturity, the retirement of the June bill concentration from income tax receipts, and no new money financing (other than regular sales of United States Savings Bonds), this balance will be reduced by some \$500 - \$600 millions by June 30 and by about another \$500 millions during July and August. This would reduce the combined balances in Federal Reserve and special depository banks to about \$1,700 - \$1,800 millions on June 30 and to about \$1,200 - \$1,300 millions on August 31. Upon this basis -- i. e., assuming no interim reduction in the debt except the payment of the June bill concentration -- new money financing would appear to be required in December, and might be advisable earlier by an increase in bill volume.

Assuming that the whole reduction in working cash prior to August 31 would be in balances with the Federal Reserve banks (an assumption subject to some qualification), these balances would be reduced to about \$900 - \$1,000 millions on June 30 and to about \$400 - \$500 millions on August 31.

It seems to us that the reduction in the Treasury's working cash, which would be provided by the above program, is sufficiently rapid, and that it would be unwise to speed it up further by an interim reduction in public debt. As it is apparent from the preceding discussion that the fiscal savings from such an acceleration would be negligible (since we will be back in the new money market by December in any event, and possibly sooner), the most significant considerations bearing upon the question are monetary; and these considerations also seem to be preponderantly in favor of the avoidance of intermediate debt retirement, except by the payment of the June bill concentration.

Secretary Morgenthau - 3

2. Excess reserves of member banks of the Federal Reserve System amounted to \$1,730 millions on April 13, 1938, or approximately twice their amount on May 5, 1937, just after the effective date of the final increase in reserve requirements. According to the press announcement of the Board of Governors of the Federal Reserve System, the decrease in reserve requirements, effective April 16, 1938, increased excess reserves of member banks by about \$750 millions. Giving effect to this increase, therefore, excess reserves of member banks amount to about \$2,500 millions at the present time. This is a larger amount of excess reserves than has ever previously existed except between July 1935 and the effective date of the first increase in reserve requirements, and compares with \$1,813 millions on August 19, 1936, immediately after this effective date. This is without giving effect to the disbursement of any of the newly desterilized gold.

Twenty-five hundred millions of dollars of excess reserves seems to us to be ample at the present time. If the entire amount of newly desterilized gold could be disbursed immediately without resulting in any increase in deposits, it would increase excess reserves to about \$3,900 millions -- an all-time high. There seems to be no need for haste, however, in making this disbursement and attaining this high. Not only is the present volume of excess reserves exceedingly ample, but we believe it probable that the prospect of a large but gradual increase from this level will be more stimulating to bankers in the actual expansion of loans and investments than would be an immediate sharp increase without the prospect of a further rise. Going the whole way at the present time might indeed be more stimulating to the prices of Government and other securities, but this can hardly be considered desirable in view of the sharp run-up which these securities have already had -- varying from 26/32 to 1-14/32 for different issues of "long-term" Treasury bonds* and from 6/32 to 1 point for different issues of Treasury notes during the week ending last Saturday. An interim reduction of debt would tend to run up further the short issues especially, and so might lay the market for this type of obligation open to special weakness when new money financing had to be again recommenced.

II

Assuming that no effort will be made to accelerate the disbursement of the newly desterilized gold by means of an interim debt reduction (except for the payment of the June bill concentration), the subsidiary question presents itself of whether payment by War Loan credit should be accepted for issues of Treasury bills during the next several months. To

* Bonds not due or callable within eight years.

Secretary Morgenthau - 4

the extent that such credit is made acceptable and is tendered, the disbursement of the gold might be speeded up by paying maturing Treasury bills out of the balance in the Federal Reserve banks, while adding the proceeds of the new issues to the War Loan account. The argument in favor of accepting War Loan credit for new bill issues in the next several months would, therefore, appear to be that such acceptance would tend to speed up the disbursement of the newly desterilized gold, and that such speeding up is desirable.

Our reasons for believing that a speeding up of the disbursement of the newly desterilized gold would be of little value have already been presented. It should be further noted, however, that the acceptance of War Loan credit for new bill issues is liable not to be very effective in speeding up this disbursement. War Loan deposits, like all others, are subject to the Federal Deposit Insurance Corporation assessment of $1/12$ of 1 percent (or .083 percent) per annum. Eleven of the last twenty-one bill issues have sold at an average rate of discount of less than this assessment; so that subscription to these issues at the average rate by War Loan credit would have involved an actual out-of-pocket loss to subscribing banks. Under these circumstances, it is probable that, even if the War Loan credit privilege were granted, the greater portion of Treasury bills during the next several months, would continue to be paid for in cash.

Against the negligible advantage from the acceptance of War Loan credit for Treasury bills offered during the next several months, there may be set two rather small but real disadvantages. First, the acceptance of War Loan credit for Treasury bills is fiscally impracticable as a regular practice, and it would seem, therefore, in the absence of important considerations to the contrary, that the money markets ought to be kept accustomed to prompt cash settlement for these securities. Second, War Loan credits accepted for the payment of Treasury bills during the next several months are almost certain to be outstanding for a substantially longer time than the securities upon which they are based. While it appears very reasonable for a bank to retain for several months the use of moneys loaned to the Government for a period of years, it seems intrinsically absurd that the Treasury should borrow funds in order to leave them on deposit in the lending institutions for a period extending substantially beyond the maturity of the original instruments. Such an arrangement might subject the Treasury to considerable criticism which would be difficult to answer except by

Secretary Morgenthau - 5

reference to the unimportance of the whole transaction. In view, therefore, of the negligible advantages and possible disadvantages of the acceptance of War Loan credit for Treasury bill issues during the next several months, we recommend that this not be done.

III

Finally it has been suggested that banks holding War Loan deposits at the present time be prohibited from prepaying these deposits except upon call by the Treasury. The motive which these banks might have for desiring to make such prepayment is the same as that which might deter them from tendering War Loan credit for subscriptions to new Treasury bills - i. e., the desire to avoid the Federal Deposit Insurance Corporation assessment on the deposits retained or created. The reason advanced for desiring to prohibit such prepayments is that they would increase the balances of the Treasury with the Federal Reserve banks and decrease excess reserves and so counteract the effect on excess reserves of the disbursement of newly desterilized gold.

We are opposed to the prohibition of such prepayments. In the first place, for reasons already stated, we see no need for haste in the disbursement of the newly desterilized gold. Even should the fairly rapid disbursement of this gold be accepted as desirable, prepayment of War Loan account would not seriously stand in its way. If one-half of the total War Loan account outstanding on April 14, 1938 (\$776 millions) should be prepaid before June 30 and no additional War Loan account created by bill issues or otherwise before August 31, Treasury balances with the Federal Reserve banks would be reduced to about \$1,300 - \$1,400 millions on June 30, and to about \$800 - \$900 millions on August 31. Thereafter the reduction of such balances would be very rapid as on that date the combined balances in Federal Reserve and depository banks would amount to only about \$1,200 - \$1,300 millions and the new spending program would be getting well under way.

For the reasons just given it seems to us that the advantage of prohibiting prepayment of War Loan deposits is negligible. Against it is to be set the important disadvantage of the irritation to the banks which would be thereby occasioned. The prepayment of War Loan account results in no fiscal inconvenience to the Treasury, and banks hard pressed

Secretary Morgenthau - 6

for earnings have a reasonable cause for vexation if they are denied the right to curtail their expenses by such prepayment. It would seem short sighted for the Treasury to irritate its depositary banks for such slight cause, and possibly diminish thereby the future utility of the War Loan account.

April 18, 1938.
1:01 p.m.

H.M.Jr: Hello.

Operator: Chairman Eccles.

H.M.Jr: Hello.

Marriner S.
Eccles:

Hello.

H.M.Jr: Marriner.

E: Ah, yes Henry.

H.M.Jr: The boys have worked on a statement for me
This is the way it reads:

"On December twenty-second, 1936, the Secretary stated that, after conferring with the Board of Governors, the Federal Reserve System proposed to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department whenever it was deemed advisable and in the public interest to do so."

Period. Paragraph.

"In pursuance of that policy, the Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, today announces that the Inactive Gold Account has been discontinued."

E: So that's all?

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

E: Yeah. You're not saying you're discontinuing sterilization - you're saying Inactive Gold Account

H.M.Jr: That's it.

E: is discontinued.

H.M.Jr: "...today announces that the Inactive Gold Account has been discontinued."

E: What will you do if they say that, ah, "Does that mean that you've discontinued sterilization?"

H.M.Jr: Well, I'll say that - that the statement speaks for itself, and take it as is.

E: Well, I - that, ah

H.M.Jr: But it, it isn't - I mean that, ah, the statement covers the situation.

E: You're not discontinuing sterilization necessarily; you're not discontinuing your policy, you've just discontinued the Inactive Account for the time being, and ah

H.M.Jr: That's right.

E: Well, I think that's all right. You'll - you'll have a chance of course to explain that this isn't necessarily a complete abandonment of a policy, but it is a discontinuance of it for the time being.

H.M.Jr: That's right. Uh huh.

E: Well that's satisfactory to me.

H.M.Jr: I'll send over a copy of it immediately to you.

E: Yes. That's at what time this afternoon, four o'clock?

H.M.Jr: Four o'clock.

E: Ah - of course, I haven't had a chance to advise other members of the Board, but I will try to get them beforehand, so that they will at least be advised, ^{and} to what Ransom and I think about it.

H.M.Jr: Right. And the reason I'm doing it now, I'm going to the White House in a couple of minutes. The

E: Yes.

H.M.Jr: The boys have just finished this this second. I'd like to tell the President we're in agreement on this.

E: Yes. That's O. K. with me.

H.M.Jr: And if I don't hear from you between now and four I take it for granted it will be all right.

E: To say the Board. I'd, I'd like to - I'd like however to have a chance to have the Board feel that they've at least been in on it.

H.M.Jr: Naturally. And I'll, I, I, I'll shoot it right over.

E: O. K.

H.M.Jr: Thank you.

E: Goodbye

RE NEW LEGISLATION FOR
FEDERAL HOME LOAN BANKSApril 18, 1938.
3:00 p.m.

Present: Mr. Taylor
Mr. Bell
Mr. Foley
Mr. Murphy
Mr. Fahey
Mr. Webb
Mr. Delano
Mr. Russell

H.M.Jr: Well, can you use a billion?

Fahey: Desterilized or otherwise.

H.M.Jr: Any way.

Fahey: Denaturalized.

Bell: Desterilized.

H.M.Jr: Give it to you any way you want it.

Fahey: All right. We have a variety.

H.M.Jr: Have a natural delivery or Caesarian, any way you want it.

Taylor: Little premature, isn't it?

H.M.Jr: Just want to let him know how obliging

(Russell comes in)

Webb: Mr. Secretary, you know Mr. Russell.

H.M.Jr: Yes.

Well, the Treasury is yours. What do you want today?

Fahey: Well now, tell me, how much time have we got?

H.M.Jr: Got from now until four o'clock, if you don't smoke me out.

Fahey: All right. Try not to do that.

Well, I tell you, in order to save time I thought it would be desirable to take the memo which was

-2-

sent over on the Treasury's answers and dictate a memo on that, and also an introductory one, which we thought would have the - we hope might conserve your time, see? - and get down to cases here.

H.M.Jr: This is your answer to our memo?

Fahey: Well now, there's a preliminary statement, and here's an answer. I've got one, two, three here - four more copies here.

H.M.Jr: I'll read it out loud. Our boys can't read. I'll read it out loud.

Fahey: There's the first reader.

H.M.Jr: Which do I start with, this one?

Fahey: This one, yes.

H.M.Jr: "If the housing program is to contribute to employment and recovery as it should this year it is important that all classes of lending institutions should compete actively and be encouraged to cooperate to the utmost by making proper loans."

How do you compete actively and cooperate?

Fahey: Well, cooperate in the housing program.

H.M.Jr: All right. "The cooperative banks and building and loan associations have for many years made about 40% of the urban home mortgages. Last year the figure was nearly 50%. Until recent years they have been the only lenders making long-term amortized loans and having experience in this field. It is essential that they should be able to operate on a basis of competitive equality with other lending institutions and contribute their share in the housing development.

"(2) As the President has declared, it is of great advantage to establish throughout the country the rate of 5% or thereabouts on home mortgages. These institutions as well as all others, should be in a position promptly to make such rates and maintain them. All classes of lending institutions have been getting

-3-

substantially higher rates. They now have in their portfolios a large proportion of running loans at higher rates. Any readjustment to a 5% basis involves difficulties. If they make new loans at 5 and 5½% they must presently reduce the rates on the old loans correspondingly. The cooperative banks and building and loan associations cannot attract sums from savers unless they pay interest of at least 3 to 3½%. At these rates they cannot get savings from the public in substantial sums without insurance. If the rate paid for money is 3 to 3½% they are left but 1½% to 2% to cover operating expenses, take care of losses, accumulate reserves and to pay for insurance. They must operate economically and the cost of insurance should not be excessive if they are to also take care of reserves and adequate expenses.

"(3) If these institutions are to meet the needs of their communities for home loans, they must at times be certain of their ability to borrow from the Bank System and at moderate rates. The Bank System is valueless to them and to the country if they and their six million savers cannot be sure also that it can take care of their needs in times of difficulty. As now constituted, the System cannot be depended upon to respond to these tests because without the unquestioned backing of the Government which owns and controls it the Banks' debentures cannot be marketed in times of stress. The very purpose of the Home Loan Bank System, like the Federal Reserve System and other mortgage reserve systems, is to provide a means by which members can obtain necessary money on sound collateral not merely under normal conditions but especially when unusual difficulties arise. Every other financial institution in which the Government is interested is fully protected against unexpected developments - as they should be."

That's a mouthful.

"To neglect to provide corresponding protection for this system of banks, now the largest mortgage reserve system in the world, exposes it to danger unnecessarily. It also invites embarrassing questions as to why the Government declines in this case to provide protective

-4-

facilities which it considers essential in the case of the other institutions. If this system got into difficulties the entire insurance system would be affected at once and grave problems would be presented.

"(4) The Federal Home Loan Banks, founded in 1932, were a failure and were wholly unable to serve the purpose for which they were organized until President Roosevelt took office. Since the bank holiday the membership has grown from a handful to 4,000 institutions having assets of approximately four billion dollars.

"Under normal conditions the Bank System will function without difficulty. Its debentures, which are a most conservative investment, will ordinarily find a ready market but in an emergency without Government guarantee or corresponding backing, the Banks' debentures could not be sold to the public. It will be remembered that despite the fact that they were tax-free and the interest was guaranteed, HOLC bonds could not be distributed until provision was made at the suggestion of the President that they be guaranteed as to principal also. There was no difficulty about HOLC bonds thereafter. If these debentures were guaranteed or are otherwise fully protected, as is the case of the obligations of the Reconstruction Finance Corporation, Federal Housing Administration, Farm Credit Administration, Federal Deposit Insurance Corporation and the Federal Reserve System, no question would arise and the Bank System would really represent what it is supposed to be - a reserve system able to take care of the needs of its membership."

Well, the whole plea on this thing is that they be guaranteed, is that it?

Fahey:

No, it would be equally satisfactory - you understand in this case here that the suggestion of guarantee does not apply to all the issues of the Bank System; it merely provides that the Treasury shall have the option of providing for guarantee if and when the need arises.

Now, on the other hand, there is an alternative to that - and any satisfactory alternative would work

which would take care of emergency conditions - and the other alternatives that we suggested were the option for the Treasury to buy if it wanted to - that is an option merely, under any circumstances - and the third, which was also proposed, that HOLC bonds might be available to take over debentures; HOLC bonds could be issued, and HOLC could purchase debentures. If there was in the latter case a revolving fund representing by that recourse sufficient to command confidence, that would also serve the purpose.

Now, on the other hand, the alternative in the hands of the Treasury to guarantee on any occasion if it saw fit to do so, or to purchase on any occasion if it was felt the need arose and should be met - either of those would meet the necessity.

- H.M.Jr: Well, come on, some of you sharks in the Treasury, answer him.
- Fahey: Now, my suggestion would be that with that introduction, if we pick up the questions and answers we could probably get at the crux of the thing much quicker.
- Did you say you wanted Wayne to read that?
- H.M.Jr: I don't care. Everybody's got a copy.
- Fahey: Or if you want to, I'll read it.
- H.M.Jr: Go ahead, read, Wayne. Please.
- Taylor: "(a) ..."
- Fahey: If you get tired, I'll pick it up.
- Taylor: "Shall the Treasury guarantee Home Loan Bank debentures?"
- "No; Home Loan Banks are not wholly owned by the Government. The only obligations now guaranteed are those of wholly-owned corporations. A departure from this policy would mean that the Government undertakes to guarantee the obligations of private stockholders in banks. One answer to the argument that the guarantee would be proper if the Government were to acquire 100% of the stock is that the statute

-6-

contemplates that the Government's stock holdings in such banks will be diminished rather than increased. There has been no adequate showing that the market for these debentures is in such condition as to require a Treasury guarantee in order that present and prospective need for funds may be met. As to probable future need of funds, it is to be observed, that, insofar as existing home mortgages are concerned, the operations of the Home Owners' Loan Corporation squeezed out the water; as for new home mortgages, the operations of the Federal Housing Administration diminished the evils which brought about the establishment of the Home Owners' Loan Corporation, and placed new home-mortgage financing on a sounder basis.'

"THE ANSWER:

"The Government owns approximately 78% of the stock in the Federal Home Loan Banks. It will undoubtedly continue to own it permanently and as a matter of sound public policy it should always control it. Through its investments in the shares of member institutions and the Federal Savings and Loan Insurance Corporation, the Government has a stake in the Federal Home Loan Bank System which it is bound to protect under any circumstances amounting to almost \$500,000,000. Its inability or failure to do so in an emergency would precipitate a grave financial crisis which would affect the entire banking structure.

"Obligations now guaranteed by the Government are not limited to 'wholly owned corporations'.

"(1) The Federal Land Banks are not wholly owned. The Government owns but 51.2% of the stock in these Banks in the amount of \$119,621,595 as of September, last. As of that month, the Banks had outstanding \$1,903,039,960. ..."

- H.M.Jr: Aren't you fellows going to argue as you go along?
- Bell: This is all part (a).
- Taylor: "Of this amount \$761,129,840 was held and owned by the Government outright through the Federal Farm

-7-

Mortgage Corporation. In addition, the Corporation held \$24,200,000 notes of the Banks and the Reconstruction Finance Corporation held \$13,147,728.76 of such notes. The Federal Land Banks are completely protected by the \$2,000,000,000 revolving fund of the Farm Credit Administration which represents a complete and unquestioned guaranty of Federal Land Bank bonds."

Fahey: If I may interrupt a moment at that point. Of course, that same principle applies to the cooperative banks. F.C.A. has about 144 million stock of the bank cooperatives, and there's only about three and a half million of it that's held by the independent stockholders. And of course, that is also protected by the revolving fund and involves nearly a full investment in the stock.

Excuse me.

Bell: Of course, these bonds that they hold in the Federal Farm Mortgage Corporation are largely of the same character that you hold in the Home Owners Loan. They squeezed out the water through that process.

Fahey: In referring to the Bank of Cooperatives - it doesn't hold bonds, it holds stock.

Bell: I was talking about the Corporation - Federal Farm Mortgage Corporation.

Fahey: Now, there's one other thing too, right on that very point. Reference was made to it in (a), about HOLC squeezing out the water; and of course, that was true of the Federal Farm Mortgage Corporation and the Banks as well, to a certain extent. But it is well to bear in mind that it didn't by any manner of means absorb all of the water, and in the mortgage field at this present moment you've got about eight hundred thousand urban dwelling units in possession as property by the savings banks, the insurance companies, the mortgage companies, and the rest of them. That's greater by a very large percentage than ever before in the history of the country. That problem is a part of our housing problem; it's got to be kept in mind.

We're down to (2).

Taylor: "The Federal Reserve Banks are not owned by the Government but all outstanding Federal Reserve notes, amounting to \$4,237,000,000, are payable by the United States Government 'on demand'.

"(3) Through the recent FHA legislation the Government guarantees National Mortgage Associations against loss on insured mortgages. If such mortgages default they are given Government guaranteed tax-free debentures equivalent to cash. Such National Mortgage Associations will be privately owned, profit-making institutions and invariably will be closely held and controlled by a small group. They are not mutual in character. Mutual thrift associations represent almost entirely the membership of the Federal Home Loan Bank System and protect the savings of six million workers.

"(4) The operations of the Home Owners' Loan Corporation and the Federal Housing Administration have only partially eliminated evils and weaknesses of the home mortgage system. There are many defects and dangers left. The class of institutions represented in the Bank System in 1937 made approximately 50% of all the home mortgage loans made by lending institutions. The Federal Home Loan Banks exercise a most important influence in promoting and maintaining stability in the mortgage field and are steadily removing the weaknesses which caused the mortgage collapse of 1933-34.

"(5) Government guaranteed debentures of the Federal Home Loan Banks would not ordinarily be issued. Under the proposed amendment they would be issued only with the approval of the Secretary of the Treasury. The effect would be that the Secretary of the Treasury would be able in any emergency to completely protect the Government's credit and its large investment in the Bank System, in its member institutions and the entire insurance system."

H.M.Jr: Shall we go on with (b)? Are you fellows all satisfied with (a)?

Taylor: Well, it's ...

H.M.Jr: It's a hell of a long document. You going to - you

going to let (a) go by, Dan? Do you want to raise anything?

Taylor: Well, I think the Treasury would disagree with the primary statement, which is, "Obligations now guaranteed by the Government are not limited to 'wholly owned corporations'."

H.M.Jr: Are not what?

Taylor: "Are not limited to 'wholly owned corporations'." And all the examples are explanations, but I wouldn't say that they answered the the Treasury's statement, which is that it is, you will find, wholly owned corporations.

H.M.Jr: As we go along - can't remember all this stuff - I mean as we go along, let's clean up one thing at a time.

Fahey: Well, but, Wayne, you wouldn't say that the Federal Land Banks are wholly owned by the Government. Through the Government agency you own 51 percent of them. But through your FCA revolving fund - and it is a revolving fund of two billions of dollars - a guaranteed interest and principal obligation - you certainly are guaranteeing everything in the Federal Land Banks so far as their obligations are concerned. You take their bonds, you issue a guaranteed obligation against them.

Now, again in the case of the Federal Reserve System, the Government certainly doesn't own the Federal Reserve System, yet the Government is absolutely responsible for the Federal Reserve System. You are responsible, and it is printed on every Federal Reserve note in circulation that the United States Government will pay it on demand. The Government doesn't own the Federal Reserve System.

Bell: Yes, but there are certain provisions in the act which require 40% in gold and 60% in commercial or Government securities behind every dollar of currency that is outstanding.

Fahey: Does the 40% in gold operate today?

Bell: Yes, it operates. The Secretary of the Treasury can pay it out at any time to maintain the parity of the currency.

-10-

- Fahey: But would the Secretary of the Treasury pay out gold on demand against a Federal Reserve note as of today?
- Bell: He would if necessary to maintain the parity of all forms of currency. That's his duty under the act. There is no analogy between the Federal Reserve notes and your securities, in my opinion.
- Fahey: Well, the responsibility of the Government. The Government is responsible for them. Of course, you go back to the whole theory of what you're going to do about gold.
- Bell: The Secretary has plenty of authority.
- Russell: One secured by gold and one secured by a better security. Neither one goes to the point as to whether ...
- H.M.Jr: Go throw gold out into the street and throw your mortgages out into the street and see which one disappears first.
- Russell: What's that?
- H.M.Jr: Put some gold out in one corner and your mortgages in another corner and see which way the crowd goes.
- Fahey: Sure, your gold would be gone in no time. But then you had 80 billions of obligations payable in gold and what did you have - eight billions to pay them with, something like that?
- Bell: Well, you've got several hundred billion dollars worth of insurance out but you haven't got any cash or assets to pay them all. Same theory.
- Russell: It seems to me, Mr. Secretary, as to what security is behind the debentures - that question isn't raised. It raises a question as to the ownership of the issue. Now, the ownership of the issue is 17 percent. The ownership of the issue in the case of Federal Reserve is 100 percent private. The ownership of the issue in Federal Land Banks is 51 percent one way, and the balance private or public, as the case may be. And I don't see how anybody can take the

-11-

position that the Government isn't guaranteeing any paper issued by anybody not wholly owned by the Government, because the question Mr. Bell raises is a question of security and not ownership.

H.M.Jr: Well, he naturally, being a conservative fellow like me, has in his mind, what is it worth before we go to guarantee it? I mean, is it a good piece of paper?

Russell: If we get into a long argument as to which is better, Federal Home Loan Bank debentures or Land Bank bonds - if you want to go into the question of which is a better piece of paper

H.M.Jr: Well, that wouldn't get us anywhere. I got my own ideas.

Taylor: I don't think it gets us anywhere to argue whether that's a true statement or not, because the Treasury can say it's a true statement and you can produce all kinds of things through back doors to prove that that isn't so, but the Treasury will keep right on saying it.

Bell: Well, isn't the point to be raised there whether or not the Treasury is going to provide some fund here in case of an emergency? Isn't that the point? We took the position in your (H.M.Jr) memorandum that there was 93 million dollars available which they could reserve for this purpose.

H.M.Jr: And they haven't answered it.

Bell: No.

Fahey: Well, there are two answers to that. One is that 93 million dollars isn't enough to give the assurance and confidence that is necessary in a situation where difficulty arises. The second thing about it is that that - I don't believe that Congress would approve of taking that 93 million dollars and earmarking it, setting it aside for that purpose. We have clamped down hard for nine months here now on the use of any of that fund, and yet we are being importuned by Senators and Representatives all the

-12-

time who say that that is not sound policy, and that those shares ought to be subscribed and taken up in many communities where there is a shortage of mortgage money and a necessity for home building. As far as that fund has been used, the result has been that it has - we have in those institutions about something like 25 percent, whereas they have gotten from the public simultaneously about 75 percent of funds. Yet the fact is that there are many sections of the country where there is no mortgage money available at the present time, and it isn't going to be available unless through these institutions it can be made available by getting savings from the public, and wherever the necessity arises by getting some help from us, during this next year or two. Now, that's just as sure as you live.

- Bell: Well, you're going to - buying stock in savings and loan associations.
- Fahey: Very little.
- Bell: I thought we had stopped it.
- Fahey: Well, we've cut it way down to a minimum.
- Webb: Doesn't amount to anything now.
- Fahey: Amounts to little or nothing today. We have various places where the process of merger and reorganization and rehabilitation is going on, just as was the case with R.F.C. and the banks, where we still have to use some of that money. And it ought to be used in order to prevent failures and in order to strengthen the situation, because there are weak spots, plenty of them.
- Bell: Say that would cost ten million dollars?
- Fahey: Can't say. We've got - in one case, in the case of New Jersey, we face the necessity of using at least ten millions of dollars in that one state.
- Delano: Mr. Fahey, with reference to ...
- Fahey: For example, Senator Bulkley particularly has been very strenuous in his objections to our cutting this

-13-

thing down as rigorously as we have. He doesn't believe it is sound policy.

H.M.Jr: Well, Bulkley voted wrong on the reorganization bill, so we don't have to worry about him.

Fahey: No, he didn't.

H.M.Jr: Didn't he?

Bell: He switched.

H.M.Jr: I thought he voted against it.

Bell: He did the first time.

H.M.Jr: Oh, the first time.

Bell: The first time, the recommittal. But when that was defeated, he turned and voted for the bill. He's on both sides of the fence.

H.M.Jr: Well, it makes a difference. Well, Bulkley is one out of 96.

Bell: Wouldn't you think that you'd have enough there as a reserve certainly to last you until the next Congress, to see what really is going to happen and what you need in the way of

Fahey: I don't think so.

Taylor: Well, isn't the situation about like this, John: that there is a commitment that has been given that legislation will be introduced and considered at this session.

Fahey: That's true.

Webb: That's true, Mr. Taylor.

Fahey: That's true.

Taylor: Bulkley and the various other members of the Committee down there, when they were considering the F.H.A. stuff, said, "We won't discuss your problem now, but we will discuss it in the regular

session."

- Fahey: They did, and Bulkley had a bill on it which he sent down to me in January, and I asked that - the bill was loosely drawn, it was not a satisfactory bill, and I asked him to hold it up and told him that in response to his demand we were attempting to draft something and were submitting it in the regular course, and he said that was all right, he would hold it up for the time being. But he wanted to know if it wasn't possible to get some statement as to how long it would be before there would be a report from the Bureau of the Budget on this legislation.
- H.M.Jr: Well, we're just doing this to help you out, Dan.
- Fahey: No, you're not. Not helping me out.
- H.M.Jr: I mean to help out Dan.
- Fahey: Oh no, not helping out anybody.
- H.M.Jr: I mean if Dan's made up his mind, maybe we're just wasting our time.
- Fahey: Well, from time to time after that, Senator Bulkley inquired of me about the status of it, and I told him it was up here and being examined carefully, and the question had not been disposed of. He felt some weeks ago that there ought to be some definite word as to when it would be out. But I told him that the difficulties - that you folks were contending here with a lot of big problems and we just had to be patient about it, that's all, and he's gone along with that sense. I was away last week and I understand that last week, however, he made up his mind that if we weren't going to get some kind of a report on it, personally he and some of the others were going to put in a bill up there. I don't know whether they've done that or not.
- Russell: I don't think they have so far.
- Taylor: They've got very definitely in mind - he says he's got this commitment that he has made to the building and loan people that there was going to be a bill

-15-

and they were going to be given consideration at this session. I don't see how we can hold up the introduction of a bill. It's a

H.M.Jr: I don't know why we're having a meeting. It's all up to the Director of the Budget.

Bell: I'm expecting some report from the Treasury.

H.M.Jr: We've made one.

Bell: And the Treasury has submitted a memorandum back to the Home Loan Bank System. That was the last thing that happened.

Webb: Passed it back.

H.M.Jr: There's one thing that never - Danny and I warn anybody not to jump in between us, because we get right together.

Taylor: What I was leading up to

H.M.Jr: Yes, what were you leading up to, Wayne?

Taylor: It seems to me the best thing to do is to have Senator Bulkley introduce whatever bill he wants to introduce and then have the various agencies report on it, and so on; because unfortunately we have this completely unanimous report - they vary in some details - from the various banking agencies, against the various amendments.

H.M.Jr: Well, let me read the rest of this. I can read it quickly. Let me read it. As long as they have taken the time and trouble of writing it, I ought to read it.

(Secretary reads portion of memorandum silently)

Who wants to reduce it from 1/8 to 1/12?

Fahey: There has been a very general demand for that.

H.M.Jr: Well, we're not opposed to that, are we? We're together on that, aren't we?

-16-

- Fahey: We aren't. We want to reduce it.
(Secretary continues silent reading)
- H.M.Jr: Of course, "III" is out definitely - I mean in view of the President's new thing coming along.
- Fahey: All right.
- H.M.Jr: "Shall Federal Savings and Loan Shares be given complete exemption from local taxes?" I mean that just isn't - I mean that definitely is
- Fahey: Isn't a killing matter.
- H.M.Jr: I mean that I wouldn't even - I mean that definitely would be out.
- Webb: I think the main question, Mr. Secretary, this afternoon was this question of whether
- H.M.Jr: Now listen - I beg your pardon, please.
- Webb: ... whether the Treasury would be willing to go along on these two provisions here.
- H.M.Jr: I tell you what we'll do.
- Fahey: All right.
- H.M.Jr: I'm telling these boys to give me an answer Wednesday morning, and I promise to forward it to you Wednesday night; and if they're not together by that time, why, you can do what you want.
- Fahey: Then in that case I take it you'll put it in such a form that we can send it up to the Chairman of the Committee.
- H.M.Jr: Well, that - I mean I'm not trying to pass any bucks now. There are certain written instructions which the Director of the Budget has to decide. I mean Bell is sitting here in a dual capacity, but he is Director of the Budget. Now, he's got certain direct orders from the President, and he's got to decide that, and I - believe it or not, we do make

a - we do have a dividing line, and I don't attempt to tell - I have never once, in the three years he's been Director of the Budget, ever intimated to him what he should do with an appropriation one way or the other, raise it or lower it; never even hinted at it.

Now, I'll fulfill my obligation as Secretary of the Treasury by Wednesday noon and shoot it over to Dan, and then Dan, as responsible to the President of the United States, has got to decide what he wants to do. Is that fair, Dan?

Bell: It's all right.

H.M.Jr: What?

Bell: Then if they send up the legislation, I think the Committee ought to ask the various departments interested for reports. We'd just offer no objection.

H.M.Jr: By Wednesday noon I'll fulfill my obligation, give you a copy and give one to Bell.

Fahey: I'd like to ask on that point, what are the divisions or departments really interested so far as this legislation is concerned?

In the first place, so far as the Federal Reserve Board is concerned, they're not interested. We dropped out the idea of their - of the provision for open market operations in these obligations. Can't do anything about that. That was only a suggestion. If they don't want to do it, it's all right with us.

Now, secondly, I can't see where any of the others are materially interested. Certainly F.D.I.C. is not - it is surely in the interest of F.D.I.C. that this situation should be fully protected. If anything happened to this insurance corporation or these banks, it would react on F.D.I.C. immediately; there is just no question about that.

Now, in the second place, I don't see how it can in any way meet with objection so far as Federal Housing

-18-

is concerned. It is in the interest of Federal Housing that every encouragement should be given to mortgage lending all over the country.

And that's important because what you face is unemployment that exists in every county, in every community in the United States. The Biggers report has just been completed, and if you want to get a picture of how it affects every community, one needs only to analyze the county reports.

Now, not only that, but the other thing that is so frequently overlooked is the fact that so far as housing is concerned, where the need exists it exists in the smaller communities of the United States, to a larger extent than it does in the metropolitan areas. An undue emphasis is being placed on rental housing here. That demand - the promoters and the real estate people and the rest of them are interested in developing certain areas of the country, and they are the areas which have always caused trouble in this mortgage business, and have been the most difficult things for us to deal with. Take New York, for example. The smash-up of the guaranteed mortgage companies over there produced the worst situation in the United States. As a result of over-speculation in the real estate field, too much suburban development of multiple housing, too many apartment houses, and all that sort of thing, your savings banks in New York alone have got over 300 million dollars of property in possession at this minute, and a large part of it is apartment house property. The sub-division development around New York, New Jersey, Pennsylvania, around Chicago, around Detroit, around Cleveland, around Los Angeles particularly, and some of it in Florida - those things are - have always been the source of trouble and they've got to be watched with great care today. Now, there's no getting away from that.

On the other hand, in normal times, the record for the last 25 years shows, first of all, between 65 and 70 percent of all the dwelling units supplied in this country with single family dwellings; and of those, better than 60 percent of them came in communities of 25,000 and less, not in our large communities at all. Now, those are the communities

-19-

where the local institutions have to serve the need, and I want to tell you, the theory that you're going to be able to transfer money out of the New York market into those places just will not work out.

- H.M.Jr: May I interrupt a minute? How important, getting down to importance, is that 1/8, 1/12 business? Is that a matter of life and death for you fellows?
- Fahey: No, but here's the point about it. These fellows have got to operate very closely on five percent interest rates here, and every item of expense in connection with their operation is a matter of importance. Again, the more of these institutions that are insured, the better the control is over them, the better you are able to examine them and discipline them and keep them in shape. And in insuring these fellows, remember that we're insuring them today on the basis of a depressed situation where the market is - the insurance is placed on sound values, with all the prospect for increased values. And there is no question about it, insurance means much to them in getting in money in their local communities, and all the money that we can get from small savers for home building is all to the good. It takes off that much heat in other directions all the time.
- Bell: Of course, your ratio would be higher on the valuation, the amount of mortgage you could take in its relation to the appraised value.
- Fahey: No, no, not on this sort of thing. No, no.
- H.M.Jr: Look, let these boys give me something Wednesday morning and I'll go over it with them, see?
- Fahey: Well, I hope you'll find a solution for it, because, frankly, I think it would be unfortunate to send up to the Committees of Congress
- H.M.Jr: Ten o'clock Wednesday morning. Ten o'clock. Let them come in with a report ten o'clock. Dan, ten o'clock Wednesday.
- Bell: All right.

-20-

Fahey: I just wanted to say

Bell: Oh, the Open Market meeting is at eleven.

H.M.Jr: Yes.

Fahey: I just wanted to say, Mr. Secretary, in winding this up, that I hope on further consideration you can offer some feasible solution for this and see the wisdom of going along with the recommendations of this Board. We've been living with this thing a long while and we think we know something about conditions.

H.M.Jr: You ought to.

Fahey: The other side is this. I think it would be unfortunate if there went up to the Committees of Congress a difference of opinion on issues of this kind, because that is bound to be known not merely by the Chairman of the Committee, but by the opposition members.

H.M.Jr: Oh sure.

Fahey: And be taken full advantage of.

H.M.Jr: That's right.

Fahey: And I don't think there ought to be that dissension at this stage of the game.

H.M.Jr: We'll give it the best we can, and you'll have it by Wednesday noon.

Fahey: Well, I want to add this. You won't have anything to worry about on this thing. It's the surest thing you know.

H.M.Jr: As a fellow says, may all your worries be little ones.

April 18, 1938.

Federal Home Loan Bank Legislation.

(1) If the housing program is to contribute to employment and recovery as it should this year it is important that all classes of lending institutions should compete actively and be encouraged to cooperate to the utmost by making proper loans.

The cooperative banks and building and loan associations have for many years made about 40% of the urban home mortgages. Last year the figure was nearly 50%. Until recent years they have been the only lenders making long-term amortized loans and having experience in this field. It is essential that they should be able to operate on a basis of competitive equality with other lending institutions and contribute their share in the housing development.

(2) As the President has declared, it is of great advantage to establish throughout the country the rate of 5% or thereabouts on home mortgages. These institutions as well as all others, should be in a position promptly to make such rates and maintain them. All classes of lending institutions have been getting substantially higher rates. They now have in their portfolios a large proportion of running loans at higher rates. Any readjustment to a 5% basis involves difficulties. If they make new loans at 5 and 5½% they must presently reduce the rates on the old loans correspondingly. The cooperative banks and building and loan associations cannot attract sums from savers unless they pay interest of at least 3 to 3½%. At these rates they cannot get savings from the public in substantial sums without insurance. If the rate paid for money is 3 to 3½% they are left but 1½% to 2% to cover operating expenses, take care of losses, accumulate reserves and to pay for insurance. They must operate economically and the cost of insurance should not be excessive if they are to also take care of reserves and adequate expenses.

(3) If these institutions are to meet the needs of their communities for home loans, they must at times be certain of their ability to borrow from the Bank System and at moderate rates. The Bank System is valueless to them and to the country if they and their six million savers cannot be sure also that it can take care of their needs in times of difficulty. As now constituted, the System cannot be depended upon to respond to these tests because without the unquestioned backing of the Government which owns and controls it the Banks' debentures cannot be marketed in times of stress. The very purpose of the Home Loan Bank System, like the Federal Reserve System and other mortgage reserve systems, is to provide a means by which members can obtain necessary money on sound collateral not merely under normal conditions but especially when unusual difficulties arise. Every other financial institution in which the Government is interested is fully protected against unexpected developments - as they should be. To neglect to provide corresponding protection for this system of banks, now the largest mortgage reserve system in the

world, exposes it to danger unnecessarily. It also invites embarrassing questions as to why the Government declines in this case to provide protective facilities which it considers essential in the case of the other institutions. If this system got into difficulties the entire insurance system would be affected at once and grave problems would be presented.

(4) The Federal Home Loan Banks, founded in 1932, were a failure and were wholly unable to serve the purpose for which they were organized until President Roosevelt took office. Since the bank holiday the membership has grown from a handful to 4,000 institutions having assets of approximately four billion dollars.

Under normal conditions the Bank System will function without difficulty. Its debentures, which are a most conservative investment, will ordinarily find a ready market but in an emergency without Government guarantee or corresponding backing, the Banks' debentures could not be sold to the public. It will be remembered that despite the fact that they were tax-free and the interest was guaranteed, HOLC bonds could not be distributed until provision was made at the suggestion of the President that they be guaranteed as to principal also. There was no difficulty about HOLC bonds thereafter. If these debentures were guaranteed or are otherwise fully protected, as is the case of the obligations of the Reconstruction Finance Corporation, Federal Housing Administration, Farm Credit Administration, Federal Deposit Insurance Corporation and the Federal Reserve System no question would arise and the Bank System would really represent what it is supposed to be - a RESERVE SYSTEM able to take care of the needs of its membership.

Amendments to the Federal Home Loan Bank Act
and the Treasury's Comment.

"(a) Shall the Treasury guarantee Home Loan Bank debentures?

"No; Home Loan Banks are not wholly owned by the Government. The only obligations now guaranteed are those of wholly-owned corporations. A departure from this policy would mean that the Government undertakes to guarantee the obligations of private stockholders in banks. One answer to the argument that the guarantee would be proper if the Government were to acquire 100% of the stock is that the statute contemplates that the Government's stock holdings in such banks will be diminished rather than increased. There has been no adequate showing that the market for these debentures is in such condition as to require a Treasury guarantee in order that present and prospective need for funds may be met. As to probable future need of funds, it is to be observed, that, insofar as existing home mortgages are concerned, the operations of the Home Owners' Loan Corporation squeezed out the water; as for new home mortgages, the operations of the Federal Housing Administration diminished the evils which brought about the establishment of the Home Owners' Loan Corporation, and placed new home-mortgage financing on a sounder basis."

THE ANSWER:

The Government owns approximately 78% of the stock in the Federal Home Loan Banks. It will undoubtedly continue to own it permanently and as a matter of sound public policy it should always control it. Through its investments in the shares of member institutions and the Federal Savings and Loan Insurance Corporation, the Government has a stake in the Federal Home Loan Bank System which it is bound to protect under any circumstances amounting to almost \$500,000,000. Its inability or failure to do so in an emergency would precipitate a grave financial crisis which would affect the entire banking structure.

Obligations now guaranteed by the Government are not limited to "wholly owned corporations".

(1) The Federal Land Banks are not wholly owned. The Government owns but 51.2% of the stock in these Banks in the amount of \$119,621,595. as of September, last. As of that month, the Banks had outstanding \$1,903,039,960. Of this amount

\$761,129,840. was held and owned by the Government outright through the Federal Farm Mortgage Corporation. In addition, the Corporation held \$24,200,000. notes of the Banks and the Reconstruction Finance Corporation held \$13,147,728.76 of such notes. The Federal Land Banks are completely protected by the \$2,000,000,000. revolving fund of the Farm Credit Administration which represents a complete and unquestioned guaranty of Federal Land Bank bonds.

(2) The Federal Reserve Banks are not owned by the Government but all outstanding Federal Reserve notes amounting to \$4,237,000,000. are payable by the United States Government "on demand".

(3) Through the recent FHA legislation the Government guarantees National Mortgage Associations against loss on insured mortgages. If such mortgages default they are given Government guaranteed tax-free debentures equivalent to cash. Such National Mortgage Associations will be privately owned, profit-making institutions and invariably will be closely held and controlled by a small group. They are not mutual in character. Mutual thrift associations represent almost entirely the membership of the Federal Home Loan Bank System and protect the savings of six million workers.

(4) The operations of the Home Owners' Loan Corporation and the Federal Housing Administration have only partially eliminated evils and weaknesses of the home mortgage system. There are many defects and dangers left. The class of institutions represented in the Bank System in 1937 made approximately 50% of all the home mortgage loans made by lending institutions. The Federal Home Loan Banks exercise a most important influence in promoting and maintaining stability in the mortgage field and are steadily removing the weaknesses which caused the mortgage collapse of 1933-34.

(5) Government guaranteed debentures of the Federal Home Loan Banks would not ordinarily be issued. Under the proposed amendment they would be issued only with the approval of the Secretary of the Treasury. The effect would be that the Secretary of the Treasury would be able in any emergency to completely protect the Government's credit and its large investment in the Bank System, in its member institutions and the entire insurance system.

"(b) Shall the Treasury be authorized, but not required, to purchase Home Loan Bank debentures?

"No; political pressure would tend to convert this option to purchase into the necessity of purchasing. Except in the case of the Federal Deposit Insurance Corporation, this option has been hitherto limited to wholly-owned Federal agencies, which means also agencies whose obligations are guaranteed. The Federal Deposit Insurance Corporation is not wholly owned nor is there provision for guaranteeing its debentures. If the policy is to move now in the direction of making the

Home Loan Bank System stand on its own feet, option to buy debentures is subject to the same kind of objection as the Government guarantee, though that objection is less in degree to the extent to which the option to purchase debentures would, in actual practice, be really an option.

"The third possibility of increasing the fund in the hands of the Home Owners' Loan Corporation out of which it could purchase debentures, as at present provided, stands on the same footing as an option in the Treasury to buy debentures."

THE ANSWER:

Treasury authority to purchase:

(1) Authority to purchase may be considered as an alternative to guarantee. It would be an advantage to the Treasury to have the option of utilizing either, dependent upon circumstances.

The Treasury is authorized to purchase Federal Deposit Insurance Corporation and Reconstruction Finance Corporation obligations. It would be obliged to purchase in the event either was unable to market its obligations. There was no political pressure to make these purchases mandatory and no likelihood of such pressure in the case of the Federal Home Loan Banks.

It was on the initiative of the Administration, not the Congress, that Federal Farm Mortgage Corporation bonds were guaranteed and they represent a permanent guarantee of Land Bank bonds through the revolving fund.

The Federal Housing Administration debentures were by recent legislation guaranteed permanently with Administration approval.

(2) In guaranteeing Federal Farm Mortgage Corporation bonds the Government has guaranteed obligations based on first and in part second mortgages. The guarantee of Federal Housing Administration debentures is a guarantee which offers possibilities of recovery only on defaulted 80% and 90% mortgages.

The debentures of the Federal Home Loan Banks are (a) the joint obligation of the twelve banks and a first lien on their assets; (b) they are protected by collateral of current amortized home mortgages representing not more than 65% of the unpaid balance or 60% of appraised value of the real estate and FHA insured mortgages (and additional collateral may be required at any time); (c) the notes of borrowing members are a first claim on all their assets. The protection behind these bonds is such that the Government has no risk of loss in either guarantee or purchase. It would merely take short term obligations in an emergency and would be repaid in full with the return of normal conditions.

"II. Shall the Premium rate charged by Federal Savings and Loan Insurance Corporation be reduced from 1/8 to 1/12 of 1%?

"No; while the Federal Deposit Insurance Corporation rate is 1/12 of 1%, the risk is substantially greater in the case of Federal Savings and Loan Insurance Corporation. Banks carry larger reserves than do building and loan associations. Banks have reserves up to 26% with the Federal Reserve Banks, vault cash, and portfolios of liquid securities. Building and loan associations are traditionally less liquid. Also, individual bank deposits are on the average larger than are individual building and loan share-accounts. Since the insurance premium is based on total deposits, and since only \$5000 of each deposit is insured, the result is that building and loan associations obtain a relatively greater insurance coverage and should therefore be required to pay a somewhat higher premium than banks."

THE ANSWER:

The risk in the case of the Federal Savings and Loan Insurance Corporation is far less than in the case of Federal Deposit Insurance Corporation. Indeed, under normal conditions, the risk is negligible.

(1) Federal Deposit Insurance Corporation is, by over four years of precedent, practically obliged to pay cash on demand almost immediately after the closing of an institution. The Federal Savings and Loan Insurance Corporation has no such obligation. In the first place, if serious withdrawals start (a run) the association can place shareholders on notice and cash payments are then made, as cash accumulates, in the order in which requests are filed. If, however, it is desirable to close the institution, the Federal Savings and Loan Insurance Corporation is called upon to pay but 10% in cash, the balance being paid in debentures running one to three years. The shareholder also has the option of having his account transferred to another insured institution. The opportunity is thus afforded to liquidate without pressure and with very little, if any, loss to the Insurance Corporation.

The Federal Savings and Loan Insurance Corporation does not promise to pay the shareholder in full in cash. It promises to protect him against loss and provides for a liquidation plan which also protects the Insurance Corporation.

(2) The Federal Savings and Loan Insurance Corporation with \$100,000,000. of capital in a comparatively short time has accumu-

lated \$12,000,000. in reserves. It had quick assets as of February 28, 1938 of \$112,450,000. against quick liabilities of but \$73.80. Total operating costs and losses are running less than 6% of gross income. None of the premium receipts, admission fees or interest on the capital are being used for operating expenses. The Corporation is operating wholly on the interest earned on its reserve fund. The reduction of the premium rate should increase very substantially the membership of absolutely sound associations. The increase in premium income should, within a reasonable time, more than off-set the reduction in rate.

(3) The experience of the Corporation has demonstrated that a rate of more than 1/12 of 1% is unnecessary but the Act provides that the Trustees of the Corporation have the authority to levy an extra assessment of the same amount at any time. With the provision for extra assessment we could at the reduced premium rate actually collect, if necessary, a total of one-sixth of one per cent per annum or thirty-three and one-third per cent more than our present premium rate of one-eighth of one per cent - which experience has proven is more than is needed.

(4) The reduction in the rate will be most encouraging to this class of lending institutions in their desire to make FHA 5% loans. A large proportion of these associations are faced with the necessity of reducing the rate they have been paying to savers. They are also steadily increasing their reserves. Every unnecessary incidental cost of doing business should be eliminated if they are to make five per cent loans and pay savers enough to attract savings.

out
"III. Shall Federal Savings and Loan Shares be given complete exemption from local taxes?

"No; the statute now provides that local taxing authorities shall not discriminate against Federal Savings and Loan Associations. This is in effect the same theory that is applied to national banks and no objection is seen to having this theory stated more explicitly in legislation. But to depart from this theory and to place the Federal associations in a more favorable situation than state associations insofar as local taxability is concerned would be lending encouragement to the intergovernmental tax conflict which we are now seeking to subdue. The present tax policy of the Federal Government is to contract rather than expand the exemption of Federal instrumentalities from local taxation."

THE ANSWER:

There is no objection to having the exemption apply to State

associations as well as the Federals. The present law permits the States to tax Federal associations at a rate not in excess of that levied on similar State associations. The amendment would exempt Federal associations from State taxation exactly as National Mortgage Associations were exempted from taxation. Both Federal and State associations are now exempted by nearly all the States because they are thrift and home financing institutions. A few States, however, such as Nevada and Arizona, have no exemption or practically no exemption for such institutions and their status is doubtful under the present laws. Institutions of this character are entirely exempt in New England, New York, New Jersey, and most of the important States. No substantial revenue to the States is involved. The amendment proposed exempts the small saver from a tax on his savings and on the income therefrom but permits either Federal or State surtax, inheritance, estate or gift taxes.

It has been the policy of the United States Government from the beginning of income tax laws to exempt these thrift institutions from all income tax and that is still the law. This basis was clearly recognized in the total exemption of National Mortgage Associations from National and State taxation and that exemption extends also to debenture holders except for surtax, inheritance, estate and gift taxes. It is to be remembered that the State and local taxing authorities benefit from real property taxation on the homes financed.

In a statement in the March "Portfolio", Mr. Stewart McDonald, Administrator of the Federal Housing Administration, says:

"Obligations of national mortgage associations, under the amended Act, are exempt from taxation, except Federal income surtaxes and Federal estate, inheritance, and gift taxes. This is virtually the same exemption from taxation enjoyed by United States Treasury bonds and by the bonds of Federal agencies guaranteed by the United States Government. It is important to note, however, that national mortgage association obligations are not guaranteed by the Federal Government, although the insured mortgages held by associations are exchangeable, if foreclosed, for FHA debentures which are so guaranteed."

GENERAL

Unemployment is a problem in every county in the United States. The need for housing exists in almost every section. The encouragement of local saving and local financing of home mortgages has never been more important than now.

Clarification of the tax question will contribute materially to the flow of funds into these institutions by removing the doubt now existing as to State taxation in some of the States.

April 18, 1938.
3:53 p.m.

Marriner S.
Eccles:

Hello.

H.M.Jr: Hello, Marriner.

E: I, ah, just come out of the Board meeting, and I - I read this statement. We discussed our conference this morning fully with the Board and they have no suggestions or comments to make.

H.M.Jr: Fine.

E: Ah, the Board.

H.M.Jr: Yeah.

E: Ah, I only have one to make, personally.

H.M.Jr: Please.

E: And that is that the press, I feel sure, is going to press you to know whether or not the discontinuance of the Inactive Account means that you're going to discontinue sterilizing. You're going to be faced with that one, and I would say "Yes."

H.M.Jr: That we're going to stop sterilizing?

E: I would say "Yes," because otherwise they're - uh, they're, they're - you're going to discontinue the account but if you're merely going to do it in another account, ah, I - I think it would give a lot of confusion, and I - I think I would say you're discontinuing sterilization until further notice. Ah, now that's - I think they'll press you on that issue, and if you don't they're going to say that there's merely a change of the account and that you haven't discontinued sterilization at all, but merely changed the name of the account.

H.M.Jr: I see.

E: I, ah, I, I - I just think you might be run - you might run into that.

- 2 -

- H.M.Jr: Well what makes you think they're going to press me on it?
- E: Well, I don't know, except this fellow Duffield is, ah - I've never seen him yet overlook a, a, a bet - it's just the damned questions you don't want him to ask, he always asks them.
- H.M.Jr: The statement, as it was read - I mean, using the Board's name, was agreeable to the Board?
- E: Yes sir. It's agreeable to the Board. I merely mention this other thing because I think they're going to ask you on it and you ought to be prepared for your answer.
- H.M.Jr: I see. Well, thanks for the suggestion, and I - it's agreeable to the President the way I read it. It is also agreeable to him that we accumulate a little gold in the general fund.
- E: Yes. But I - and I'd say that to the press - that you're discontinuing sterilization, but we may accumulate, for a week at a time, or for a month - ah, uh - in the general fund. We had a couple of hundred million and we may accumulate some in there.
- H.M.Jr: Oh, well you and I are together on this.
- E: Yeah, but I mean, I'd just tell the press that so they won't - so they won't turn around and later on accuse, ah, ah - they're likely to say that there's some misrepresentation on the thing.
- H.M.Jr: I get it.
- E: If we gave the impression we weren't discontinuing sterilization, when as a matter of fact we were.
- H.M.Jr: Yeah.
- E: And, and I think I'd tell them fully just exactly what you expect to do, if they raise the question.
- H.M.Jr: Yeah.
- E: And I think it'll avoid embarrassment.

H.M.Jr: But if they don't raise it?

E: Well, if they don't raise it, I don't know that I'd volunteer it.

H.M.Jr: O. K.

E: Yeah. All right then.

H.M.Jr: Thank you very much.

E: Goodbye.



COMMISSIONER OF
ACCOUNTS AND DEPOSITS

TREASURY DEPARTMENT

254

OFFICE OF THE SECRETARY

WASHINGTON

APR 18 1938

TO THE SECRETARY:

This is a third report on the situation regarding the payment of unemployment compensation, based principally on information received from the Treasury officers who are acting as consulting accountants to the Social Security Board.

The States which requested the services of Treasury accountants and are still using such services, are:

Alabama	Minnesota	Pennsylvania
California	New York	Tennessee.
Connecticut	North Carolina	
Massachusetts	Oregon	

The States which requested the services of Treasury accountants, but are no longer using such consulting services, because the need has passed, are:

Arizona	Maine
District of Columbia	Maryland.

The States which have not requested the services of Treasury accountants still are:

Louisiana	Texas	Virginia
New Hampshire	Utah	West Virginia.
Rhode Island	Vermont	

There seems to be no possibility of the eight States which thus far have refused assistance, making request for the services of the Treasury accountants at this late date. You will recall that when arrangements were made for the

- 2 -

loan of Treasury accountants in a consulting capacity, it was contemplated that the need for their services would not extend beyond the middle of March. As the information being received indicates that the situation is generally good, an effort is being made with the cooperation of the Social Security Board to have the assignments of the Treasury accountants, who are now serving in the 10 States, terminated not later than the end of this month. Of course, if it appears that a real emergency still exists in any of these States, assistance will be continued for the period of the emergency.

As you will observe from the information reported on each State, the situation shows considerable improvement, most of the problems of the agencies now being confined to such matters as the perfecting of internal organization and procedure, the disposition of old contested or suspended claims, and the re-computation of benefits on allowed claims that is necessitated because such claims extend into the new quarter (April 1 to June 30) of the year. The only States which are still somewhat doubtful are Minnesota and North Carolina and it may be desirable that the Treasury accountants in those States give assistance beyond April 30.

On April 1, registration for unemployment compensation benefits opened in two additional States, Indiana and Mississippi. In both of these States the waiting period is two weeks, and thus the first benefits will be due for payment on April 22, at the end of the first compensable week. While the Social Security Board has not made a request for the assistance of Treasury accountants in those States, there has been indication of the possibility of such a request.

I believe we
should be released
by April 30th
WUB

- 3 -

ALABAMA

The progress of both the benefit determination and payment work in this State is satisfactory and from present indications no serious condition of delayed payments will develop. It appears there has been no serious criticism in either Birmingham or Montgomery newspapers. The chief problem of the Agency today is one of perfecting internal organization. The Treasury accountant reports that the Agency has taken no action to correct this condition since it feels that the organization, by comparison with other agencies and on the basis of payments made, is effective. He also reports that little effective assistance can be rendered as the Agency believes it is capable of solving its own problems. The status of the work on April 11, 1938, was as follows:

Registration for benefits:

Number filed	106,000	
Number denied	10,003	
Number allowed	86,014	96,017
Number awaiting benefit determination.		9,983

Payment of benefits:

Weekly claims filed (less cancelations).	257,183
Checks issued (\$1,497,288)	219,035
Awaiting issuance of checks.	38,148

ARIZONA

The status of the work in this State appears to be satisfactory. On March 4, the Arizona Unemployment Compensation Commission passed a resolution re-

- 4 -

requesting the Social Security Board to grant sufficient funds for the specific purpose of enabling the Commission to appoint the Treasury accountant as Acting Chief Executive of the Agency, for sixty days or longer, to perfect the organization and place the work on a sound and efficient basis for permanent operation. This request was approved by the Social Security Board on March 5 and the Treasury accountant assumed charge of the Agency on March 10.

The status of the work on April 2, was as follows:

Registration for benefits:

Number filed	12,400	
Number denied	2,150	
Number allowed	9,909	12,059
Number awaiting benefit determination.		341

Payment of benefits:

Weekly claims filed (less cancelations).	30,592
Checks issued (\$370,095)	29,809
Awaiting issuance of checks.	783

CALIFORNIA

The progress of the benefit determination work is satisfactory but delays and difficulties are still being experienced in the work of getting checks issued. One of the principal obstacles appears to be lack of coordination between the work of the central office of the State Agency and the work of the local offices of the Employment Service throughout the State. The Unemployment Reserves Commission of the State is attempting to develop unified administration

- 5 -

of the Employment Service and Unemployment Compensation functions but has in the past met strenuous objection from the Division of State Employment Agencies. The Treasury accountant reports that from his personal observation, unified administration is very essential in this State. Only 51,328 checks were issued and mailed during the week ended April 9. A condition that may also contribute to delays in payment is the temporary suspension of 68,000 weekly claims (pay orders) pending review and reconsideration of benefit denials in 21,000 cases. To the extent that those claimants may subsequently be ruled eligible there will be a serious delay in the payment of their weekly claims. The Treasury accountant, however, does not consider that the problems still confronting the Agency will result in a serious breakdown in any of the phases of the work. The status of the work on April 8, was as follows:

Registration for benefits:

Number filed	236,510	
Number denied	66,082	
Number allowed	134,383	200,465
Number awaiting benefit determination.	36,045	

Payment of benefits:

Weekly claims filed (less cancelations).	491,142
Checks issued (\$3,409,441)	358,965
Awaiting issuance of checks.	132,177

CONNECTICUT

The status of the benefit determination work is generally satisfactory and the Treasury accountant reported April 9, that this work should be very nearly

- 6 -

current by April 16. The weekly volume of checks issued during the week ended April 9 was far below requirements but definite measures were taken to increase production in the succeeding weeks. Through April 8, there had been issued 266,329 checks, amounting to \$4,077,682. These checks represented payment of 393,398 weekly benefit claims. During March delays in payment were lessened by issuing to each claimant a single check for all back payments then due, which accounts for the difference between the total number of checks issued and total number weekly claims paid. The Treasury accountant reports that there has not been any serious public criticism and, while the status of the benefit payment work is not wholly satisfactory, there is not likely to be a serious condition of delayed payments in the future. The status of the work on April 8, was as follows:

Registration for benefits:

Number filed	163,400
Number denied.	13,700
Number allowed	106,900 120,600
Number awaiting benefit determination.	42,800

Payment of benefits:

Weekly claims filed (less cancelations).	494,398
Weekly claims paid (\$4,077,682)	393,398
Awaiting issuance of checks.	101,000

DISTRICT OF COLUMBIA

The situation was in such good shape by March 26, that it was possible to terminate the assignment of the Treasury accountant. At the time the Treasury

- 7 -

accountant entered upon the assignment there had been a total of only 621 benefit determinations made to February 26. By March 12 (two weeks later) benefit determinations had been completed on a total of 2,258 claims. Also by change in methods, check writing production was greatly increased. By the end of March, 2 clerks were able to produce 1,650 checks daily, whereas formerly, it took 4 clerks to produce 724 checks daily. There still remained the problem of perfecting internal organization and minor matters of procedure but the Treasury accountant left definite recommendations for the consideration of such matters by the Agency. One of the needs of the Agency that is recognized both by its Director and the Social Security Board is the appointment of an Assistant Executive Director. The Treasury at the request of the Agency is recommending an accountant from its emergency organization to fill the position. The status of the work April 8, was as follows:

Registration for benefits:

Number filed	24,877
Number denied.	12,430
Number allowed	11,072 23,502
Number awaiting benefit determination.	1,375

Payment of benefits:

Weekly claims filed (less cancelations).	35,082
Checks issued (\$293,101)	33,978
Awaiting issuance of checks.	1,104

LOUISIANA

The services of a Treasury accountant were not utilized by this State.

The status of the work, however, appeared to be satisfactory on April 8, and was

- 8 -

as follows:

Registration for benefits:

Number filed	41,896
Number denied.	9,685
Number allowed	29,423 39,108
Number awaiting benefit determination.	2,788

Payment of benefits:

Weekly claims filed (less cancelations).	81,098
Checks issued (\$434,960)	67,907
Awaiting issuance of checks.	13,191

MAINE

The situation in this State has continued to be good and the Treasury accountant was released from his assignment early in March. The status of the work on April 8, was as follows:

Registration for benefits:

Number filed	54,482
Number denied.	10,106
Number allowed	35,436 45,542
Number awaiting benefit determination.	8,940

Payment of benefits:

Weekly claims filed (less cancelations).	148,000
Checks issued (\$1,069,026)	128,009
Awaiting issuance of checks.	19,991

MARYLAND

The situation in this State, while formerly not good, showed such considerable improvement in the last two months that the emergency may be considered well past and on March 30, the assignment of the Treasury accountant was terminated. The status of the work on April 8, was as follows:

Registration for benefits:

Number filed	132,528
Number denied.	26,988
Number allowed	105,540 132,528
Number awaiting benefit determination.	none

Payment of benefits:

Weekly claims filed (less cancelations).	317,513
Weekly claims paid (\$2,685,065).	305,062
Awaiting issuance of checks.	12,451

MASSACHUSETTS

Because of restrictions placed by the State Agency on the manner in which information would be communicated by the Treasury accountant to Washington, it is necessary to rely upon the confidential statistics prepared by the Social Security Board regarding the situation. There has been considerable publicity to the program by local newspapers in Massachusetts. While some of the earlier publicity related to delays in payment, recent news articles concern the investigation authorized by the State Legislature into the employment methods of the Agency. The status of the work on April 5, was as follows:

Registration for benefits:

Number filed	272,311
Number denied.	22,668
Number allowed	159,278 181,946
Number awaiting benefit determinations.	90,365

- 10 -

Payment of benefits:

Weekly claims filed (less cancelations)	677,027
Checks issued (\$6,223,080)	601,835
Awaiting issuance of checks.	75,192

MINNESOTA

The situation in this State continues to be doubtful but the Treasury accountant reports, April 11, that during the preceding week definite progress has been made in paying past due benefits. All past due weekly claims are being grouped and one check issued to each claimant. This method has resulted in considerable progress in eliminating the accumulation of old unpaid claims. It was anticipated that all past due claims under this method will have been paid by the middle of April. There is still, however, much to be done in order to establish the general work of the Agency on a current basis. Coordination of departments and the definite assignment of responsibility for particular phases of the work remain to be accomplished. It is, therefore, possible that extension of the assignment of the Treasury accountant beyond April 30, may be desirable. The status of the work on April 8, was as follows:

Registration for benefits:

Number filed	92,205
Number denied.	4,640
Number allowed	52,129 56,769
Number awaiting benefit determinations	35,436

Payment of benefits:

Weekly claims paid (\$1,993,411)	188,993
--	---------

- 11 -

NEW HAMPSHIRE

The services of a Treasury accountant were not utilized by this State. The status of the work, however, appeared to be satisfactory on March 30:

Registration for benefits:

Number filed	39,803	
Number denied.	5,500	
Number allowed	33,500	39,000
Number awaiting benefit determination.	803	

Payment of benefits:

Weekly claims filed (less cancelations).	77,600
Checks issued (\$647,986)	74,808
Awaiting issuance	2,792

NEW YORK

A new benefit control procedure was to be installed during April that will be a vast improvement in maintaining a thorough control of payments. Under previous procedure stop orders for continuing payments were received sometimes a month or more after the claimant had been reemployed. This resulted in improper payments. Under the system employed in the State of New York, checks are mailed by the State Comptroller's Office upon notices received from claimants indicating that they have not worked during the particular weeks to which the benefit checks pertain. The Treasury accountant contends that if claimants were required to report to local employment offices each week and the notices of continued unemployment were signed by the claimants and approved by the local offices, the processing of payments would be greatly improved and considerable

- 12 -

savings could be effected in administration on the part of both the State Unemployment Insurance Office and the State Comptroller's Office. The status of the benefit determination work April 5, was as follows:

Registration for benefits:

Number filed	975,697
Number denied.	447,441
Number allowed	400,057 847,498
Number awaiting benefit determinations	128,199

An analysis of the claims denied shows that they were determined to be ineligible for the following reasons: In the case of 232,106 claims there were no wage records; there were insufficient earnings with respect to 109,017 claims; there were 11,101 claims returned to local offices for correction; and 95,217 of the claims represented duplicate registrations. Through April 5, the total number of checks mailed to claimants by the Taxation and Finance Unit of the Unemployment Insurance Division is 1,362,958, amounting to \$15,663,840. There were also about 150,000 checks being held by the State Comptroller's Unit for delivery to the Taxation and Finance Unit as soon as the required notices are received from claimants indicating that they are still unemployed. There were only about 13,000 eligible claims awaiting the preparation of checks. Improvement over the condition reported to you at the beginning of March, is indicated by the foregoing statistics. The Social Security Board has especially requested, however, that the Treasury accountant be retained on the assignment at least to April 30.

NORTH CAROLINA

While the progress of the benefit determination work and the issuance

- 13 -

of checks in payment of the benefits appears at this time to be satisfactory, the Agency still has very definite problems in the way of inadequate space and a need for better organization and improved procedures. The rental of adequate space is recognized as an urgent need and is now under consideration. The Treasury accountant is of the opinion that securing the necessary office space will increase the efficiency of the Agency up to fifty percent. Past delays in payments have been lessened by issuing to each claimant a single check for all back payments due. Through April 9, there had been issued 232,841 checks, amounting to \$1,796,396. These checks represented payment of 387,637 weekly benefit claims. The status of the work April 9, was as follows:

Registration for benefits:

Number filed	204,883	
Number denied	31,230	
Number allowed.	164,823	196,053
Number awaiting benefit determinations.	8,830	

Payment of benefits:

Weekly claims filed (less cancelations)	428,490
Weekly claims paid (\$1,796,396)	387,637
Awaiting issuance of checks	40,853

OREGON

The Treasury accountant reports that in his opinion the immediate emergency in this State is about over, although a great deal of constructive work remains to be done by someone in the way of improving the organization and standardizing procedures. Lack of wage and separation reports from employers

- 14 -

is still holding up about 5,000 old claims and it will be several weeks before this situation is cleared up. The issuance of checks is on a much more satisfactory basis than a month ago and the greater part of the work is going through on a current basis which allowed the Agency to clear up some of the unsatisfactory conditions which existed in the past. No serious public criticism has arisen in this State. The status of the work April 9, was as follows:

Registration for benefits:

Number filed	60,391	
Number denied	12,476	
Number allowed.	40,052	52,528
Number awaiting benefit determinations	7,863	

Payment of benefits:

Weekly claims filed (less cancelations).	193,503
Checks issued (\$1,879,296).	159,503
Awaiting issuance of checks	34,000

- 15 -

PENNSYLVANIA

The work in this state is on a satisfactory basis, and has progressed to the stage where the services of the Treasury accountant appear to be no longer needed. Emergency changes of operating procedures to meet specific problems and to overcome "back-logs" in the processing of claims are becoming infrequent since it has been demonstrated that through application of the regular procedures which have been adopted the agency can attain satisfactory production. While considerable correspondence is still being received from claimants whose checks have been delayed, the volume of this correspondence is decreasing weekly. The status of the work April 11, was as follows:

Registration for benefits:

Number filed	660,836	
Number denied	39,471	
Number allowed	495,688	535,159
Number awaiting benefit determination	125,677	

Payment of benefits:

Weekly claims filed (less cancelations).	1,806,321
Checks issued (\$18,755,929).	1,650,701
Awaiting issuance of checks.	155,620

RHODE ISLAND

The services of a Treasury accountant were not utilized by this state. The status of the work appeared to be satisfactory on April 8:

Registration for benefits:

Number filed	104,790	
Number denied	2,834	
Number allowed	99,175	102,009
Number awaiting benefit determination	2,781	

Payment of benefits:

Weekly claims filed (less cancelations)	400,763
Checks issued (\$3,538,710)	400,763
Awaiting issuance of checks.	none

TENNESSEE

The status of the benefit determination work is generally satisfactory. Heretofore the most serious delays were being experienced in the issuance of checks. Daily production of benefit payment checks during the week ended April 9, increased materially but the agency is still about two weeks in arrears paying benefits. The Treasury accountant reports that there is serious need of written procedures to be uniformly observed as lack of such procedure has resulted in numerous duplicate payments, erroneous payments, overpayment of maximum benefits due individuals, incorrect filing of documents and errors

in computing benefits on claims. It appears to be the policy of the agency to pay benefits regardless of correct procedure and records. There has been much public criticism on the part of employees and employers. The status of the work April 11, was as follows:

Registration for benefits:

Number filed	77,110	
Number denied	8,822	
Number allowed	56,927	65,749
Number awaiting benefit determination	11,361	

Payment of benefits:

Weekly claims filed (less cancelations)	253,431
Checks issued (\$1,428,925)	202,921
Awaiting issuance of checks	50,510

TEXAS

The services of a Treasury accountant were not utilized in this state. The status of the work appeared to be satisfactory on April 8:

Registration for benefits:

Number filed	90,412	
Number denied	25,815	
Number allowed	53,361	79,176
Number awaiting benefit determination	11,236	

Payment of benefits:

Weekly claims filed (less cancelations)	161,800
Checks issued (\$1,397,087).	154,824
Awaiting issuance of checks	6,976

UTAH

The services of a Treasury accountant were not utilized in this state. The status of the work appeared to be satisfactory on April 8:

Registration for benefits:

Number filed	24,976
Number denied	4,571
Number allowed	16,127
Number awaiting benefit determination	4,278

Payment of benefits:

Weekly claims filed (less cancelations).	72,642
Checks issued (\$812,233)	71,865
Awaiting issuance of checks.	777

VERMONT

The services of a Treasury accountant were not utilized in this state. The status of the work appeared to be satisfactory on April 8:

Registration for benefits:

Number filed	13,360
Number denied.	2,447
Number allowed	10,634
Number awaiting benefit determination	279

Payment of benefits:

Weekly claims filed (less cancelations)	none
Checks issued (\$330,388).	36,049
Awaiting issuance of checks	none

VIRGINIA

The services of a Treasury accountant were not utilized in this state. The status of the work appeared to be satisfactory on April 8:

Registration for benefits:

Number filed	67,050	
Number denied	10,687	
Number allowed	45,137	55,824
Number awaiting benefit determination.	11,226	

Payment of benefits:

Weekly claims filed (less cancelations).	142,851
Checks issued (\$1,030,335).	139,731
Awaiting issuance of checks	3,120

WEST VIRGINIA

The services of a Treasury accountant were not utilized in this state. The status of the work appeared to be satisfactory on April 8:

Registration for benefits:

Number filed	122,338	
Number denied.	16,454	
Number allowed	103,746	120,200
Number awaiting benefit determination.	2,138	

Payment of benefits:

Weekly claims filed (less cancelations)	331,594
Checks issued (\$3,221,512).	328,701
Awaiting issuance of checks	2,893



E. F. Bartelt,
Commissioner of Accounts
and Deposits.

UNEMPLOYMENT TRUST FUND AS OF MARCH 31, 1938

Deposits by States.....	\$819,319,588.47
Interest on investments.....	<u>8,731,258.36</u>
	828,050,846.83

Less:

withdrawals by states.....	<u>77,990,000.00</u>
Balance to be accounted for	<u>750,060,846.83</u>

ASSETS:

Investments (2½% certificates of indebtedness)	743,665,000.00
Unexpended balance in disbursing account	<u>6,395,846.83</u>
Total assets.....	<u>750,060,846.83</u>

Receipts and expenditures
on the basis of the
daily Treasury statements.

Treasury Department (Accounts & Deposits) April 12, 1938.

UNEMPLOYMENT TRUST FUND AS OF MARCH 31, 1938

(on basis of ledger balances)

	D E P O S I T S		E A R N I N G S				W I T H D R A W A L S				Balance in the Fund
	as of Feb. 28, 1938	Month of March, 1938	as of March 31, 1938	Feb. 28, 1938	March, 1938	March 31, 1938	Feb. 28, 1938	March, 1938	March 31, 1938		
Alabama	9,697,881.13	-	9,697,881.13	107,178.84	58,388.10	189,984.94	1,880,000.00	780,000.00	2,000,000.00	7,817,415.09	
Arizona	290,418.41	29,978.50	320,396.91	-	1,404.89	1,404.89	-	-	-	321,798.00	
California	1,987,417.27	229,490.78	2,216,908.05	28,891.94	10,984.89	39,876.83	280,000.00	800,000.00	288,000.00	1,700,084.89	
Colorado	2,113,068.78	30,000.00	2,143,068.78	11,938.87	18,441.64	30,380.51	-	-	-	2,173,449.29	
Illinois	78,741,000.00	180,000.00	78,921,000.00	841,808.68	410,889.64	1,252,698.32	2,800,000.00	2,000,000.00	7,800,000.00	64,760,897.86	
Indiana	2,190,415.88	16,688.84	2,207,104.72	84,800.80	21,808.68	106,609.48	-	-	-	2,313,714.20	
Iowa	18,738,000.00	180,000.00	18,918,000.00	191,158.94	191,158.94	382,317.88	2,750,000.00	1,900,000.00	4,650,000.00	14,268,000.00	
Kansas	1,890,000.00	30,000.00	1,920,000.00	1,807.08	8,988.99	10,796.07	-	-	-	1,930,796.07	
Michigan	4,804,714.09	334,811.87	5,139,525.96	2,842,888.04	7,788.18	10,631.06	123,000.00	120,000.00	378,000.00	4,761,525.96	
Minnesota	2,800,000.00	30,000.00	2,830,000.00	7,788.18	21,084.08	28,872.26	-	-	-	2,858,872.26	
Missouri	5,800,000.00	680,000.00	6,480,000.00	14,489.30	21,808.68	36,297.98	-	-	-	6,516,297.98	
Montana	1,150,432.74	180,418.04	1,330,850.78	105.10	4,481.80	4,586.90	-	-	-	1,335,437.68	
Nebraska	2,044,818.29	9,488.88	2,054,307.17	2,078,878.18	28,590.88	28,876.06	-	-	-	2,083,184.23	
Nevada	30,000,000.00	9,000,000.00	39,000,000.00	-	-	-	-	-	-	39,000,000.00	
New York	23,078,884.37	1,208,808.37	24,287,692.74	840,884.22	180,988.97	1,021,873.19	-	-	-	25,309,565.93	
Ohio	7,700,000.00	800,000.00	8,500,000.00	87,887.47	44,647.75	132,535.22	-	-	-	8,632,535.22	
Oklahoma	4,016,719.43	80,881.43	4,097,600.86	4,047,674	34,647.74	4,082,321.74	-	-	-	8,180,000.00	
Pennsylvania	10,780,000.00	28,000.00	10,808,000.00	98,182.80	28,584.48	126,767.28	-	-	-	10,934,767.28	
Rhode Island	8,580,000.00	880,000.00	9,460,000.00	88,710.44	49,541.01	138,251.45	280,000.00	180,000.00	460,000.00	9,000,000.00	
Texas	4,000,000.00	30,000.00	4,030,000.00	42,130.78	21,708.20	63,839.98	400,000.00	800,000.00	1,200,000.00	4,830,000.00	
Vermont	10,800,000.00	300,000.00	11,100,000.00	90,980.50	90,350.23	181,330.73	1,000,000.00	1,800,000.00	2,800,000.00	13,900,000.00	
Virginia	46,300,000.00	1,000,000.00	47,300,000.00	337,180.30	254,714.80	591,895.10	2,000,000.00	2,000,000.00	4,000,000.00	51,300,000.00	
Washington	48,080,583.38	2,517,445.94	50,598,029.32	309,687.08	280,282.08	589,969.16	-	-	-	51,188,000.00	
West Virginia	12,500,000.00	680,000.00	13,180,000.00	123,170.38	49,454.74	172,625.12	1,000,000.00	800,000.00	1,800,000.00	14,380,000.00	
Wisconsin	2,518,131.80	189,894.30	2,708,026.10	32,148.74	12,280.84	44,429.58	-	-	-	2,752,455.68	
Wyoming	11,800,000.00	1,400,000.00	13,200,000.00	-	48,208.44	48,208.44	-	-	-	13,248,208.44	
Arkansas	2,000,000.00	-	2,000,000.00	7,784.04	11,549.01	19,333.05	-	-	-	2,019,333.05	
Delaware	2,558,000.00	9,800.00	2,567,800.00	4,844.40	14,128.98	18,973.38	-	-	-	2,586,773.38	
District of Columbia	481,089.40	51,047.43	532,136.83	707,188.88	2,584.43	2,661,673.31	-	-	-	3,370,810.04	
Guam	4,438,089.34	138,888.88	4,576,978.22	0,947.34	84,808.17	85,755.51	800,000.00	370,000.00	1,170,000.00	5,746,978.22	
Hawaii	33,190,000.00	884,000.00	34,074,000.00	347,471.74	199,371.88	546,843.62	-	-	-	34,620,843.62	
Idaho	1,300,000.00	-	1,300,000.00	18,428.88	7,981.84	26,410.72	-	-	-	1,326,410.72	
Illinois	104,800,000.00	8,000,000.00	112,800,000.00	1,808,810.47	414,849.94	2,223,660.41	7,000,000.00	8,000,000.00	15,000,000.00	127,800,000.00	
Indiana	10,190,000.00	1,200,000.00	11,390,000.00	123,308.88	58,588.27	181,897.15	800,000.00	1,400,000.00	2,200,000.00	13,590,000.00	
Iowa	878,000.00	78,000.00	956,000.00	2,808.88	4,012.40	6,821.28	-	-	-	962,821.28	
Kansas	58,284,419.98	3,046,113.07	61,330,533.05	389,497.98	301,184.13	690,682.11	-	-	-	61,921,215.16	
Michigan	7,880,000.00	600,000.00	8,480,000.00	24,518.84	42,748.12	67,266.96	1,000,000.00	1,000,000.00	2,000,000.00	10,480,000.00	
Minnesota	4,627,148.31	481,078.80	5,108,227.11	95,048.88	26,028.23	121,077.11	1,000,000.00	1,000,000.00	2,000,000.00	7,109,227.11	
Missouri	84,738,000.00	800,000.00	85,538,000.00	808,807.70	435,713.21	1,244,520.91	10,000,000.00	4,000,000.00	14,000,000.00	100,538,000.00	
Nebraska	8,836,848.34	780,747.83	9,617,596.17	114,004.45	45,389.98	159,394.43	1,800,000.00	2,000,000.00	3,800,000.00	13,417,596.17	
Nevada	4,788,000.00	380,000.00	5,168,000.00	37,798.47	28,804.14	66,602.61	-	-	-	5,234,602.61	
New York	1,070,000.00	30,000.00	1,100,000.00	18,584.21	4,587.54	19,171.75	-	-	-	1,119,171.75	
Ohio	8,430,000.00	-	8,430,000.00	89,428.84	44,880.78	134,309.62	1,800,000.00	890,000.00	2,690,000.00	11,120,000.00	
Oklahoma	21,338,000.00	2,080,000.00	23,418,000.00	258,877.81	127,584.23	386,462.04	-	-	-	23,804,462.04	
Pennsylvania	2,468,247.70	-	2,468,247.70	32,230.08	13,807.12	46,037.17	280,000.00	488,000.00	1,000,000.00	3,556,247.70	
Rhode Island	1,473,807.88	103,443.03	1,577,250.91	18,948.84	8,202.44	27,151.28	180,000.00	178,000.00	358,000.00	1,935,250.91	
Texas	9,800,000.00	390,000.00	10,190,000.00	95,485.08	52,857.60	148,342.68	180,000.00	1,800,000.00	1,980,000.00	12,170,000.00	
Vermont	8,828,000.00	880,000.00	9,708,000.00	27,688.38	41,344.66	69,033.04	-	-	-	9,777,033.04	
Virginia	10,608,487.78	884,000.00	11,492,487.78	104,844.14	51,677.93	156,522.07	1,600,000.00	1,100,000.00	2,700,000.00	14,192,487.78	
Washington	32,493,848.08	1,288,018.23	33,781,866.31	637,848.45	187,612.81	1,025,461.26	2,800,000.00	1,100,000.00	3,900,000.00	37,681,866.31	
West Virginia	1,000,000.00	-	1,000,000.00	4,879.14	2,810.04	10,689.18	-	-	-	1,010,689.18	
TOTAL	779,500,884.75	41,347,450.79	820,848,335.54	8,474,897.98	4,507,801.66	13,028,499.24	44,888,000.00	33,580,000.00	80,468,000.00	788,424,084.74	
Amount of ledger figures not claimed by the Treasurer, U.S.										-1,548,947.01	
Outstanding checks (withdrawals by States)										-2,478,000.00	
Interest on investments as of March 31, 1938										-4,301,840.90	
U.S. Treasury statement										819,319,888.47	
Balance by Fiscal Years											
Fiscal Year 1936 (January 31, 1936 to June 30, 1936)			16,807,780.00			21,700.94				16,829,480.94	
Fiscal Year 1937			291,708,689.80			2,787,181.88				294,495,871.68	
Fiscal Year 1938 (July 1, 1937 to March 31, 1938)			508,799,178.99			9,241,136.42				518,040,315.41	
Total			817,315,648.79			21,729,109.24				839,044,758.03	

Treasury Department (Accounts and Deposits) April 12, 1938.

THE WHITE HOUSE
WASHINGTON

18 April 1938

MEMORANDUM

For the Heads of The Executive Departments and Agencies of the Government

For approximately a week, commencing about 30 April 1938, the President expects to be cruising in the vicinity of the Virgin Islands.

Any communications which the Heads of the Executive Departments or agencies of the Government feel must be sent to the President while he is at sea, will go via Naval Communications. Such messages, in every case, must be sent to the White House, either to the Secretary-in-Charge, or to the Executive Clerk-in-Charge.

All messages should be in triplicate, double-spaced typing, and be plainly marked with one of the following classifications as to security:

- (a) "CLEAR" - Text of message to be sent in plain language.
- (b) "RESTRICTED" - Text of message to be sent in cipher of relatively low security which will give administrative privacy but which will not withstand attack by expert cryptanalysis.
- (c) "CONFIDENTIAL" or "SECRET" - Text of dispatch to be sent in cipher of very high security which may be expected to withstand attack by expert cryptanalysis.

No message should be designated "CONFIDENTIAL" or "SECRET" if its subject matter is ever at any time to be made public by the press, or otherwise, or if it is to be passed in plain language by telephone, land wire or other rapid means of communication. (These precautions are necessary in order to maintain the security of the cipher).

Mail for the President should be delivered to the Executive Offices of the White House, from which it will be forwarded by mail plane to the President.

By direction of the President.



M. H. McIntyre,
Secretary to the President.

April 18, 1938

At a meeting between Magill and myself, we discussed the so-called Borah amendment, which would subject the interest on future issues of all Federal securities to Federal normal taxes and surtaxes.

We decided that the Treasury's position would be to oppose it; first, because it would weaken our bargaining power with States and municipalities on overlapping taxes and, second, in view of the fact that the President is sending up a message on the question of discontinuing the practice of having future Federal, State and municipal bonds entirely free from taxes, we feel that it is better to wait until that message goes up and then support that plan.

April 18, 1938

I showed the President the original of press release 13-1 and he approved it. I explained it to him in detail and also explained that any gold we acquire from now on will go into the General Fund.

Brought up with the President the question of the Transportation Department and reminded him that I had suggested to him while he was at Warm Springs that he offer it to Jones provided he could get the legislation through. The President said he had spoken to Jones and that Jones had swelled up like a bull-frog at the thought of getting it, but that he doubted whether he could get it through at this time. I asked the President if he had any objection to my speaking to Jones and said I thought the feeling on the Hill was a little bit better. He said he had no objection whatsoever. I said I did not know whether it would do any good, but I would be glad to go along with Jones and try to get it through because I consider it of the first importance.

The President said he had a talk with the Democratic people of the House of Friday, Doughton, Vinson, et al, and told them to try to trade as best they could with the Senate Committee. The thought he had in mind was that if the Senate did not go along, he told them that he was seriously thinking of vetoing the bill. He asked what chances he would have of having them over-ride his veto. They said if the question did not come up in the last days of the session they thought that there was an excellent chance of the President having his veto sustained. The President said, Well, if they filled up the last couple of days he would suggest that Bob Doughton have in his hand a bill incorporating the principles that the President stands for, but giving in a little bit to the Senate on some of the rates and did they think that they could do it very quickly? and they said they thought they could, but they did not relish the idea.

I spoke to the President about proposition No. 1 in Magill's memorandum (attached) and he agreed that we should oppose the Borah amendment. Proposition No. 2: Doughton called up the President himself on that matter and the President told him that he knew nothing about alcohol; that Bob Doughton knew much more about alcohol than

-2-

he did. I told him that our position before the Senate had been that increase in taxes would increase bootlegging and we were, therefore, opposed to it and I saw no reason to change our position. The President agreed with me. He said he was surprised there was as little bootlegging as there is.

oOo-oOo

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, April 19, 1938.
4/18/38.

Press Service
No. 13-1

On December 22, 1936, the Secretary of the Treasury stated that, after conferring with the Board of Governors of the Federal Reserve System, he proposed to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department whenever it was deemed advisable and in the public interest to do so.

In pursuance of that policy, the Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, today announces that the Inactive Gold Account has been discontinued.

--oOo--

April 18, 1938

To: Secretary Morgenthau

From: Mr. Magill

(1) Mr. Doughton asked me over the telephone this morning what the Treasury's position was on the Borah Amendment. I gave him the substance of our conclusions this morning. He then asked me to give him an official Treasury letter on the subject, which I have asked Mr. Taylor to prepare for your signature.

(2) Mr. Doughton then asked how the Treasury would feel about a compromise whereby the House undistributed profits tax would be retained in the bill and in exchange an increase in the tax on distilled spirits from \$2.00 to \$2.25 per gallon would be enacted. He said he had mentioned this compromise to the President; the President said it was a new idea to him. I told Mr. Doughton I would discuss the question with you.

RM

TREASURY DEPARTMENT

MA 282

INTER OFFICE COMMUNICATION

DATE April 18, 1938

TO Secretary Morgenthau

FROM

Mr. Haas

Subject: The Business Situation, week ending April 16, 1938

General conclusions

A further improvement in business sentiment has been apparent this week, reflected in actual orders, as it became known that the Administration was about to take strong action to promote business recovery. The first intimations last week that such a program was being contemplated brought a noticeable increase in business optimism in the financial centers, reflected in a sharp upturn in security prices. This has begun to be translated into concrete evidence of new buying -- a rise in steel orders, increased foreign demand for wheat and metals in our markets, and a heavy volume of textile buying. Increased foreign buying of American securities has also appeared. While there has been some editorial criticism of the recovery plan in its longer-term aspects, the reaction of the markets to the plan has obviously been bullish. It is not possible, as yet, to judge what its ultimate effect will be on longer-term private investment.

The recovery program has been initiated under conditions which greatly favor its success. The fact that industrial production has held at a stable level for three months suggests that it has been waiting only for some decisive influence to start a general buying movement and an upturn in production. Increasing activity in leading industries during February and March, though representing on the whole no more than the average seasonal increase, indicated that the downward trend had at least temporarily been broken. The recent declines in the stock and commodity markets, which have resulted in heavy liquidation of speculative accounts, have placed them in a better position for a general rise than would have been the case a month ago. Only in respect to uncertainty over political and business development abroad is the present situation somewhat unfavorable, but the initiation of a strong recovery program in this country will in itself tend to allay a considerable amount of business fear abroad, since many countries look to the United States to lead in any business upturn. The measures taken by the Administration to break the depression five years ago were followed by a general world recovery.

Secretary Morgenthau - 2

An increased volume of industrial buying seems probable during the weeks just ahead, in view of the restricted buying policies which have been in effect throughout industry during the past six months or more. The fact that the Administration has entered the arena, almost on the anniversary of its successful entry five years ago, will appear in the public mind to mark the turn of the business trend. Merchandising policies which called for liquidity while prices were declining will be reversed if businessmen are convinced that prices are going higher, and an attempt will be made to accumulate goods and materials while prices are low. When prices are rising, heavy inventories become assets rather than liabilities. Evidence of this change in sentiment has already appeared in various commodity markets. Some slowing up in the response to the recovery program may be expected, however, if it should be delayed in Congress.

Outlook in important industries
continues favorable

Following the upturn in the stock market last week, steel orders and inquiries for steel showed an increase. New orders reported by the U. S. Steel Corporation for the week ended April 7 increased to the equivalent of 39 per cent of capacity as compared with 35 per cent during the previous week. Operations of the entire industry this week are at a rate of 32.7 per cent, up .1 point over the previous week.

The trend of steel orders appears to be closely related to movements in the stock market. In Chart 1, which shows a comparison of the weekly orders of the U. S. Steel Corporation with the daily movements of the Dow-Jones industrial stock index, the influence of the short-time stock market movements on steel orders is quite noticeable, though the fact that the orders cover a full week obscures in some cases the daily relationship. It will be noted that the orders tend to move concurrently with the stock market, though at times a slight lag appears.

Actual steel consumption in recent months has probably been running materially above steel production, judging from an analysis of data reported by the U. S. Steel Corporation. In the four months December through March the company shipped 2,054,000 tons of finished products to consumers, a total 15 per cent greater than its production. In March alone shipments were also 15 per cent higher than production. Since many consumers have, in addition, been using up their own inventories of steel products, the actual consumption of steel is apparently somewhat more than 15 per cent in excess of production.

Secretary Morgenthau - 3

Automobile production increased to 62,021 units this week, as compared with 60,975 units the week before. Following last week's greater than seasonal rise, however, the increase in output this week was slightly less than seasonal. While the production of General Motors and Ford continued to rise, Chrysler reduced output for the second week in succession.

For the rest of the 1938 model year, automobile manufacturers will pursue an aggressive sales campaign, according to plans recently announced. The campaign began this week with extensive newspaper advertising of new cars somewhat similar to the advertising which usually accompanies the annual auto show. Plans also have been made for a second "National Used Car Week" to be held April 17 to 23. Considering the fact that sales in recent weeks have shown a marked improvement, General Motors sales during the last 10-day period of March rising to 44,700 units from 31,300 during the previous period, and that more liberal spending by the public may result from a lessening of apprehension over the business outlook, the advertising campaign appears well timed from the standpoint of the industry.

In the textile industry, new buying has come into the market this week in the highest volume since February. An increase in textile buying had been impending for some time, since a well-maintained trend of retail buying over the past several months had resulted in a considerable reduction of inventories in the hands of distributors. The latter, however, had shown little inclination to replenish stocks, and mill stocks had accumulated to a point where general mill curtailment was being planned. Reports of the Administration's recovery program, with its implication of rising prices, apparently awakened distributors to a realization of their low inventory position. A number of merchants report that buyers called at their homes over the week-end to try to arrange purchases at the previous week's prices. Following several days of the most active textile buying in many weeks, a number of mills now report depleted stocks, and near-shortages of certain goods. This will tend to postpone or make unnecessary the curtailment that had been planned.

The textile industry, in which cotton is most important, appears to be taking the lead in recovery, as it has done on several occasions in the past. The F.R.B. adjusted index of textile production, after reaching a low in January at 75, rose 4 points in February, almost to the level of last November. A further rise is indicated for March, since figures just published on cotton consumption indicate a substantially greater than seasonal improvement during that month.

Secretary Morgenthau - 4

In Chart 2 we show the trend of cotton consumption, after seasonal adjustment, as represented by the weekly New York Times index and by the monthly index of the Federal Reserve Board. It will be noted that recent reports of a tendency toward mill curtailment are given some confirmation by the flattening out of the rising trend in the past few weeks. This may be halted as a result of the heavy textile sales of the current week.

Railroad earnings show prospects of improvement from present levels, and granting an upward trend of business, it appears that the low point in earnings was reached in February or March. The recent freight rate increase, combined with the usual spring improvement in carloadings, will tend to improve earnings during April. The Government forecast of a material improvement in the winter wheat crop, making it the third largest on record, suggests that earnings of the mid-western roads will be sustained during the summer by heavy wheat shipments, as well as by an inflow of goods bought by wheat growers. A heavy export movement of wheat from this country is indicated by the fact that crop failures in several wheat countries last season makes the United States the only country holding a large surplus stock of high quality wheat. Drought conditions in Southern Europe this spring are reported to have damaged wheat prospects in Italy, Rumania, and neighboring wheat countries.

A continued improvement in residential building demand appears indicated by the successive new highs recorded each week by F.H.A. mortgage applications during March and April. Last year a falling off from the March peak was recorded during April. The F. W. Dodge data on construction awards for the last period of March shows a daily average of \$3,560,000 for residential construction, a sharp improvement over the previous period and very near the \$3,872,000 average for the comparable period in 1937.

The trend of new orders for lumber, however, does not conform with the indicated improvement in construction, perhaps because lumber stocks are being drawn upon for current requirements. New lumber orders for the last two weeks of March were 25 per cent lower than a year ago, whereas in the first 12 weeks of the year they had been only 18 per cent lower.

The price situation

Most commodity futures prices advanced substantially this week on announcement of the recovery program, with inflationary sentiment reported to be an important market factor. Cotton prices were particularly strong, rising half a cent above last

Secretary Morgenthau - 5

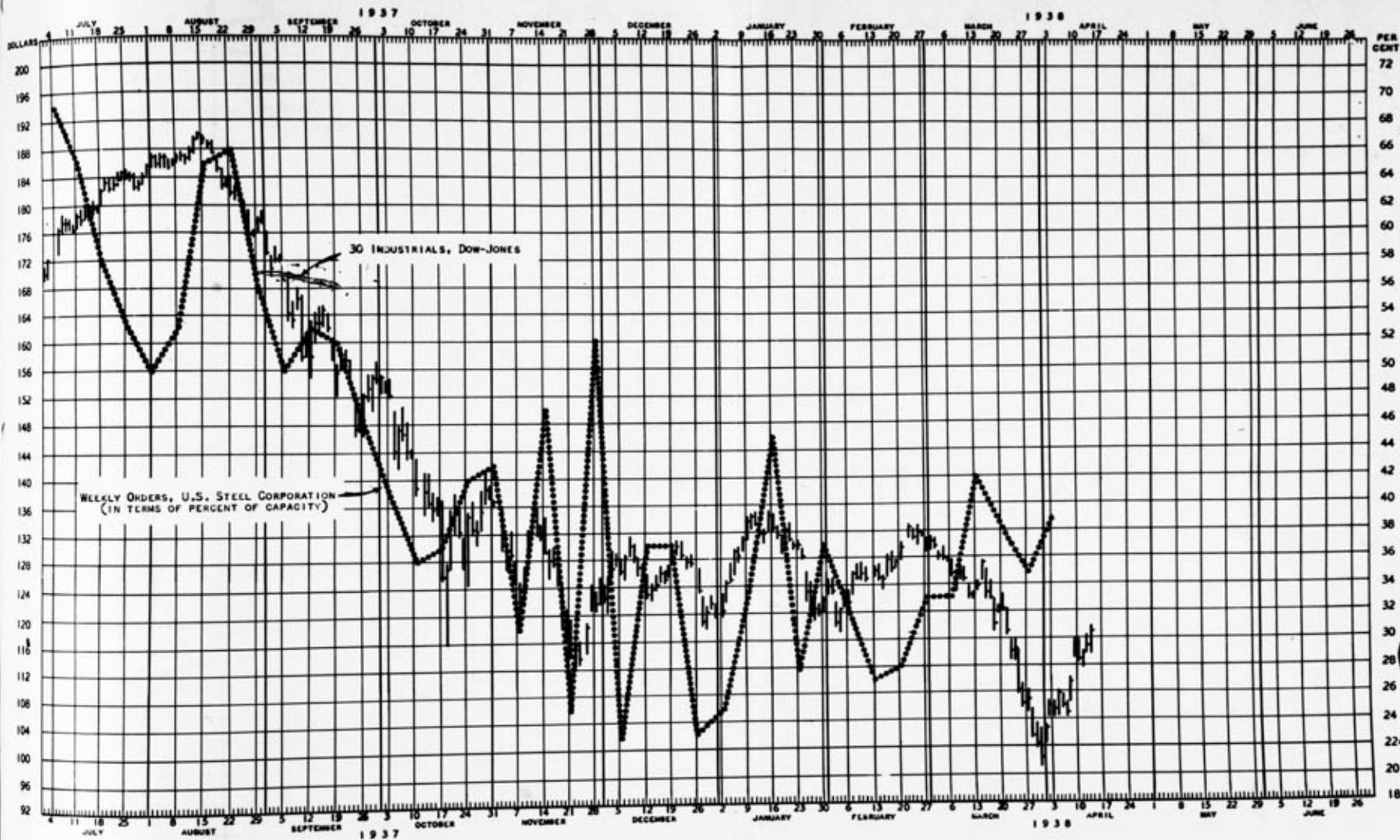
week's price level. Trade reports state that a broad wave of inflationary sentiment swept over the cotton market on the announcement that the inactive gold fund would be used for recovery purposes. Buying by mills to fix prices on the heavy volume of goods sold this week was also an important factor.

Wheat prices, despite increased crop prospects, have been strengthened by a revival of export demand, principally from Great Britain. An unusually heavy volume of purchases by that country during the week, accompanying a long-expected revival in British milling demand, is believed in some quarters to represent Government-sponsored buying.

Increased buying of copper in this country for foreign account has been noticeable during the past two weeks, according to reports in the metal trade, with Japan and Czechoslovakia prominent among the buyers. A German representative is reported also to have arrived recently to arrange for copper purchases. A renewed buying movement this week forced copper prices higher both in this country and abroad.

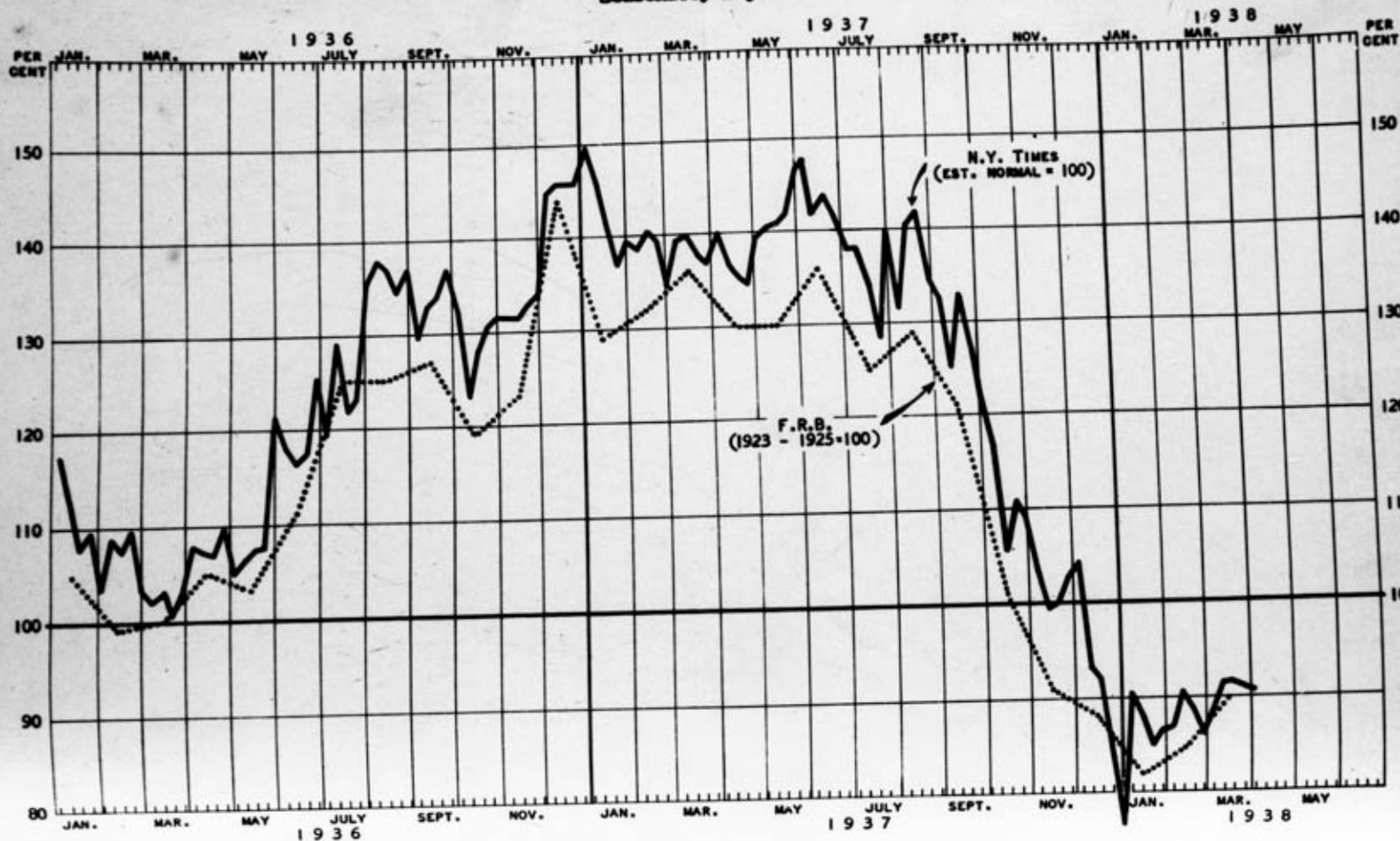
Various indications of a strengthening of underlying conditions in the commodity and security markets have appeared during the past week, aside from the actual improvement in prices. Foreign influences, as reflected particularly in the stable and rising trend of sterling exchange, have on the whole turned more favorable. (See Chart 3.) An improved sentiment abroad, as indicated by rising security prices in London and Paris, has been a strengthening influence on American securities. (See Chart 4.) A decline in brokers' loans this week of \$39,000,000, reducing them to less than half of the total a year earlier, indicates that speculative accounts had been further lightened just before the announcement of the recovery program.

STEEL ORDERS COMPARED WITH STOCK MARKET TREND

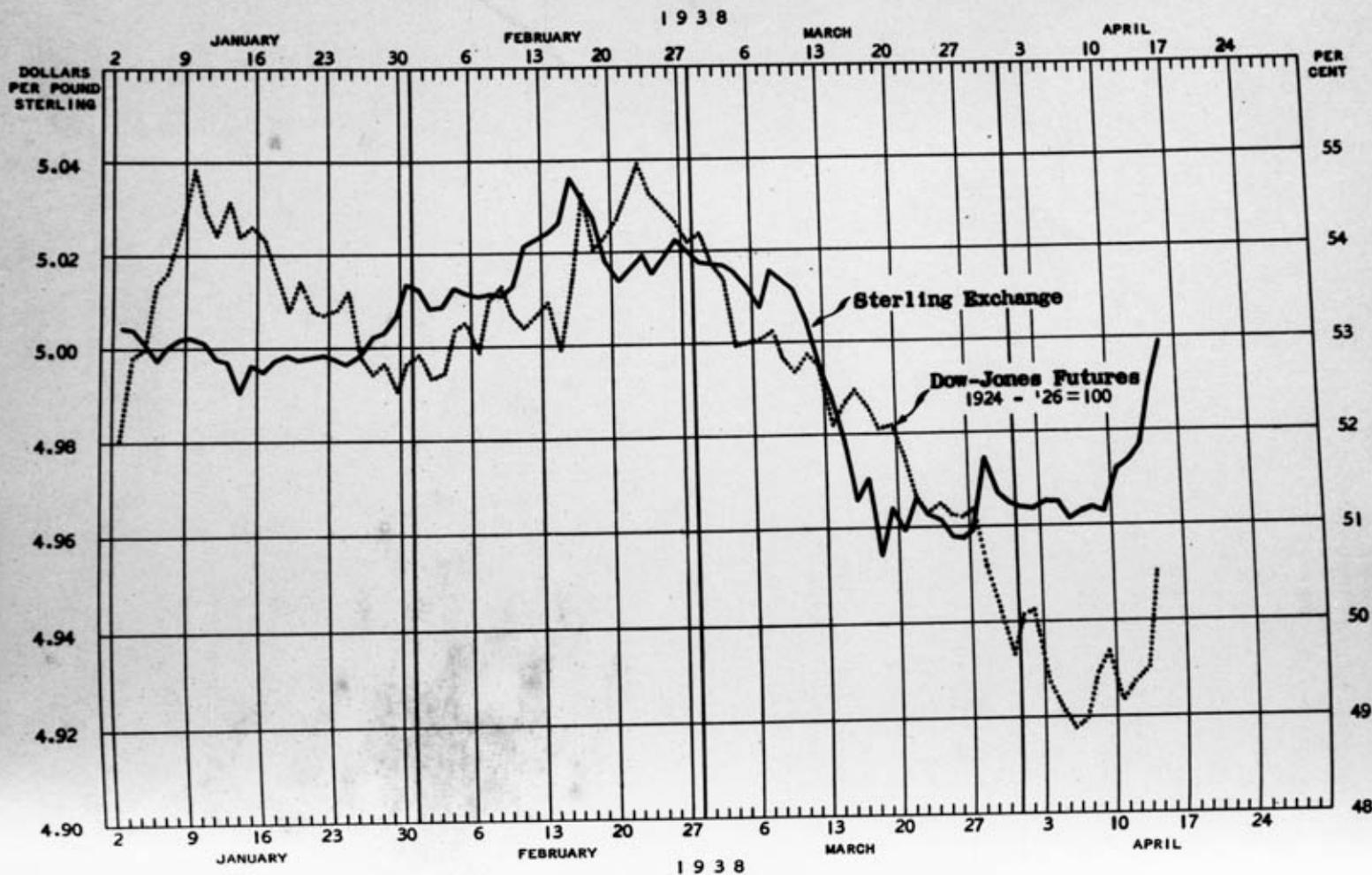


INDICES OF COTTON MILL ACTIVITY

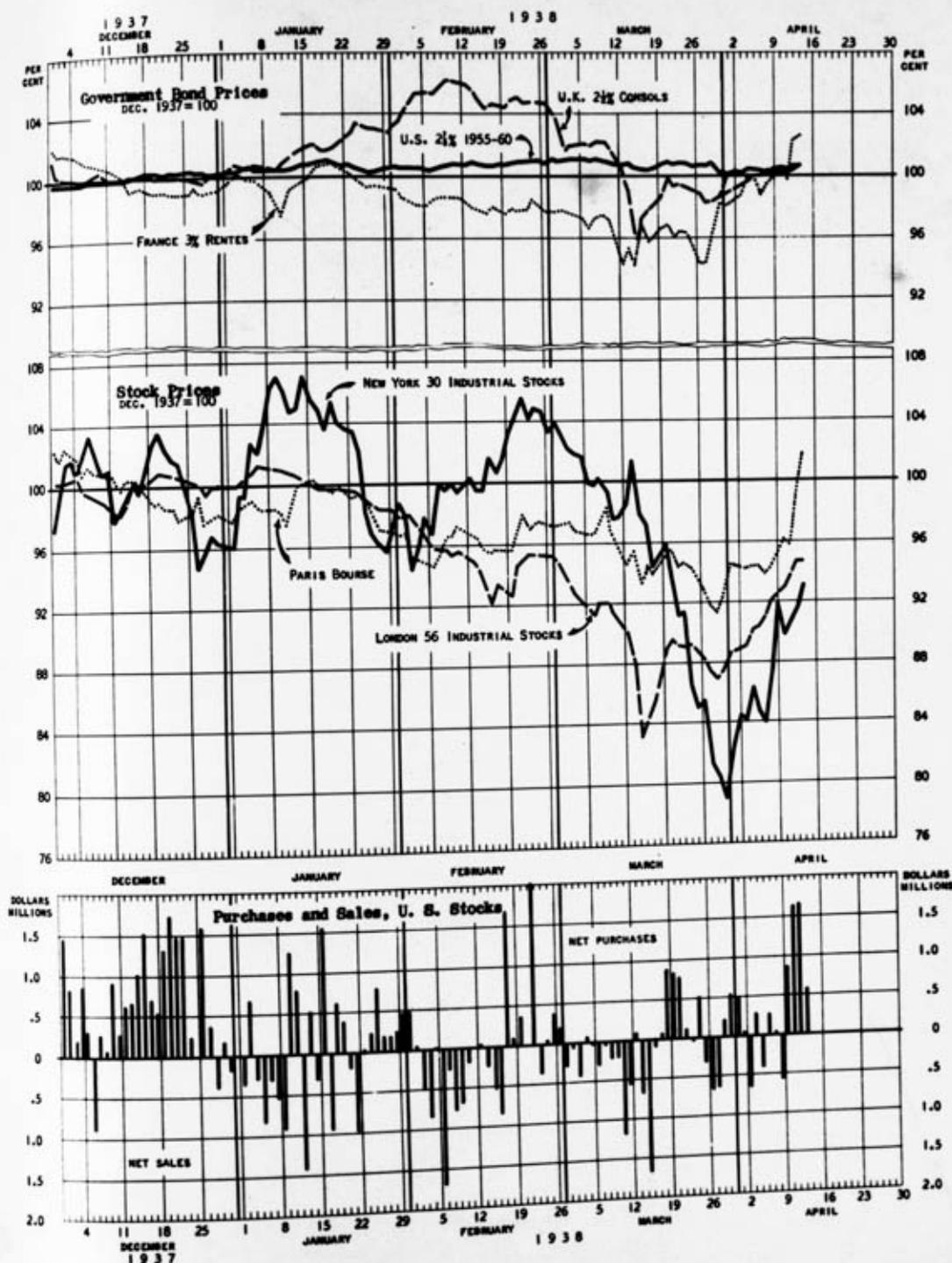
Seasonally Adjusted



STERLING EXCHANGE AND PRICES OF COMMODITY FUTURES



SECURITY PRICES IN U.K., FRANCE AND U.S.
AND FOREIGN TRADING IN AMERICAN STOCKS



GROUP MEETING

April 19, 1938
9:30 A. M.

Present: Mr. Magill
Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Taylor
Mr. Gibbons
Mr. Lochhead
Mr. Upham
Mr. McReynolds
Mrs. Klotz

Magill: (Hands H.M.Jr. letter, which he reads and signs.)

H.M.Jr: You think I ought to send the President a copy of this?

Magill: I think it might be a good idea.

H.M.Jr: Huh? I think it means as much Mrs. Klotz.

Klotz: Yes sir.

H.M.Jr: This goes up - write a letter - say, "My dear Mr. President: For your information I am enclosing herewith a copy of my letter to Congressman Doughton."

Now, in my talk with the President on the tax thing, Doughton had called him yesterday about ten o'clock and he put up the same proposition - surplus tax for twenty-five cent increase of the tax on liquor, and the President's answer to Doughton was, "Well, Bob, you know much more about liquor than I do."

Magill: (Laughs heartily.)

H.M.Jr: Well, that was his answer, so I told him, "Mr. President, the position we are taking," - said that we took the position that we were opposed to the increase before the Senate Finance Committee - increase of the tax on liquor, and we're supposed to be consistent and we intend to be consistent, and we are going to stand by that. He says that's all right.

So then the thought is, they are going to do some horse trading and see if they can't begin to get a few of the Senators to come over on the House's side.

Magill: And boy, are they going to trade. Vinson called me last night, got me out of my happy home, about these trades, the net result of which will be the Treasury will lose everything but its underwear, I should say.

H.M.Jr: I thought we lost that last Thursday.

Magill: Well, I don't know. But that is the - they are now comparing the salvation of the principle of undistributed profits tax - 1917 sales tax - two per cent tax, which would certainly bear down hard on business. Instead of saying four per cent on undistributed profits, have it two per cent.

H.M.Jr: Well, anyway, not only Doughton came down to see the President, but the whole crowd - what Doughton calls his "kitchen cabinet." They all came down to see him.

Magill: Evidently he stood up quite strongly before he left.

H.M.Jr: I got every indication he did. Also he gave him distinctly to understand that if he didn't get what he wanted he would seriously think about a veto message.

McReynolds: Seriously what?

H.M.Jr: Veto message. So, he's told them that two or three times.

Magill: Good. Well, I think as far as I can see the danger from our point of view is that while the House will probably get the 20-16 plan, that the Senators will get about everything else they want, and to my way of thinking the Senators will be perfectly silly if they didn't take it, because in that fashion they can take care of all the special interests that they are really interested in, and the 20-16 actually does them less damage.

H.M.Jr: Well, really the best thing for us is to stick on the sideline. This is a game we can't play and shouldn't play.

(H.M.Jr. holds side conversation with Mrs. Klotz.)

- Magill: I would expect to do the same thing on it that you have just expressed yourself on the liquor. That is, tell them, one after the other, on the different amendments we are opposed to them; they are wrong; we ought not to take them and.....
- H.M.Jr: Yes. Well you (Taylor) are - you handling - you're handling this United States Building and Loan thing. It's all - here's one the President - might all be shoved together. Do you mind? I mean, between you and the others. (Hands letter to Mr. Taylor.)
- O. K.?
- Magill: Yes. Mr. Gibbons mentioned to me yesterday this matter of the Board of Tax Appeals appointment of which I spoke to you in the past.
- H.M.Jr: Well, let's - I mean, there is no use talking to me about it today because I don't know that I am going to see the President. Mrs. Klotz, if I'm going to see the President, tell me to see Magill about the Board of Tax Appeals.
- Oliphant: (Inaudible.)
- H.M.Jr: Did you give it to him? Poor Ros hasn't seen this. (Hands Mr. Magill newspaper.)
- Magill: You didn't show it to me. Did you write this, Herman?
- Oliphant: No.
- H.M.Jr: What do you know?
- Oliphant: That matter worked out with Ickes as you anticipated - just looking around for something and didn't have it. - very satisfactory talk with him. He's taking it up with the President today.
- H.M.Jr: Good. He's glad to get it.
- Oliphant: Yes.
- H.M.Jr: Did he have his attorney in?

Oliphant: I had Bernie - I sketched it to him, and I had Bernie working on it. Felix (Cohen of Interior) is working

H.M.Jr: Yeah. What else?

Oliphant: That's all.

H.M.Jr: You - I wish, Herbert, you'd see if this appears anywhere else in the Tribune. It says here, "Meanwhile, it was learned that Mr. Eccles was not satisfied with the President's new spending program. Although Mr. Eccles has been preaching for months the necessity of reintervention by the government with spending to halt the downward economic spiral, he wanted spending of a different kind and of much more immediate effect. The public works program planned by the President will take too long to get under way, in his estimation, and he believes that the longer the government delays, the more expensive will the intervention have to be."

Gaston: I can check on that and I can probably find out where he got that.

H.M.Jr: You (Upham) might keep your ears open too. Huh?

Upham: All right.

Taylor: I'm sure that's right.

H.M.Jr: You're sure what's right?

Taylor: That he isn't satisfied.

H.M.Jr: Yes, but why not keep his mouth shut.

Haas: That's something else, again.

McReynolds: Why don't we have nice weather on week-ends.

H.M.Jr: Didn't you get some golf in Sunday afternoon?

McReynolds: Yes, I did.

H.M.Jr: What are you kicking about?

McReynolds: I am just speaking about something you can't control.

H.M.Jr: All right. Anyway, I am highly curious.

Incidentally, Herbert, I thought in the first place, that the story on the gold desterilization was first class, and I want to say again, I thought - I am - can't help but think that the boys were extra nice to me yesterday. Getting a few dividends back - I treated them nice for the four years. Never once asked me an embarrassing question not a single question. As Cy Upham said, he said if he were a reporter he wouldn't be so nice to me. They never asked me one single embarrassing question.

Klotz: That's fine.

H.M.Jr: I think it was a fine tribute.

Professor Taylor?

Taylor: I pass.

H.M.Jr: Got a good hand? Are you coming tonight?

Taylor: No, I don't think so.

H.M.Jr: You're not? All right. That gets down to Burgess, Bell, and myself.

Taylor: No, I discovered we were entertaining in our home, and I didn't think I could.

H.M.Jr: That's all right. Now who's coming from Home Owners' Loan?

Taylor: Mr. Fahey.

H.M.Jr: Immediately after this would you (Upham) go and get Mrs. Klotz' list of who's coming.

Upham: Surely.

H.M.Jr: Will you? Better have it set for ten. You're (Taylor) all right, I mean?

Taylor: I didn't say that.

Klotz: Oh, he's good today. (Laughs.)

H.M.Jr: George?

- 6 -

Haas: One little figure.

H.M.Jr: I read your memorandum on financing, and may I again tell you people what I told the group last night, this next financing is going to be done on politics and not on monetary - so you might as well get that. The more I talk to people the more I am going to do it myself.

Haas: Well, ah

H.M.Jr: If anybody will write me a memorandum, with the working balance of two and a half - you're all the crowd - a working balance of two and a half billion dollars that I can continue to borrow to maintain that balance, I'd like a good explanation of how I can do that. With a working balance of two and a half. Never mind the interest rate if it is almost nil - by continuing to borrow we don't let that gold go to work. One. How we can keep up the balance, pay interest - never mind, it's very little, and two, continue the buying program - keep the gold from going to work. I want an answer to that.

Haas: There is an answer. It's a question of how good it is in view of your question.

H.M.Jr: O. K., I want an answer on that.

Haas: I don't think it's very strong, one way or the other.

H.M.Jr: Well, my God, your memorandum is strong enough.

Haas: That's usually the way you want it

H.M.Jr: Yeah, but every time we go through this thing I tell you fellows back there to be practical. I mean, you recommend to me I continue borrowing a hundred million dollars. All right.....

Haas: Except the concentration - pay that off in June.

H.M.Jr: All right. Continue a hundred million, and I maintain my balance practically where it is, and pay interest. Now where does it leave me? I'm not interested in my business; this business belongs to a hundred and thirty million people. I want to give you my reaction after reading your memorandum. I have yet to talk to anybody. They are all taking

the same line - bonds going to go too high. They've all got different reasons, but all advise me to do the same thing.

Haas: I usually like to be

Taylor: Did you look at your maturities in March and June in 1939?

H.M.Jr: Yeah. Well, keeping the balance up now doesn't help that way.

Taylor: Good insurance.

H.M.Jr: Just the opposite, because these darn ninety day things are going to become due in ninety days and then where are we? Going to let them off now and you've got your borrowing power. I am borrowing, and the stuff comes due again in ninety days. Smack! Right at the wrong time. I know everybody's against me.

Haas: I thought it would be the other way.

H.M.Jr: Well,... but I am just being a practical politician.....

Gaston: 1938 or 1940?

H.M.Jr: brought up at the knee of Tammany Hall where I learned all my finance.

Lochhead: Well, there's one thing, they never left that much money in the Treasury.

H.M.Jr: How's that?

Lochhead: Tammany Hall never left that much money in the Treasury.

Gibbons: I heard an old Tammany Hall leader say, one time, say, "It's a convenient sin to try to get the other fellow, but a mortal sin to try to get yourself."

H.M.Jr: I met an old friend Saturday night - eighty years old, a wonderful man, and he said, "Well, I was worried until I saw you smile; now I'm going to stop worrying."

Gibbons: Who said that?

- H.M.Jr: Dr. Sacks. He is eighty years old.
- Gibbons: I got an advertisement the other day. I don't know who it was from; it started out at the top, and said, "All economists are nuts."
- Haas: (Laughing) Steve, now that's
- H.M.Jr: Put that in and I'll frame it.
- Gibbons: I threw it away, and I was sorry afterward. That was just the top line. (Laughter.)
- H.M.Jr: You got any good suggestions, George?
- Haas: On that particular thing?
- H.M.Jr: Anything else?
- Haas: That's all. I have nothing this morning.
- Gibbons: I listened on the radio last night. Jesse Jones made a pretty good speech on this Forum here. He explained - said lot of people thought - I thought it was good psychology - lots of people thought that small business couldn't get loans, and he showed that the majority of their loans were under fifty thousand dollars.
- H.M.Jr: He sent me his speech. (Side conversation with Mrs. Klotz: You know what this fellow (Gibbons) did? I went over yesterday and kissed him. He got this fellow McGrath to resign, down in Boston.)
- Klotz:
- Lochhead: The foreign markets aren't picking things up at all as yet. Silver is steady over there.
- H.M.Jr: The State Department isn't speaking to our Boards, - sold a lot of Mexican silver yesterday, spot silver to good American buyers. They have just crossed them off their social list. Tough luck.
- Now, come on, you fellow - report.

Upham: Mr. Smythe comes in this morning and asks two or three questions: Will it be necessary for him to get off the Board of the bank down in Uvalde; sell the stock that he owns in the bank; pay off the loan that he owes to the bank? Would you want any of those things?

H.M.Jr: Well, the answer is yes to all those questions if he's coming to work for the Treasury. I should think the man would have crossed those bridges long ago.

Oliphant: I don't know about the loan. You are right about the other two items.

McReynolds: The time was extended by law this year when these bank fellows could pay off their loans.

Oliphant: That is for a different purpose.

McReynolds: Well, it's a general purpose.

Upham: He's willing to do it all.

H.M.Jr: To resign from the bank?

Upham: As Director, sell his stock, and pay off his loan.

H.M.Jr: He certainly should not be a Director of the bank. He certainly oughtn't to have any bank stock. I take it that nobody in this room has any bank stock.

Lochhead: I have a little.

H.M.Jr: How much?

Lochhead: Chemical, and one or two others I acquired prior to coming down to Washington.

H.M.Jr: Well, I'll see you about that afterwards.

Lochhead: O. K.

Oliphant: I think, about the loan, if it's one of those extraordinary loans that's under water, it ought to be cleared up. If it's just an ordinary loan, ordinary loan in its course, I think it is leaning over backward to say he can't use banking facilities for ordinary loans.

H.M.Jr: How about bank director?

Oliphant: Oh no. If it's one of those big loans, under water, it ought to be cleared up.

McReynolds: I think it's just an ordinary business loan.

H.M.Jr: That, I would say, seems to me the fellow ought to be able to get ordinary accomodations, but his own bank loan and bank stock, my own reaction would be "No."

Oliphant: Director and stock ought to be out.

McReynolds: I don't think there is any question he ought to be out.

Upham: I have never understood the reason for that. It seems to me it would be probably an advantage. I should like very much to be a bank director, and I think it

H.M.Jr: In the first place he's got certain liabilities as a bank director which might be in conflict with Treasury rules. He can't be a Treasury official, issuing rulings for banks, and at the same time be a bank director with the responsibility of carrying them out.

Oliphant: Or to be in position to tip his bank off to advance information.

H.M.Jr: I would say anybody's confidant, as close to me, shouldn't have any bank stocks, shouldn't have any metal stocks - needless that they shouldn't deal in any metals.

Upham: Then shall I

H.M.Jr: I would tell him that, and on his bank loan, I'd get a little more information on it.

Upham: He said he's willing to pay it off. It's only fifteen hundred.

H.M.Jr: Is it for his business or against the stock?

Upham: I think it's against the stock.

- H.M.Jr: If it's against his stock he can pay the loan off when he sells the stock.
- Upham: The only thing Mr. Diggs suggested to be taken up with you is a matter of patronage.
- H.M.Jr: Take it there (pointing to Mr. Gibbons), will you please? Discuss it with Steve first.
- Upham: All right.
- H.M.Jr: (Explains to Mrs. Klotz, in low tone, that Messrs. Upham, Diggs, and Smythe will meet every morning and Mr. Upham will report to the 9:30 conference.)
- Taylor: I didn't know there was any (patronage) in the Comptroller's office.
- H.M.Jr: You and George are both pure economists.
- Haas: Unadulterated.
- Taylor: And that quotation of Steve's goes with it. (Laughter)
- H.M.Jr: All right.
- Upham: Only one thing from F. D. I. C., which Mr. Crowley prefers to tell you himself. As I told you, he's going to try to see you today or tomorrow. They made some changes in bank examination practices over there. I know about it, but he wants to tell you.
- H.M.Jr: Get him at ten forty-five.
- Upham: Tomorrow?
- H.M.Jr: Today. (Over telephone) See if Mr. Leo Crowley can come in at ten forty-five.
- Now, is Diggs willing, and as I suggested - Crowley want this fellow?
- Upham: Yes, he likes Smythe very much. We discussed two or three things this morning. In the first place this man is an employee of the Corporation - not of the Treasury, and is on their payroll, and all that, but we see no difficulty about that. He's very willing, and Smythe is.

H.M.Jr: How's Smythe?

Upham: He's willing to do anything you want him to do.
He is willing to do anything you want him to do.

H.M.Jr: (Over telephone.) Hello. Well, leave word I called
him, and have Mr. Smythe out in Kieley's room in
about five minutes.

Upham: He's with Diggs.

H.M.Jr: (Over telephone.) He's with Diggs - Smythe. I'd
like to have him there at ten o'clock.

Oliphant: You say Smythe is to be on F. D. I. C. roll?

H.M.Jr: Yeah.

McReynolds: That's where Diggs was before he came over here.
He's taking his place.

H.M.Jr: What?

Oliphant: Nothing. I was just getting the picture.

H.M.Jr: Well, it's really up to them to write the rules
and regulations.

Oliphant: You've got the problem of giving them access to
Treasury records.

Upham: They have a sort of Senatorial courtesy over
there. If the Comptroller wants him appointed
the other directors will be perfectly agreeable.

H.M.Jr: What else?

Upham: That's all.

H.M.Jr: You think it's going to work out all right?

Oliphant: Does his oath of office at F. D. I. C. give him
access to Treasury records?

McReynolds: No, it does not.

H.M.Jr: He doesn't have to have access to them. It's the
other way around; we want access to the F. D. I. C.
records.

Incidentally, I thought Jesse went way out of his way to criticize bank examinations yesterday. Unnecessarily. Bad taste.

Gaston: He's done it several times in interviews and press conferences.

McReynolds: He did it on the air last night.

H.M.Jr: Yes sir. He didn't do it?

McReynolds: He did. Very definitely. I listened to it.

H.M.Jr: He sent me his speech.

You all right?

Upham: Yes.

H.M.Jr: Mac?

McReynolds: No.

H.M.Jr: Yes. Cement.

McReynolds: Oh, you wanted - we sent Harry back yesterday.

H.M.Jr: Who's Harry?

McReynolds: Collins.

H.M.Jr: Oh, Oliphant's friend.

McReynolds: And I talked to him a while after you left, and he went back to dig up, as rapidly as he could, the information on these cases that could be put out on bids. Of course, if you're going to have definite quantities you've got to know where you're going to use them and how much you're going to use. And he went back with all of his organization.

H.M.Jr: When are you boys going to be ready?

McReynolds: I told him to report to me daily.

H.M.Jr: Well, say, as soon as you are ready, will you let Mrs. Klotz know, so I can see you?

McReynolds: Yes sir.

Oliphant: Reclamation is about ready with six million barrels.

H.M.Jr: Well, I am waiting on you fellows.

McReynolds: Well, that is a special project, and that's easy. They'll ask for that on indefinite quantity basis, unquestionably.

H.M.Jr: Well, the next move is up to you, and you might find out if Peoples is in town.

McReynolds: I had word he hadn't called yet, before I came in here.

H.M.Jr: Any after thoughts?

All right.

April 19, 1938.
10:33 a.m.

H.M.Jr: Hello.

Operator: Mr. Jones.

H.M.Jr: Hello.

Jesse
Jones: Good morning.

H.M.Jr: Hello, Jesse.

J: How are you?

H.M.Jr: Oh, ah, all right.

J: I got your call - after getting home yesterday.

H.M.Jr: Yeah.

J: And

H.M.Jr: Jesse.

J: Yeah.

H.M.Jr: Can you come around about fifteen minutes ahead of time today?

J: About a quarter of one.

H.M.Jr: One, yes.

J: I'll do that.

H.M.Jr: There's something I want to talk to you about railroads.

J: Fine.

H.M.Jr: I'd appreciate it.

J: Look forward to seeing you.

H.M.Jr: Thank you.

J: Goodbye.

April 19th, 1938.

Dear Jesse:

While I was out of Washington recently, I sent to the President a draft of a proposed message to Congress and legislation creating a Department of Transportation which would have jurisdiction over all problems involving Federal interest in that subject, and would abolish all other Commissions and Bureaus now exercising such jurisdiction.

The legislative and judicial functions now exercised by the Interstate Commerce Commission and the Maritime Commission would be delegated to a new Board which would be created to assume those duties.

I am sending you a copy of these documents and would be glad to have you give them such study as seems appropriate.

Sincerely,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury

Hon. Jesse H. Jones,
Chairman,
Reconstruction Finance Corporation,
Washington, D. C.

Sent Special 4:45 pm 4/19
to Jesse Jones

TO THE CONGRESS OF THE UNITED STATES:

As I stated in my message of June 7, 1935 to the Congress, it is high time to deal with the nation's transportation as a single unified problem. For many years in the past, transportation meant railroad transportation, but within the past quarter of a century a major change has occurred. Today other forms of transportation, air transport, highway transport, and an expanded system of water and pipe line transport actively compete with and supplement railroad transportation.

It is evident that the transportation problem is a single one in which each of the various forms of transportation have their parts to play. As was pointed out by the Federal Coordinator of Transportation in his report of March 10, 1934 "the problem is to find their appropriate functions, protect them in the performance of such functions, prevent wasteful duplication of service without eliminating such competition as is economically sound, and promote a system of stable rates which will reflect the lowest costs of good service but afford the necessary foundation for credit".

Functions relating to transportation are today scattered among several executive departments, various independent commissions, boards and several Government corporations. These agencies deal with special phases of transportation rather than the transportation problem in its broader national aspect. Not only are their activities uncorrelated

- 2 -

but in many instances they may work at cross purposes. To remedy this situation and avert threatened chaos in our transportation system, I urge that the Congress give immediate consideration to the establishment of a Department of Transportation, charged with the responsibility for the conduct of the various transportation activities of the Federal Government.

I recommend that the various promotional activities of the Federal Government in the field of transportation be transferred to the Department of Transportation and performed under the supervision of the Secretary of Transportation who shall be charged with the formulation of a national transportation policy. I further recommend that there be established in the Department of Transportation a bipartisan board to be known as the Federal Transportation Board, which shall, independently of the Secretary and the President, perform all quasi-judicial and quasi-legislative functions with respect to the transportation industry now performed by any existing agencies of the Government, and such additional regulatory functions with respect to that industry as may be prescribed by law.

A BILL

To establish a Department of Transportation

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there shall be at the seat of government an executive department to be known as the Department of Transportation, and a Secretary of Transportation (hereafter referred to as the "Secretary") who shall be the head thereof, and shall be appointed by the President by and with the advice and consent of the Senate, and shall have a tenure of office and salary like those of the heads of the other executive departments. Section 158 of the Revised Statutes, as amended (U.S.C., 1934 ed., title 5, sec. 1), is amended to include such department, and the provisions of Title IV of the Revised Statutes, including all acts amendatory thereof and supplementary thereto, shall be applicable to such department.

(b) There shall be in the Department of Transportation an Undersecretary of Transportation and two Assistant Secretaries of Transportation, who shall be appointed by the President by and with the advice and consent of the Senate, and a Solicitor, who shall be appointed by the Secretary, all of whom shall exercise such functions as may be prescribed by the Secretary or required by law. The Undersecretary and the Solicitor shall each receive a salary of \$10,000 per annum, and the compensation of the Assistant Secretaries shall be fixed in accordance with the Classification Act of 1923, as amended.

SEC. 2. (a) There is hereby created in the Department of Transportation a Federal Transportation Board (hereafter referred to as the "Board") which shall be composed of sixteen members who shall be appointed by the President by and with the advice and consent of the Senate.

(b) The terms of office of the members first appointed shall expire, as designated by the President at the time of nomination, four at the end of the sixth year, four at the end of the eighth year, four at the end of the tenth year, and four at the end of the twelfth year after the effective date of this section. The terms of office of all successors shall expire twelve years after the expiration of the terms for which their predecessors were appointed; but any member appointed to fill a vacancy occurring prior to the expiration of the term for which his predecessor was appointed shall be appointed only for the unexpired term of his predecessor.

(c) Not more than nine members shall be appointed from the same political party, and each member shall receive an annual salary of \$12,000.

(d) Members of the Board may be removed by the President, after notice and opportunity for public hearing, for inefficiency, neglect of duty, or malfeasance in office, but for no other cause.

(e) Of the members thus appointed, one shall be designated by the President as chairman, and one as vice chairman of the Board.

SEC. 3. (a) The Secretary shall foster, promote, and develop a sound, adequate, and efficient transportation system and shall exercise the functions transferred to him by, or pursuant to, this Act and such other functions as may hereafter be vested in and imposed upon him by law.

(b) The Secretary shall cause a seal of office to be made for the Department of Transportation, of such device as the President shall approve, and judicial notice shall be taken of such seal.

(c) The Secretary shall, annually, at the close of each fiscal year, make a report in writing to the Congress, giving an account of all money received and expended by the Department of Transportation and describing the work done by that Department. He shall also from time to time make such special investigations and reports as he may deem necessary, or as he may be required to make by the President, or by either House of Congress.

(d) The Secretary may delegate to any officer or employee of the Department of Transportation any of the functions conferred or imposed upon him by this Act.

SEC. 4. (a) Within 180 days after the effective date of this section, the President shall transfer by Executive order to the Secretary all functions exercised by the following agencies which are executive in character and the exercise of which is not subject to review by courts of law, and to the Board all functions exercised by such agencies which are quasi-judicial or quasi-legislative in character

- 4 -

and the exercise of which is subject to review by courts of law

The Bureau of Public Roads of the Department of Agriculture,

The Bureau of Air Commerce of the Department of Commerce,

The United States Maritime Commission,

The Division of Transportation of the Bureau of Foreign
and Domestic Commerce of the Department of Commerce,

The Interstate Commerce Commission,

The Lighthouse Service of the Department of Commerce, and

The Bureau of Navigation and Marine Inspection of the
Department of Commerce.

(b) Whenever all of the functions of any agency specified in subsection (a) of this section have been transferred by the President, such agency is hereby abolished.

(c) Such personnel and property (including office equipment and official records) as the President shall determine to have been employed in the exercise of functions transferred to the Secretary or the Board under subsection (a) of this section, may be transferred to the Secretary by the President, upon such dates as he shall specify, by Executive order: Provided, That the transfer of such personnel shall be without change in classification or compensation, except that this requirement shall not operate after the end of the fiscal year during which such transfer is made to prevent the adjustment of classification or compensation to conform to the duties to which such transferred personnel may be assigned: Provided further, That such of the personnel as

transferred who do not already possess a classified civil service status shall not acquire such status by reason of such transfer except (1) upon recommendation of the Secretary within one year after such personnel have been so transferred and certification within such period by the Secretary to the Civil Service Commission that such personnel have served with merit for not less than six months prior to the transfer, and (2) upon passing such suitable noncompetitive examinations as the Civil Service Commission may prescribe.

(d) Such of the unexpended balances of appropriations, available for use by any agency specified in subsection (a) of this section in the exercise of the functions transferred to the Secretary or the Board, as the President shall deem necessary and specify by Executive order, are transferred to the Secretary upon such date as the President shall specify in such Executive order. Such unexpended balances shall be available for use in connection with the exercise of functions transferred to the Secretary or the Board under subsection (a) of this section.

SEC. 5. (a) All orders, rules, regulations, permits or other privileges, made, issued, or granted by, or in respect of, any agency abolished, or function transferred, under the provisions of the foregoing section and in effect at the time of the abolition or transfer, shall continue in effect to the same extent as if such abolition or transfer had not occurred, until modified, superseded, or repealed, by the Secretary or the Board, as the case may be.

- 6 -

(b) No suit, action, or other proceeding lawfully commenced by or against the head of any executive department or independent establishment, or other officer of the United States, in his official capacity or in relation to the discharge of his official duties, shall abate by reason of the abolition of any agency or transfer of any function effected under the provisions of this Act but the court, on motion or supplemental petition filed at any time within twelve months after such abolition or transfer takes effect, showing the necessity for a survival of such suit, action, or other proceeding, to obtain a settlement of the questions involved, may allow the same to be maintained by or against the Secretary or the Board, as the case may be.

(c) All laws relating to any agency abolished or function transferred under the provisions of this Act shall, in so far as such laws are not inapplicable, remain in full force and effect and shall be administered by the Secretary or the Board, as the case may be.

SEC. 6. (a) The Board shall exercise its functions independently of the Secretary and the President. Any order, affirmative or negative, issued by the Board under this Act shall be subject to review by the circuit court of appeals of the United States or the United States Court of Appeals for the District of Columbia, upon petition filed within sixty days after the entry of such order by any person disclosing a substantial interest in such order. After the expiration of said sixty days, a petition may be filed only by leave of court upon a showing of reasonable grounds for failure to file the petition theretofore.

- 7 -

(b) A petition under this section shall be filed in the court for the circuit wherein the petitioner resides or has his principal place of business or in the United States Court of Appeals for the District of Columbia.

(c) A copy of the petition shall, upon filing, be forthwith transmitted to the Board by the clerk of the court and the Board shall thereupon certify and file in the court a transcript of the record, if any, upon which the order complained of was entered.

(d) Upon transmittal of the petition to the Board, the court shall have exclusive jurisdiction to affirm, modify or set aside the order complained of, in whole or in part, and if need be to order further proceedings by the Board. Upon good cause shown, interlocutory relief may be granted by stay of the order or by such mandatory or other relief as may be appropriate: ~~Provided~~, That no interlocutory relief may be granted except upon at least five days' notice to the Board.

(e) The findings of fact by the Board if supported by substantial evidence shall be conclusive. No objection to an order of the Board shall be considered by the court unless such objection shall have been urged before the Board or, if it was not so urged, unless there were reasonable grounds for failure to do so.

(f) The judgment and decree of the court affirming, modifying, enforcing, or setting aside, any such order of the Board shall be final, subject to review by the Supreme Court of the United States upon certification or certiorari as provided in sections 239 and 240 of the Judicial Code.

- 8 -

SEC. 7. There are hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated such sums as may be necessary to carry out the provisions of this Act.

SEC. 8. The term "function" as used in this Act means any right, privilege, power, duty, function, or immunity.

SEC. 9. The provisions of this Act, except this section, section 1, section 2, and section 3, shall become effective sixty days after enactment: ~~Provided~~, That the President shall, if he finds such action necessary or desirable in the public interest, postpone the effective date of any provision of this Act, except this section, section 1, section 2, and section 3, to such time as he shall prescribe, but not beyond the 180th day following the enactment of this Act.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: April 19, 1938

TO Secretary Morgenthau

FROM M. A. Harris

Holding of U. S. Government securities
by the Federal Reserve System

	<u>Amount Owned</u>	<u>Increase (+) or decrease (-) since last Wed.</u>
Treasury Bills	\$ 707,013,000	\$ + 89,277,000
Treasury Notes	1,179,171,000	+ 18,480,000
Treasury Bonds	<u>677,831,000</u>	- 107,757,000
	<u>\$2,564,015,000</u>	

Note: The amount of bills owned is about 39 percent of the amount outstanding.

EMPLOYMENT ON WPA PROJECTS, BY STATE

UNITED STATES AND TERRITORIES

Weeks Ending April 16 and April 9, 1938

(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase (+) or Decrease (-)
	Week Ending Apr. 16, 1938	Week Ending Apr. 9, 1938	
GRAND TOTAL	2,532,448	2,504,483	+ 27,965
CONTINENTAL UNITED STATES	2,530,255	2,502,181	+ 28,074
Alabama	38,380	37,541	+ 839
Arizona	9,267	9,075	+ 192
Arkansas	35,553	35,612	- 59
California - Total	95,766	94,735	+ 1,031
Northern	51,113	50,991	+ 122
Southern	44,653	43,744	+ 904
Colorado	27,732	27,519	+ 213
Connecticut	21,776	21,833	- 57
Delaware	3,324	3,250	+ 74
District of Columbia	8,133	8,150	- 17
Florida	32,511	32,138	+ 373
Georgia	42,398	42,533	- 135
Idaho	11,198	11,511	- 313
Illinois	199,572	199,205	+ 367
Indiana	92,013	88,644	+ 3,369
Iowa	32,597	30,854	+ 1,743
Kansas	35,863	35,727	+ 136
Kentucky	52,920	51,384	+ 1,536
Louisiana	31,636	31,353	+ 283
Maine	7,807	7,573	+ 234
Maryland	12,090	11,971	+ 119
Massachusetts	106,007	106,184	- 177
Michigan	132,848	129,901	+ 2,947
Minnesota	59,479	57,388	+ 2,091
Mississippi	31,116	31,376	- 260
Missouri	90,636	90,349	+ 287
Montana	18,850	18,311	+ 539
Nebraska	28,318	28,255	+ 63
Nevada	2,523	2,601	- 78
New Hampshire	8,708	8,775	- 67
New Jersey	91,732	89,948	+ 1,784
New Mexico	10,015	10,041	- 26
New York City	157,947	156,595	+ 1,352
New York (Excl. N.Y.C.)	53,690	53,514	+ 176
North Carolina	32,712	31,977	+ 735
North Dakota	13,888	14,368	- 480
Ohio	219,859	218,908 ^{A/}	+ 951
Oklahoma	61,470	61,281	+ 189
Oregon	16,720	16,883	- 163
Pennsylvania	228,642	226,744	+ 1,898
Rhode Island	13,356	13,112	+ 244
South Carolina	31,613	31,098	+ 515
South Dakota	15,871	16,353	- 282
Tennessee	31,739	31,346	+ 393
Texas	79,663	78,086	+ 1,577
Utah	10,190	10,364	- 174
Vermont	5,066	5,038	+ 28
Virginia	23,172	22,889	+ 283
Washington	46,726	46,431	+ 295
West Virginia	42,748	42,108	+ 640
Wisconsin	69,827	66,835	+ 2,992
Wyoming	4,588	4,714	- 126
Hawaii	2,193	2,302	- 109

^{A/} Revised.

April 19, 1938

For the Secretary:

The Secretary had as guests for luncheon the following: Mr. Eccles, Mr. Ransom, Mr. Jones, Mr. Myers, Mr. Fahey, Mr. Taylor and Mr. Upham.

Mr. Morgenthau had arranged this luncheon for the purpose of ascertaining the volume of offerings to the investment market by borrowing agencies of the Government up to October 1st. Mr. Jones, Mr. Fahey and Mr. Myers had been requested to submit written memoranda. Mr. Myers submitted the attached written memorandum and there was also the attached letter from the Administrator of the United States Housing Authority.

Mr. Fahey said that the HOLC would not go to the market at all before October 1st. He explained that they have a \$49 million maturity in August but have the money to meet it and it will be paid off.

So far as the Federal Home Loan Bank system is concerned, there is a maturity in mid-summer of about \$25 million which they expect to refund and, in addition, they will need about \$25 million of new money, probably some time in September. He assured the Secretary that \$60 million would be the outside figure that they would be seeking in the market before October 1st.

- 2 -

Mr. Myers stated that neither the Federal Land Banks nor the Federal Farm Mortgage Corporation will be in the market at all. The Federal Intermediate Credit banks will make their monthly offerings of debentures which will aggregate \$154 million, with \$128 million to be retired during the same period, or estimated new money requirements of \$26 million.

Mr. Jones said that he was sure of needing \$175 million for the CCC and that he would enter a guess of \$300 million for the RFC. For that he can go either to the Treasury or to the market. Their needs will be influenced by the state of the bond market. They have some \$200 to \$300 million of good bonds to sell and \$125 to \$150 million of PWA bonds which are not very staple. He said that the RFC will certainly need nothing before the first of July and they may go through the whole year without needing any new money.

Mr. Morgenthau consulted the group present with respect to the problem which he faces of continuing to roll over \$100 million of bills weekly or paying off perhaps \$50 million a week out of the funds on deposit with the Federal Reserve banks as a result of the desterilization of \$1,400 million of gold. Mr. Eccles said that the Reserve System would undoubtedly recommend on tomorrow that the Treasury continue

- 3 -

to roll over \$100 million a week. Mr. Morgenthau said that he did not see how he could with a cash balance of \$2½ billion justify continued borrowing of 90-day money even at an extremely low rate of interest. In addition to possible criticism from the Hill and the banking community of paying out interest needlessly, he said that he thought adherence to the spirit of the President's message in which he asked for an increase of excess reserves would require the Treasury to pay off some of the maturing bills.

Mr. Eccles was of the opinion that not much would be accomplished by increasing excess reserves as long as the present policies of bank examinations and regulations of what investment banks can make are continued in effect. Governor Myers, when asked to express his opinion as to whether bills should be allowed to run off, said that while he does not know a great deal about it, his offhand judgment is to reduce the weekly offering to \$50 million.

Mr. Morgenthau said that ever since he had been here, he had followed the practice of borrowing when he needed the money and had never yielded to the suggestion that he accumulate money in advance because the time for borrowing seemed especially favorable. Mr. Taylor expressed the opinion that

- 4 -

he should continue to roll over the full \$100 million each week and he referred to heavy maturities in March and June, 1939. Mr. Morgenthau replied that he didn't see that the March and June, 1939 maturities had anything to do with borrowing money now or not. He agreed that so far as the June, 1938 notes are concerned, they should probably be refunded into a maturity of five years³ or longer, if possible.

The Secretary said that he saw no point in desterilizing gold in the Treasury and permitting it to remain sterilized in the Federal Reserve Board. The President wanted excess reserves created. Excess reserves are not created until the money is spent and gets into the banks. Mr. Eccles said that if bills were not removed, those maturing bills held by the Federal Reserve System would either have to be replaced through the purchase of bonds or the decline in their portfolio would offset the previous increases in excess reserves. They have disposed of a good many bills during the past week and are now faced with the necessity of buying bonds or permitting their portfolio to be reduced, which would subject them to criticism. Mr. Eccles stressed the psychological benefit which has already resulted from the desterilization of gold and the increase in excess reserves and was inclined

- 5 -

to minimize the necessity for paying out the reduced bill volume. Mr. Morgenthau pointed out that it would reduce the debt during the summer months but that the debt would undoubtedly rise again in the fall when it became necessary to go to the market again for new money. Mr. Ransom advanced the suggestion that it might be psychologically bad to permit the debt to go down now and have to increase it again in the fall.

Mr. Jones was of the opinion that since the RFC and some of the other agencies are going to be spending more money than ordinarily this summer, the Treasury might let some of its bills run off. Mr. Eccles agreed that if the RFC and FCA offset the \$50 million a week drop, it might be all right. Mr. Jones agreed that he would be putting out \$150 million within the next couple of weeks. Mr. Jones was of the opinion that the Secretary wouldn't have much difficulty explaining his action even if he continued the full \$100 million, but as a matter of fact, it wouldn't make much difference since the rate is ridiculously low anyway.

Mr. Eccles thought the Secretary could justify continuing \$100 million a week and the maintenance of a high cash balance "in anticipation of spending." Mr. Morgenthau pointed out

- 6 -

in reply that borrowing money for 90 days is not "in anticipation of spending" because we have much more than we could possibly spend in the next 90 days. Mr. Jones told the Secretary that if he even slightly preferred to cut the weekly offering down to \$50 million, he could because it doesn't make much difference anyway.

Mr. Morgenthau said that if the theory which had been advanced to the President and upon which he took his action was any good, it might result in the banks "getting mad and lending." Mr. Eccles insisted that it is not that banks are unwilling to lend. That is not the difficulty.

There was then considerable discussion of bank examination and the necessity for concentrating Federal Government bank examination functions in one agency. There was a difference of opinion between Mr. Morgenthau and Mr. Eccles as to the theory of bank examinations. Mr. Eccles held to the view that bank examiners should loosen up in times of depression and tighten down in good times. Mr. Morgenthau, on the other hand, advanced the view that standards of bank soundness as applied by bank examiners should be uniform in good times and bad and not take into account the position of the business cycles or prices.

- 7 -

Mr. Jones was inclined to the view that bank examiners are excessively severe in their criticisms of bank loans. Mr. Eccles said that there is too much emphasis upon liquidity and that now with the Federal Reserve in a position to re-discount practically any asset that a bank has in its possession "if we could only get the bankers to make loans and depend upon rediscounting facilities of the Federal Reserve banks for liquidity", we should not have so much difficulty.

Upm

Enclosures

April 19, 1938

FHLBks

30 million turnover in June
25 million new money in Sept.

FICB

128 million turnover to Oct. 1
26 million new money to Oct. 1

USHA

125 million new money to Oct. 1
(to be marketed through Treasury)

CCC

175 million (?)

RFC

300 million (Treasury or market)

DEPARTMENT OF THE INTERIOR
 UNITED STATES HOUSING AUTHORITY
 WASHINGTON

April 19, 1938

My dear Secretary Morgenthau:

In response to your request I am submitting an estimate of the funds which the United States Housing Authority will require for disbursement to the localities through December 31, 1938.

These estimates are based upon the enlarged program of earmarkings and contracts which will result in the event that the President's recommendation for increasing the United States Housing Authority's program is enacted by the Congress.

With such an expansion, our needs for the calendar year 1938 will be approximately as follows:

Up to June 30, 1938	\$ 25,000,000
July 1 through Sept. 30, 1938	100,000,000
Oct. 1 through Dec. 31, 1938	<u>175,000,000</u>
TOTAL	<u>\$300,000,000</u>

The method provided in the United States Housing Act for raising such funds is through the sale of guaranteed United States Housing Authority bonds. In accordance with my letter to you of April 9, we are anticipating that the Treasury will handle the marketing of our bonds for us in \$50,000,000 blocks. It is our understanding also that the Treasury is prepared, pending the marketing of such bonds, to advance to us from time to time funds up to a ceiling of \$25,000,000 upon interim notes to meet current disbursements.

Faithfully yours,

Nathan Straus
 NATHAN STRAUS,
 Administrator.

The Honorable,

The Secretary of the Treasury.

*Thos Klotz
 ccly.
 . Taylor*

RECEIVED
 APR 23 1938
 DEPT. OF THE INTERIOR

DEPARTMENT OF THE INTERIOR
 UNITED STATES HOUSING AUTHORITY
 WASHINGTON

April 19, 1938

My dear Secretary Morgenthau:

In response to your request I am submitting an estimate of the funds which the United States Housing Authority will require for disbursement to the localities through December 31, 1938.

These estimates are based upon the enlarged program of earmarkings and contracts which will result in the event that the President's recommendation for increasing the United States Housing Authority's program is enacted by the Congress.

With such an expansion, our needs for the calendar year 1938 will be approximately as follows:

Up to June 30, 1938	\$ 25,000,000
July 1 through Sept. 30, 1938	100,000,000
Oct. 1 through Dec. 31, 1938	<u>175,000,000</u>
TOTAL	<u>\$300,000,000</u>

The method provided in the United States Housing Act for raising such funds is through the sale of guaranteed United States Housing Authority bonds. In accordance with my letter to you of April 9, we are anticipating that the Treasury will handle the marketing of our bonds for us in \$50,000,000 blocks. It is our understanding also that the Treasury is prepared, pending the marketing of such bonds, to advance to us from time to time funds up to a ceiling of \$25,000,000 upon interim notes to meet current disbursements.

Faithfully yours,

RECEIVED DEPARTMENT OF THE INTERIOR
 NATHAN STRAUS,
 Administrator.
 1938 APR 19 10 23

The Honorable,

The Secretary of the Treasury.

RECEIVED DEPARTMENT OF THE INTERIOR
 OFFICE

FEDERAL INTERMEDIATE CREDIT BANKS

Estimated offerings and retirements of debentures and
estimated new money requirements, April 18 to October 1, 1938

<u>Month</u>	<u>Estimated offering</u>	<u>Estimated retirement</u>	<u>Estimated new money requirements</u>
May 5 - 6	\$ 32,750,000	\$ 26,750,000	\$ 6,000,000
June	27,850,000	22,850,000	5,000,000
July	34,450,000	26,450,000	8,000,000
August	26,200,000	22,200,000	4,000,000
September	<u>32,850,000</u>	<u>29,850,000</u>	<u>3,000,000</u>
Total	\$154,100,000	\$128,100,000	\$26,000,000

April 19, 1938

330

My dear Mr. President:

For your information, I am
inclosing a copy of my letter to
Congressman Doughton.

Sincerely yours,

The President,
The White House.

APR 19 1938

My dear Mr. Doughton:

Mr. Magill has told me of his recent conversation with you with respect to Senator Borah's amendment to the Bill, H.R. 9682 "To provide revenue, equalize taxation, and for other purposes". As I understand Senator Borah's amendment, it would remove the federal income tax exemption from future obligations of the United States and obligations of corporations organized under an act of Congress.

As you know, the President contemplates transmitting a message to the Congress in the near future relating to the whole subject of reciprocal nondiscriminatory taxation of interest and salary payments made by the Federal Government and by the States and their political subdivisions. Senator Borah's amendment deals with only one phase of this general subject, and in my judgment it would be preferable that this important matter receive comprehensive rather than such piecemeal treatment.

Very truly yours,

Secretary of the Treasury

Hon. Robert L. Doughton,
Chairman, Hays and Means Committee,
House of Representatives.

LCA/HO:met
4-18-38

Signed April 19, 1938

March 11, 1938

332

CONTINGENT LIABILITY OF THE U. S. STABILIZATION FUND

Reference is made to press statement of September 25, 1936, reaffirming the policy of the United States with regard to maintaining the greatest possible equilibrium in the system of international exchange, for the purpose of stabilizing the exchange value of the dollar in accordance with the authority vested in the Secretary of the Treasury under Section 10 of the Gold Reserve Act of 1934.

Reference is also made to press statements announcing the conditions under which the United States would buy and sell gold, and naming the following countries as complying with the conditions specified, which are known as members of or adherents to the Tripartite Agreement:

<u>Date of Press Statement</u>	<u>Country</u>
October 12, 1936	England
October 12, 1936	France
November 23, 1936	The Netherlands
November 23, 1936	Belgium
November 23, 1936	Switzerland

Of the above-mentioned countries only two have operated in foreign exchange in this market. The Bank of France gives daily orders to buy and sell francs for account of the French Stabilization Fund and De Nederlandsche Bank from time to time has given orders to sell guilders for the Dutch Fund.

When exchange is bought or sold in accordance with instructions of members or adherents to the Tripartite Agreement, the Secretary has ruled that such transactions are contingent liabilities of the U. S. Stabilization Fund which are executed by the Federal Reserve Bank of New York as Fiscal Agent of the United States Treasury.

-3-

Upon the purchase of exchange for one of the above-mentioned countries, the Federal Reserve Bank of New York makes the following entries on their books in the account of the U. S. Stabilization Fund representing its contingent liability:

Debit - "Special Foreign Exchange Purchases Contracted for Spot Delivery."

Credit - "Liability for Purchases Contracted for Spot Delivery - Special."

When sales are effected the following entries are made:

Debit - "Due for Special Sales for Spot Delivery - Foreign Exchange."

Credit - "Special Sales for Spot Delivery - Foreign Exchange."

Upon delivery of the exchange under the contracts the above entries are reversed.

When purchases or sales of exchange are made, a contingent liability is created, inasmuch as the purchaser or seller may not fulfill their contract. While the total amount of the purchase or sale contract is entered in the above-mentioned contingent liability accounts, the actual liability, if the purchaser or seller fell down completely on his contract, would be only for the amount represented between the contract price and the price to replace the defaulted contract.

Another contingent liability incurred by the U. S. Stabilization Fund in connection with the purchases and sales of exchange is its agreement to buy or sell gold under the terms of the Tripartite Agreement. No contingent liability entries are made by the Federal Reserve Bank of New York due to the fact that at the time the exchange contracts are entered into it is not known

-3-

whether the bank issuing the instructions to operate in the exchange market will want to release gold to procure dollars to pay for the purchase or will want to convert the dollars received into gold in the case of sales. However, the U. S. Stabilization Fund is willing to purchase gold from or sell gold to the countries previously mentioned, providing such transactions arise out of exchange operations in this market as long as the terms of the Tripartite Agreement are in force.

Signed by

H. M. P.

April 19, 1938.

April 19, 1933.

Dear Mr. Diggs:

Thank you for your letter of April 15th,
which encloses copies of correspondence exchanged
between the President and your office.

I appreciate your bringing to my attention
the decision reached by the office of the Comptroller
of the Currency, and I am glad to have the full
correspondence for my record.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Marshall R. Diggs,
Acting Comptroller of the Currency,
Treasury Department,
Washington, D. C.

GZF/dbs



TREASURY DEPARTMENT

COMPTROLLER OF THE CURRENCY

WASHINGTON

ADDRESS REPLY TO
"COMPTROLLER OF THE CURRENCY"

April 15, 1938

My dear Mr. Secretary:

I am enclosing for your information copy of the letter from the President to me in connection with the matter of the eligibility of bonds to be issued by local housing authorities for purchase by national banks for their own account, and copy of my letter to the President, advising him of the position that this office has taken in the matter.

Respectfully,

Marshall R. Diggs
MARSHALL R. DIGGS
Acting Comptroller of the Currency

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury

Encls.

C O P Y

337

THE WHITE HOUSE

WASHINGTON

April 8, 1938

My dear Mr. Diggs:

I am advised that the Administrator of the United States Housing Authority has submitted for your determination a question concerning the eligibility of bonds to be issued by local housing authorities for purchase by national banks for their own account.

Under the United States Housing Act of 1937, the United States Housing Authority is authorized to give financial assistance to local housing authorities in the form of loans to assist in the development of low-rent housing projects and annual contributions or grants to assist in the achievement of low rentals. When a project is aided by a subsidy, the Act limits the amount of the Federal loan to 90 per cent of the original development cost of the project, so that the local housing authority must raise the remaining 10 per cent of the project cost.

It is expected that this 10 per cent local participation will be most often obtained through the sale of local authority bonds to purchasers other than the United States Housing Authority. It is desirable, insofar as legally feasible, that every potential channel for the sale and resale of these bonds be made available, in order to attract presently idle private capital and to obviate unnecessary delays in the building program under the United States Housing Act.

Your early determination of this question will be of great assistance to the United States Housing Authority in the formulation and development of its future policies.

Very sincerely yours,

(S) Franklin D. Roosevelt

Honorable Marshall Diggs,
Acting Comptroller of the Currency,
Treasury Department,
Washington, D.C.

C O P Y

338



TREASURY DEPARTMENT

COMPTROLLER OF THE CURRENCY

WASHINGTON

ADDRESS REPLY TO
"COMPTROLLER OF THE CURRENCY"

April 15, 1938

My dear Mr. President:

I have your letter of April 8, 1938, concerning the question of the eligibility of bonds to be issued by local housing authorities for purchase by national banks for their own account.

Representatives of the United States Housing Authority and this office have conferred on the matter and, as a result thereof, I am advising the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, Chief National Bank Examiners, national bank examiners and national banks, that it is the opinion of the office of the Comptroller of the Currency that the bonds, notes and debentures issued by public housing agencies under the provisions of the United States Housing Act of 1937, which represent the 10% local participation in the cost of low-rent housing or slum-clearance projects, are eligible for purchase by national banks for their own account. This determination of the question presented is satisfactory to the United States Housing Authority and will assist the Authority in the formulation and development of its future policies.

This office has recently been presented with a similar problem in connection with loans and advances made under the provisions of Title I of the National Housing Act Amendments of 1938 where such loans are secured by liens upon real estate. In cooperation with representatives of the Federal Housing Administration a solution has likewise been found for this question. The Federal Housing Administration, Chief National Bank Examiners and national bank examiners have been advised that it is the opinion of the office of the Comptroller of the Currency that insured loans and advances made under Title I of the National Housing Act Amendments of 1938 should not be classified as real estate loans subject to the provisions of Section 24 of the Federal Reserve Act, as amended. As in the case of the problem presented by the United States Housing Authority, this determination is satisfactory to the Federal Housing Administration.

Respectfully,

(S) Marshall R. Diggs

MARSHALL R. DIGGS
Acting Comptroller of the Currency

The Honorable,
The President of the United States
The White House

TREASURY DEPARTMENT
Office of the Comptroller of the
Currency

339

April 15, 1938.

TO THE BANK ADDRESSED:

A question has arisen as to whether bonds, notes or debentures issued by public housing agencies under the provisions of the United States Housing Act of 1937, and representing the 10% local participation in the cost of low-rent housing or slum-clearance projects provided by the public housing agency, are "marketable obligations" within the meaning of that term as used in the seventh paragraph of Section 5136 of the Revised Statutes, as amended. A public housing agency is defined in the United States Housing Act of 1937 as any state, county, municipality or other governmental entity or public body (excluding the United States Housing Authority) which is authorized to engage in the development or administration of low-rent housing or slum-clearance projects.

In the Comptroller's regulations covering the purchase of investment securities, promulgated February 15, 1936, certain prerequisites are established for determining whether a given security is marketable. The bonds, notes, or debentures of the public housing agencies referred to in the United States Housing Act of 1937, differ from the usual type of investment securities provided for in the regulations, because of certain special features attaching thereto under the provisions of the said act.

The United States Housing Authority makes an annual contribution to the public housing agency to assist in maintaining the low-rent character of such project substantially adequate to assure the servicing and retiring of the bonds, notes and debentures issued by the said agency, which are held by

- 2 -

local private interests. The United States Housing Authority purchases the notes, bonds or debentures issued in each such project in amounts up to 90% of the cost of acquisition and development of the project. The project is tax exempt under local law. The faith of the United States is pledged to the payment of all annual contributions contracted for pursuant to law, and there is authorized to be appropriated in each fiscal year out of any money in the Treasury not otherwise appropriated, the amounts necessary to provide for such payment.

In view of the above, it is the opinion of this office that the bonds, notes or debentures issued by public housing agencies, and representing the 10% local participation in the cost of such projects, are, by reason of the special features attaching thereto under the provisions of the United States Housing Act of 1937, "marketable obligations" within the meaning of that term as used in the seventh paragraph of Section 5136 of the Revised Statutes, as amended, and that the provisions of the Comptroller's regulations covering the purchase of investment securities, providing certain prerequisites for determining whether a given security is marketable, are not applicable to such bonds, notes or debentures.

Respectfully,

J. F. T. O'CONNOR,

Comptroller of the Currency.

FOR IMMEDIATE RELEASE
Friday, April 8, 1938

J. F. T. O'CONNOR, COMPTROLLER OF THE CURRENCY TODAY
ANNOUNCES THAT THE FOLLOWING LETTER HAS BEEN SENT TO ALL NA-
TIONAL BANK EXAMINERS.

Reference is herewith made to loans and advances of credit or purchases of obligations representing loans and advances of credit made by national banks and insured under the provisions of Title I of the "National Housing Act Amendments of 1938", approved February 3, 1938.

The regulations issued by Federal Housing Administration, revised and effective as of March 28, 1938, do not require national banks making such loans or advances of credit to take any security therefor. It has been brought to the attention of this office that national banks making such loans or advances of credit may desire, in most cases, to take security in the form of a mortgage or deed of trust.

These insured Title I loans are based upon the character and earning power of the borrower and the protection afforded the bank by the insurance of such loans under the provisions of the National Housing Act. The regulations issued by the Federal Housing Administration provide that loans and advances of credit or purchases of obligations representing loans and advances of credit in excess of \$2500 00 to any individual borrower, may be accepted for insurance only if such loans and advances are made for the purpose of financing repairs, alterations, or improvements upon or in connection with existing structures and have the prior approval of the Federal Housing Administrator.

In view of the above, you are advised that this office is of the opinion that insured loans and advances of credit and purchases of obligations representing loans and advances of credit made under Title I of the "National Housing Act Amendments of 1938" should not be classified as real estate loans subject to the provisions of Section 24 of the Federal Reserve Act, as amended, even though security therefor be taken by the national bank in the form of a mortgage or deed of trust.

REB

PLAIN

London

Dated April 19, 1938

Rec'd 2:50 p. m.

Secretary of State,
Washington.

324, April 19, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

1. Most London newspapers have carried an editorial during the past few days entitled PRIMING THE PUMP. These comments add little to that reported in paragraph two my 307, April 13, 6 p. m. The city likewise takes the view that something had to be done and that government spending will certainly halt the decline and produce an upturn in activity but it would agree with the DAILY TELEGRAPH that "The ultimate success of the new proposals will be determined by the readiness of the President and the business community to compose their unhappy quarrel." Since British stock holdings in America will be favorably affected and since it is the American not the British debt structure that will be increased the city welcomes the improvement which an expansionist policy may bring; one section of it hopes to sell before a decline should develop but the more thoughtful element would agree with the

REB

2-#324, From London, April 19, 7p.m.

the MANCHESTER GUARDIAN that "It is devoutly to be hoped not only for the sake of the United States but for that of ^{the rest} of the world which economically is so closely bound up with it that Mr. Roosevelt's efforts will not be in vain."

2. The British overseas trade returns for March and for the first quarter of 1938 reflect on the one hand continued abnormal demand for rearmament materials though at a slowing rate of increase and on the other an accelerating deterioration in purchasing power for consumers goods in export markets. The slowing in the rate of increase in imports was due not only to the declining purchases of such products as textile materials for the increasingly depressed cotton wool and jute et cetera industries but also to a less rapid increase in imports of actual defense materials. Furthermore the reimposition of higher duties on iron and steel from April 1 with the British iron and steel industries now sufficient capacity to meet practically all of the demand could be expected further to accentuate this trend. However the first quarter of 1938 supplies no sure basis for predicting the immediate future of British overseas trade because of the whole new set of influences

which

REB

3-#324, From London, April 19, 7p.m.

which have now entered into the domestic and the international situations. The announced speed-up of British rearmament, the changed situation in France, the Anglo-Italian agreement and expectations of some improvement in the United States will all influence the future trend. These new influences point to a continued though probably more gradual increase in imports and to a problematical and probably somewhat delayed increase in exports which if it eventuates may or may not be sufficient to offset the growth in imports and hold the adverse trade balance in the neighborhood of last year's figure. Contrary to the market's expectations the dollar has been bid today on covering. The volume of trading has been small in both francs and dollars. The French control has held the rate between 158.15 -25. Incidentally coin quotations are moving towards melting value.

KENNEDY

CSB

April 19, 1938.
3:03 p.m.

H.M.Jr: George.

George
Haas: Yes.

H.M.Jr: You got a pencil?

H: Yes sir.

H.M.Jr: Well, I want you to make the following your
Number One study program.

H: Yes sir.

H.M.Jr: I'm telling the same thing to White.

H: Uh huh.

H.M.Jr: If the program, as outlined in the President's
message to Congress

H: Yeah.

H.M.Jr: should fail to catch

H: Yeah.

H.M.Jr: ... what should I recommend...

H: Yeah.

H.M.Jr: ... as Secretary of the Treasury...

H: Yeah.

H.M.Jr: ... to take its place? And - see?

H: Uh huh.

H.M.Jr: I want that as Number One.

H: Yeah.

H.M.Jr: O. K?

H: Yeah, I've got it.

H.M.Jr: All right.

H: On this other point you talked to me yesterday, I'll be ready in a little while on that.

H.M.Jr: What's that?

H: You know you asked about things that, ah, we thought we should be working on it more.

H.M.Jr: Oh yes.

H: I think there's a real point there that, ah

H.M.Jr: Well, this is number one.

H: Yeah. O. K.

H.M.Jr: Number one.

H: We'll go on this. Say, Mr. Secretary.

H.M.Jr: I didn't hear you, George.

H: Ah, Mr. Secretary, on your bill proposition.

H.M.Jr: Yeah.

H: Ah, we were working on another alternative.

H.M.Jr: O. K.

H: Ah

H.M.Jr: You can let me know.

H: If it - if it shows up anything I'll send it out if you want it tonight.

H.M.Jr: O. K.

H: O. K. Fine.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 19, 1938, 4 p.m.

NO.: 622

FROM COCHRAN.

This morning I called at the Bank of France. The French stabilization fund at the opening of business this morning contained in gold and foreign exchange 3,577,000,000 francs. The control allowed the sterling rate to move from 158.10 to around 20 and 25. Confidential information has come to me that it is not likely to be the immediate policy of the control to permit the franc to strengthen much beyond this point. In part the reason for this decision is the influence in the steering committee, the Cabinet, of Ministers Reynaud and Patenotre, who believe that as cheap a franc as that represented by current rates is needed by France. Therefore, if present tendencies continue to prevail, the French control should be able to acquire important amounts of foreign exchange and gold.

Traders were much encouraged by practical termination over the Easter holidays of the serious strike in the Paris metallurgical industries. Rentes are up around one and one-half francs. The fixation against sterling is at a discount of only about two and five-eighths for three months. Guaranty Trust acting for French control had

acquired

- 2 -

acquired \$950,000 by 3:30 this afternoon at from 31.595 to 31.6125. Traders noted, however, that there was some short covering in dollars here by banks which had gone short last week, namely, Indo-Chine and Lazard. Swedish franc, belga and to a lesser extent Dutch florin have all weakened against the franc today. French optimism should recover further when French control begins to draw gold to France.

Political developments should also help the general situation, bankers stressing the importance of the coming visit of French statesmen to London, the negotiation of a Franco-Italian treaty and the prospects for Anglo-German rapprochement.

Today at the time I visited Pennachio of the Bank of Italy, he was not happy over the apparent inclination of the French to attempt to do some sharp bargaining with Italy in the political negotiations. With reference to my telegrams No. 436 of March 19 and No. 538 of April 5: According to Pennachio, this sort of tactics on the part of France had made difficult the trade negotiations between France and Italy. He said that he felt Italy has been quite reasonable in its negotiations with the British, and that the best all around results would be achieved if only dealings of a similarly generous character would be permitted by France.

Re my

- 3 -

Re my telegram No. 566 of April 8 containing Spanish gold report. Confidential information has now come to me that one of the last things Blum did as Premier was to try to free the Mont de Marsan Spanish gold to the authorities of the Spanish Republic. When he could not get Governor Fournier of the Bank of France to release the gold, Blum had the Council of the Bank vote on the question, which was defeated by a vote of 8 to 7. This defeat was brought about in spite of the influence of Jouhaux as a member of the board, and notwithstanding the orders it is understood were given by the Government to its board officials to vote for the proposal. Blum's proposal having failed, Governor Fournier was notified at half-past three on the eighth of April that he was to appear in court at five o'clock that same evening to defend his position on the Spanish gold; this was the night of the same day on which the Blum Government fell. The court continued until the eleventh of April discussion of the case. The Republican Spanish Government's lawyer presented a letter in which Labeyrie, former Bank of France Governor, had undertaken to make available to the Spanish Republican authorities whenever they might ask for it all or any part of the Spanish gold at Mont de Marsan. On the thirteenth of April the court gave a decision to the effect that in the premises it was incompetent to pass judgment. Therefore a higher court will have to consider the case,

and

- 4 -

and more time for preparation of its defense will be available to the Bank of France.

END OF MESSAGE.

WILSON.

RECEIVED
WEL: LNW

APR 20 1938

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON, D. C.