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Conference on Question of Transfer of  
Earmarked Gold Between Accounts of  
Foreign Central Banks Having Gold  
Earmarked with Federal Reserve Bank of New York

January 26, 1937  
10:00 A.M.

Present: Mr. Oliphant  
Mr. Opper  
Dr. Williams  
Mr. Taylor  
Mr. Knoke  
Mr. Cochran  
Dr. O. M. W. Sprague  
Mr. Haas  
Mr. White  
Mr. Lochhead  
Mr. Upham  
Mr. Bell  
Mr. Harrison  
Mr. Livesey  
Dr. Goldenweiser

H.M.Jr: Well, Wayne, can you tell me what ground you covered yesterday?

Taylor: Well, I wouldn't dare to attempt to tell you that.

H.M.Jr: Couldn't you fellows come closer? I'm not going to bite anybody.

Taylor: There were two general conclusions reached. First, that it was desirable to continue earmarking for members and non-members.

H.M.Jr: For members...

Taylor: ...and non-members.

(Ash tray is handed to Dr. Sprague)

H.M.Jr: It's silver from China and I don't know how you'd feel about it.

Sprague: What's that?

H.M.Jr: It's Chinese silver - the ash tray.



Sprague: Oh well, I've long been urging the silver people to devise means of making more use for silver.

H.M.Jr: Well, now you're contributing to it. Go ahead, Wayne.

Taylor: Second, that transfer of earmarks as applied to members of the group....

H.M.Jr: Well, you better start over again. What was the first thing?

Taylor: That earmarking for members and non-members is desirable; in other words, a continuation of the situation which now exists. Second, that transfers of earmarks between members of the group is desirable. As to the details of how that shall be handled, there is not agreement.

H.M.Jr: Now, did Dr. Feis send over a memorandum? Does anybody know?

Lochhead: I haven't seen any memorandum from him. Left yesterday afternoon and Mr. Livesey came over. We haven't seen him since noon.

Cochran: Livesey is coming.

H.M.Jr: This morning? Is he coming this morning?

Cochran: Yes. Feis couldn't.

H.M.Jr: The recommendation is continue the earmarking as is. Is that right? And then the second is that we permit tripartite members to transfer earmarked gold in America between themselves. Is that it?

Taylor: As to the method, there is not agreement, and as to cases like Sweden, the B.I.S., there is also not agreement.

(Livesey comes in)

H.M.Jr: Do you have a memorandum from Dr. Feis?

Livesey: A memorandum addressed to the Secretary, just reviewing these proceedings.

H.M.Jr: Any suggestions?

Livesey: Merely on the neutrality question. That is, it ought to be kept out of this discussion here, but perhaps it might be advisable if we could get this group to consider the financial phases, the monetary question, within the framework of the Secretary of State handling the matter with the President, etc. But nothing on this direct question, except with reference to neutrality. I can show you what he said. (Hands memo to Secretary) The rest is a summary.

H.M.Jr: Thank you. (Reads memo) Well....

Taylor: Excuse me. That doesn't mean that these various other aspects were not discussed, but there was no progress between the two points which I mentioned.

H.M.Jr: Well, let's go on to one which we didn't discuss yesterday as far as I was concerned. Let's take up this question of the B.I.S. Who can present what they want?

Cochran: I have a whole list of questions.

H.M.Jr: Will you please?

Cochran: Yes, sir. This is a memorandum that Beyen sent the morning I left. I told him I was coming over and I had been there about a week before I came, and they had raised some of these questions at that time that I mentioned in my cablegram, and they have summarized them all here.

He said: "Questions of Principle Which Can Arise Concerning the Future Gold Operations of the B.I.S. in New York.

"With a view to simplifying the presentation of the problems that can arise in the administration of the gold accounts held by the B.I.S. in New York, details of the operations are set forth below in their logical sequence.

"I. Constitution at the Federal Reserve Bank of New

York of deposits of gold earmarked in the name of the B.I.S.

"A. Ownership of the gold. There are three possible hypotheses. The gold may be:

- 1. The property of the B.I.S.;
- 2. The property of a central bank which is a member of or adheres to the tripartite agreement;
- 3. The property of another central bank or an official institution with which the B.I.S. is authorized to deal.

"B. Possible means of depositing the gold in question:

- 1. By actual shipment to the United States;
- 2. By transfer to the B.I.S. of gold already earmarked by the Federal Reserve Bank for account of a third party.

"We would point out that this third party could be either a central bank which is a member of or adheres to the tripartite agreement, or another central bank or an official institution of the type referred to above.

"II. Employment of these accounts.

"1. Movements within the accounts of gold depositors in the books of the B.I.S.

- A. The B.I.S. effects purchases and sales, between the various owners, of the gold earmarked in its name in New York, either of the whole or part of their deposits.
- B. A central bank, owner of gold earmarked in the name of the B.I.S., sells the whole or part of the gold in question to another owner of gold deposited on the same conditions. Here again it should be noted that the latter could be a central bank, which is

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a member of or adheres to the tripartite agreement, another central bank, or an official institution of the type referred to above.

"It may be observed that in such transactions, since the gold in question is in any case earmarked at the Federal Reserve Bank in the name of the B.I.S., the transfers of ownership between customers of the B.I.S. do not necessarily entail actual changes in the deposit of gold appearing in the books of the Federal Reserve Bank in the name of the B.I.S.

"2. Movements outside these accounts. The gold held by the Federal Reserve Bank in the name of the B.I.S. may be withdrawn by the latter for the following purposes:

- A. Transfer on the books of the Federal Reserve Bank from the account of the B.I.S. to that of another central bank or institution for its own account.
  - (a) Members of or adherents to the tripartite agreement.
  - (b) Other central banks or official institutions.
- B. Sale to the American Treasury.
- C. Export from the territory of the United States of America.

"In all these different hypotheses the B.I.S., as center of cooperation between central banks, would wish to be treated on the same footing as the central banks or equalization funds of the various countries adhering to the tripartite agreement. We understand, however, that a special permit or license would have to be obtained from the American Treasury for each type of transaction. The time required for obtaining the licenses might prove a drawback to such a system. In this connection the following example may be cited.

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"On 24 December 1936, the National Bank of Belgium had approximately 500 kilograms of gold earmarked at the Federal Reserve Bank of New York, New York, in our name. The National Bank having requested us on that date to transfer this gold from our account to its own account with the Federal Reserve Bank of New York, we transmitted this order to the latter, by whom an application for the necessary authorization was presented to the American Treasury.

"Although in the case in point the gold belonged to a central bank which was an adherent to the tripartite agreement and it was merely a question of placing the said gold under the name of its owner without moving it from New York, eight days elapsed between the application for authorization and the execution of the operation."

H.M.Jr: I think that was marvelous. Only eight days elapsed. That's a record, isn't it, Knoke?

Oliphant: For speed.

Cochran: "It is obvious that such conditions not only preclude the possibility of employing the gold for exchange arbitrage operations, undertaken by the central banks for the purpose of defending the rates of their respective currencies, but are also calculated to deter central banks from making use of the B.I.S. as intermediary for their gold operations in New York.

"We have not yet touched upon the question of the admission of the B.I.S. as purchaser of gold from the American Treasury. The attitude adopted up to the present by the American Treasury in this connection seems to be based upon the fact that the B.I.S., having no currency of its own, has no need to acquire gold for the defense of its rate of exchange.

"In this connection it may be observed that for several years the B.I.S. has been a center for gold operations for the account of central banks, particularly those of the smaller European countries. These operations include the purchase, the deposit,

the transfer and the sale of gold which, in all these different cases, are employed for the defense of the exchange rates of the currencies of the central banks concerned.

"In the face of the impossibility of acquiring gold in New York, the B.I.S. is at present compelled to divert these operations artificially to other markets, converting dollars into another currency against which it is possible to acquire gold and then transferring such gold to New York. This method of procedure, however, seems to be in direct opposition to the measures contemplated in the United States for checking fresh imports of gold from Europe or for "sterilizing" them in order to prevent their repercussions upon the credit and price structure of the United States of America.

"It is unnecessary to add that, if the B.I.S. were admitted in principle as a purchaser of gold from the American Treasury, operations would be effected solely for monetary purposes and only at the request of central banks, whose names would be mentioned in each case."

H.M.Jr: Suppose those who are in favor of our doing it speak first, those who want it, and then the opponents can argue.

Lochhead: I think there are two questions that have to be considered: first, the transfer of earmarks, and secondly, the acquiring of gold. I think those are two distinct questions.

H.M.Jr: Which do you think we should do first?

Lochhead: The transfer of gold. That is, the....

H.M.Jr: What do you mean "transfer"?

Lochhead: The transfer of earmarked gold on the books of the Federal Reserve Bank.

H.M.Jr: Well, they have the right to earmark.

Lochhead: The question would be whether or not they would be allowed to transfer from the B.I.S. to or from other banks or institutions.

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H.M.Jr: If you don't mind, I think there is a much bigger question than that, and that is the question of what will the United States Treasury's attitude be toward the B.I.S. as an institution. If you don't mind, I think that - I mean I've never given it great study because, as far as we are concerned, it has never really been a factor.

I think the thing we should discuss, if you don't mind, is, first, should we recognize B.I.S. for what they want to be - an intermediary in Europe on the handling of gold as between central banks. Should we recognize them as such and encourage them and build them up in that purpose, or should we simply say that we don't recognize them?

Lochhead: Of course, we already have recognized them in the license that's been granted. You see, they are all - it's not a question of whether we will recognize them.

H.M.Jr: But I mean they want - they lay down a philosophy here which I think Cochran's entitled to have the answer when he goes back, as to should we - don't you (Cochran) think?

Cochran: Of course, you can divide that into separate stages.

H.M.Jr: I mean as to whether....

Cochran: They have the privilege now of earmarking for their own account. Then if they can continue to act in behalf of these other banks in the group. I mean at least two of them work with the B.I.S. as their fiscal agent.

H.M.Jr: Which two?

Cochran: Switzerland and Belgium - and the Netherlands to a certain extent.

Harrison: Mr. Secretary, may I make a suggestion?

H.M.Jr: Surely.

Harrison: I wonder whether you couldn't drop the B.I.S. for a moment in the consideration and go to the question

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of principle whether you are going to - I understand that this question of principle was not decided yesterday.

H.M.Jr: This hasn't been. What principle, George?

Harrison: Whether you are going to allow shifts of earmarks between institutions that are not members of the group. Because if you are not going to allow that directly, then very clearly you are not going to allow it to be done through the coverage of the B.I.S.

H.M.Jr: True.

Harrison: So we might as well get to the principle first, and if you accept the principle then it becomes much simpler to settle the B.I.S. specifically, I should think.

H.M.Jr: Well, if it is - what I heard here up to yesterday - and I haven't talked to any of this group in between; nobody has "horse-shedded" me so I'm not - I mean it's just where I left it yesterday at 12:30. I mean I don't know what's developed.

I can just tell you my state of mind today. My state of mind today is that we permit shifting of gold between the tripartite members but don't go any further at this stage. So we'll look into this thing still further. But I'm ready to go that far.

Harrison: Then I think it would become clear that you would not allow the B.I.S. through earmarks of gold with the Federal Reserve Bank to do indirectly what you are not going to do directly. So I think that would be settled for the moment, until you settle the other question. Then you can spread it down into a subordinate topic: that we allow the B.I.S. to make shifts between members of the group for whom you are ready to make shifts directly; and that becomes, I think, a much simpler question.

H.M.Jr: Well, before we get that... I have asked these people to come in to advise me. Now, I am more than willing - I invite open arguments from anybody who takes the



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opposite viewpoint. I haven't decided that I'm leaning towards that: members of the tripartite can shift gold between themselves. Now, who thinks that that is a mistake, to make that step? I mean I ask people to come in and advise me. Who thinks that that is a false step?

Sprague: Apparently we all agreed that that was desirable, as far as I am aware, in the discussion yesterday.

H.M.Jr: Well, if there is no - of course, this has to be decided finally when I present it to the President, but I mean - but I can't see any danger in giving that privilege, provided of course we put it up to these people and say we want the same privilege from them. I mean that goes without saying, that we want that same privilege extended to us.

And I also can't see at this time - take the suggestion Walter Stewart threw out that at this time we should cancel the privilege of central banks - the right to earmark; I mean I can't - I mean I think that that might be - it might be misunderstood.

Taylor: Well, he eliminated that in the later discussion.

H.M.Jr: I mean as far as we have gone now any central bank can earmark and that includes the B.I.S. Then we have gone a step further, which is new, and we say that the five countries in the tripartite agreement can shift gold between themselves in New York, provided they give us that same privilege in their countries.

Sprague: We raised one question which was new yesterday.

H.M.Jr: Please.

Sprague: Rather for future examination. And that has to do with the possibility of an excessive amount of earmarkings because of a desire for safety, or for other reasons. A vast amount - an amount being vastly in excess of any conceivable commercial requirements.

H.M.Jr: I see.

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- Sprague: That if, for example, we'll say, three billions were lodged here, it would only be for safekeeping - whether that is a desirable situation. We didn't decide that it wasn't desirable, but we thought it was something that might be examined by the authorities, including perhaps the State Department, because it relates more to a contingency of war than to any immediate practical commercial or exchange problem.
- H.M.Jr: Well, couldn't we drop that hint at the time that we made this agreement verbally - that we make that verbal - what's the technical word?
- Oliphant: We could say "in reasonable amounts."
- H.M.Jr: "In reasonable amounts."
- Sprague: Well, you would have to, it seems to me, form some judgment of - now, it seems to me in a case of a country like Switzerland, surrounded by - I said yesterday by bandits.....
- H.M.Jr: By what?
- Sprague: ....bandits, that I should feel more disposed to go pretty far with them, further than I would with Great Britain or France, in the matter of accepting a considerable part of their basic gold reserve for safekeeping.
- H.M.Jr: Well, I think it is a very good point, because if there is a rush of several billion dollars over here we've got to borrow money to pay interest on it - for the gold we sterilize.
- Sprague: Well, they might earmark it and they'd still have title to it. But still, three billion dollars of gold belonging to France, Great Britain and other countries, and then if they were at war - it would be a problem of greater magnitude than if they had a couple of hundred millions of earmarked gold.
- Harrison: In all of our arrangements with all of the central banks, the Federal Reserve Bank protects itself, reserves the right to place a limit on the amount of any transactions to be performed for the other banks.

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H.M.Jr: That is so now?

Harrison: That is so now.

H.M.Jr: Fine.

Harrison: There is no reason why you shouldn't make the same limitation if you want to. That is so well understood as between central banks that it wouldn't surprise anybody to know that the Bank would earmark but necessarily have some limitations.

H.M.Jr: But there won't be any question as far as - to introduce the word "reasonable" or drop a hint or something. In this thing, if we do this, does this become a written document?

Harrison: I shouldn't think so. It might be as between the Treasury and the Reserve Bank, certainly, because we don't want to do anything that we haven't got specific authority to do; and the written document between us would make clear what character of transactions we can perform without specific approval in every case.

H.M.Jr: But I mean inasmuch as this would be the tripartite, wouldn't this take the form of a communication from me to the five Ministers of Finance?

Harrison: I don't know.

H.M.Jr: And then tell them to inform their fiscal agent to take it up with our fiscal agent.

Harrison: I think that's all right.

H.M.Jr: What?

Harrison: I should think that would be quite all right.

Williams: I should think that it makes it a little - rather a more formal matter than might be prudent. I should think most of the central banks would sort of take it for granted that earmarking included transfers of earmarking, and that that might be a prudent basis upon which to keep it, because some day you might want to decline, rather than have a binding agreement.

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- H.M.Jr: Well, if I simply sent this by word of mouth to their diplomatic representatives here, simply calling in their diplomatic representatives and saying, "Will you please communicate to your government that we are prepared to do this, provided that you are willing to reciprocate." .....
- Williams: And have no written document.
- H.M.Jr: We have nothing. I have one letter from the Minister of Finance in Belgium. That's the only written thing, except the written documents between the Treasury and the Federal Reserve of New York; there is nothing else. I can't see any harm, and it just continues the same method of communication which we have established. I mean we have started that method and then we have simply said, "Well, we are in agreement and when we have anything else, then take it up with your fiscal agent and we will instruct our fiscal agent to act and we will answer it." I mean that's a very simple piece of machinery. I mean if Cochran was in Paris he'd get word from me "Please call on Mr. Auriol and tell him we are prepared to do so and so" and Auriol would say "Yes" or "No" and Cochran would call back to me and then I'd instruct him what to do. Isn't that the way? Isn't that the way you'd do it, Cochran?
- Cochran: It is much better than to have any other statements or communications.
- H.M.Jr: I think that would be comparatively simple.
- Harrison: Mr. Oliphant, isn't it true that the existing license to the Reserve Bank to hold the earmarks for other central banks and the B.I.S. is a published formal license approved by the President?
- Oliphant: Has it been published? I don't recall its having been published. Maybe Opper - do you know?
- Opper: No, I don't think it's been published.
- Harrison: It's pretty well known, because we have to tell every central bank that we would do it.
- H.M.Jr: Well now, just before we say - certainly what we are

talking about, Mr. Livesey, can in no way enter into your neutrality.

Livesey: No.

H.M.Jr: Can you see any possible....

Livesey: Of course, that is more or less from the point of view Professor Sprague suggested, and that remains within your control. That is, you are not going to allow an accumulation of gold here which would be excessive; so I don't see the neutrality....

H.M.Jr: I mean up to the present point do you want to raise any objection?

Livesey: No.

H.M.Jr: Sure?

Livesey: No.

Oliphant: You might be interested to know that that license to earmark is revocable at any time.

Harrison: For instance, the other day France was converting its balances to gold and taking the gold home. They at times earmarked in sums with us which we thought were unduly large, and we told them either that we did not want them to earmark in that amount or prefer to have them take it home as long as it was their gold. We, as custodians, don't want it. Unless required by some super authority we would not earmark unduly large amounts for any customer. It is not prudent business.

H.M.Jr: And you'd be constantly on the lookout to see that they are not building up something.

Bell: How much vault space have you got?

Harrison: Well, having no gold of our own at the moment, we have quite adequate space to earmark considerable sums.

H.M.Jr: He's got room enough. We're taking practically all the gold out of there to Kentucky.

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Harrison: That gold is all going now from the Assay Office, is it not, Mr. Knoke?

Knoke: That's right.

H.M.Jr: Oh, it's not coming from your place.

Harrison: No.

H.M.Jr: But I mean there's room.

Knoke: We have plenty of room.

Harrison: For gold.

H.M.Jr: You don't charge them for that storage.

Harrison: No, we do not.

H.M.Jr: And they don't charge us.

Harrison: No. That is, with one qualification, that we do in the few cases where we have earmarked for governments. But that isn't up now.

H.M.Jr: No. Well then, we come back to Sweden, then, don't we?

Williams: It seems to me, Mr. Secretary, there is one aspect of this B.I.S. that comes up logically at this stage: whether the B.I.S. can act as fiscal agent for the members of the agreement; you having decided that transfers of earmarks among the group are allowable, the question is can they do that indirectly as well as directly. That is, can they do it through the B.I.S. if that is their inclination?

H.M.Jr: Well, of course, here is - do you mind - well, I might as well talk frankly if you are going to be able to advise me frankly. We are on a certain path here, and the path at present that we are on is that the government decides what the fiscal monetary policy should be. Then we designate Federal Reserve of New York as our fiscal agent and they execute these fiscal policies. Now, that's been accepted by five other countries in principle. Now, along comes the B.I.S., who isn't responsible to any

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government, and they want to say, "We want to also have this function." And I frankly - as I say, I'm going to talk very frankly - I just don't see, with this present trend which is going on now of the governments deciding the fiscal policy - I just don't see where the B.I.S. enters into the picture. I just don't see where they enter into the picture. I mean to whom are they responsible? They are not responsible to any elected officers, they are not responsible to any cabinet ministers, not responsible to any prime ministers, Presidents; they are not responsible to anybody. And here is an institution that is responsible to no one, and why - I'm not saying that this is the right path, but at least we are on this path; we are treading very slowly, making progress very slowly. But we have chosen this path; five other countries have agreed to go along on the same path. And I - I am open to - I want to listen, but I don't see where the B.I.S., - as far as I'm concerned, they just don't exist.

Golden.: You do permit it to earmark.

H.M.Jr: True. Maybe we should cancel that.

Oliphant: In that connection, I should like to....

H.M.Jr: Maybe we should cancel it. People that see me every day know that I talk and I want to be talked at. That's why I ask you people to come and that's why you come back to see me. I mean I just want to see that - maybe I was brought up wrong on this.

Taylor: I think it would be useful to define the function of the B.I.S. I think that might clarify it a little bit.

H.M.Jr: Would you, Cochran, do that?

Cochran: Of course, one of the purposes for which they have been striving in the B.I.S. is to make that sort of a clearing house for gold, to eliminate shipments. As, the other day, when Switzerland was actually shipping gold here to be placed under earmark, and the Bank of the Netherlands, under the equalization fund, was acquiring gold here to be shipped across - I mean they found they could make a swap and ship gold

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to Amsterdam instead of shipping it across the seas. If our policy is toward - working toward a more general use of gold and return to a monetary base on some sort of an international standard, I hate to see an institution discouraged which the most important central banks, except for our own, have taken up. And this is the one phase of the B.I.S. work which has been developing the last year particularly.

H.M.Jr: Well, let me ask you a question. Does England clear through the B.I.S.?

Cochran: It does not. The smaller countries do.

H.M.Jr: Does France clear through the B.I.S.?

Cochran: Well, I can't say that they clear through it. They hold different funds there on deposit, so that there is a swapping through the B.I.S.

H.M.Jr: Well, if you've got... What we have agreed on, subject to the President's approval, is that six different countries can swap earmarked gold freely between themselves, in six different places. Well, that's going to loosen the thing up.

Oliphant: As far as the B.I.S. operates, it discourages anybody else - there is no incentive for anybody else to join the team.

Golden.: Well, the B.I.S. can perform its clearing functions - I should say just offhand they could still be a clearing house for information and they could facilitate the swapping that they are interested in, without actually having it go in their name. I mean if all these banks wish to have the benefit of keeping in touch and if Holland wants to get gold from here and Switzerland wants to send gold here, they can find it out and make the swap direct without doing it through the B.I.S.

Cochran: They try to encourage that, to have each bank keep the B.I.S. informed of the place where they have the gold and of the transactions they may desire. They haven't perfected that.



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- Golden.: If they do that, then it is none of our business, so to speak. I mean if they want to keep the B.I.S. informed and inform each other through the B.I.S., that is something in which the United States has no particular interest or objection.
- H.M.Jr: No.
- Oliphant: It seems to me we have a very substantial interest. I think one of the important things in this tripartite arrangement, this club, is the frequency with which the governments communicate with each other; and any other agency that comes in and eliminates that frequency of direct contact is looking in the other direction.
- Cochran: But how do the governments talk direct with each other? They talk through the men at Basle who represent the fiscal agents or your stabilization fund. That is the only direct contact where you have more than two or three.
- H.M.Jr: But you don't - Cochran, you don't, when you go there - you are very careful not to tell them this.
- Cochran: I don't mean that I am involved.
- H.M.Jr: And when Governor Norman comes there he is very careful. Now, after all, as Professor Sprague knows, the Bank of England - I mean surround themselves with the greatest secrecy. And the idea of - if I told Sprague or anybody else that between 11 and 12 o'clock every morning they call up and tell us what they have done that morning - it's unheard of, isn't it, Professor Sprague, that the Bank of England tells us what they have done that day.
- Sprague: May I ask, for my information, if they tell you the changes in foreign balances in the loan market?
- Knoke: No, they do not.
- Sprague: Just wanted to know how far that went.
- Knoke: But they are speaking more freely about the nature of the foreign balances, not about the amounts.
- H.M.Jr: But they do tell us how much gold they bought or sold,

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and what their position is that day, which....

Sprague: ....is something.

H.M.Jr: Is something. And they will indicate to us "Now, this is the situation, and we have done so much in francs, so much in dollars, and when we turn it over to you at 12 o'clock, if you'd continue to do so and so....." - see what I mean? Now, that kind of information we never received and never gave. We give them the same thing when we get through at night. But that kind of information isn't exchanged at Basle because it is an hourly thing.

Harrison: We never have told them what the foreign balances were in our market. We never did until the Secretary of the Treasury made the compilation which has been published.

Sprague: Well, I didn't suppose that they had, but I wondered. I'm just using that to determine just how far this exchange of information had gone since my time.

H.M.Jr: Well, at least the ice is broken, and they give us enough to work with and we give them enough to work with, so we can work together.

Golden.: Mr. Secretary, since I said a word about this B.I.S., I wanted to make it clear that I was not using this as an argument for admitting the B.I.S., but rather the other way. But that, in so far as they choose to communicate through the B.I.S. with each other, there isn't anything that we can do about it, or that we need to do. But if they want to use the B.I.S. as a medium, then it becomes a matter of our concern - and they deal in this market. I am inclined personally to feel the same way that you do, that in the line that you are pursuing it would be a distinct departure and one that would probably be premature, to recognize the B.I.S. as a holder for other countries. And I think that the question whether the B.I.S. ought to be allowed to earmark for itself is one that ought to be given careful consideration.

H.M.Jr: Now, may I ask you, do you feel that the path that we have taken - that we are on the right path?

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Golden.: Yes, I think so.

H.M.Jr: Have you any reservations?

Golden.: Well, the only reservation I have is that I haven't - I must confess that I haven't got all of the facts in my mind. I have been a little peripatetic about this. I hear it every two or three weeks and then in between I don't, so I don't feel I am in possession of the whole picture. But in so far as I see it, it seems all right to me.

H.M.Jr: Yes. Now, let me ask you this. As I take it, what you have in your mind is that, as long as we are going along this path, the B.I.S. might become like the International Labor Bureau.

Golden.: Yes.

H.M.Jr: As I understand it, it is a bureau which we go to - have people there, and we exchange labor statistics, unemployment statistics.

Golden.: Yes.

H.M.Jr: A bureau for exchange of information.

Golden.: Yes.

H.M.Jr: But certainly not as an operating.... I think we are inconsistent - if we take the position that only these countries can earmark gold here and exchange earmarked gold, then I think we are inconsistent in permitting the B.I.S. to continue to have that privilege.

Golden.: I think that's right.

Harrison: You haven't yet disposed of the question as to whether you are going to permit the swaps of earmark between other than the club.

H.M.Jr: Well, I have taken it....

Harrison: And if you do that, then there might be some question of logic as to whether you should permit those swaps to go on through the B.I.S., as Mr. Cochran pointed out.

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- H.M.Jr: Well now, wait a minute. We have gone just this far. Club members can swap gold in America; that we have all agreed to. Then anybody that wants to use B.I.S., that's their business, that's not ours. If they want to use the B.I.S., that's their business. I mean we can't say to England, France, Italy, Germany, what they can or cannot do; we can only tell the B.I.S. what they can do in the United States. Isn't that right?
- Harrison: Yes, but what I meant, you have gone this far; you have agreed that club members can swap gold in the United States.
- H.M.Jr: Yes
- Harrison: You have not yet said, however, as I understand it, that you will not permit Norway or Sweden to swap gold in the United States. That hasn't been disposed of yet, as I understand it.
- H.M.Jr: Well, my feeling on that was the group here felt that we weren't ready to cross the bridge, and, not being ready, we better just postpone it for a couple weeks and think about it and take it up again.
- Harrison: I didn't understand. I thought that they had not yet reached an agreement about it.
- Taylor: That is so.
- H.M.Jr: Well then, let's talk about should we permit.....
- Harrison: That's what I meant earlier in the day: that's the thing to decide next, and...
- H.M.Jr: Well then, let's talk about Sweden.
- Bell: I understood that you did decide you would make no change in the present policy of permitting central banks and foreign governments to earmark. Now, that includes the B.I.S. as I understand it.
- Oliphant: Now, there is an important question I'll have to raise on that a little later.
- Bell: Well, it does include the B.I.S. at the present time.

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H.M.Jr: The B.I.S. at the present time is considered like any other central bank. Now, what George Harrison says is let's just leave the B.I.S. for a moment and concentrate on Sweden.

Harrison: As a sample.

H.M.Jr: Because you think if we settle Sweden, then we can settle B.I.S. easier.

Harrison: I think this is much easier to settle - B.I.S. - if you settle Sweden. Certainly if you say Sweden cannot make swaps of earmarked gold, you wouldn't permit her to do it through the B.I.S. - if not directly.

Sprague: We discussed that yesterday. In the first place, there are a large number of countries that we can't imagine entering the club anyhow, that might well find the facility of transfer serviceable; and we can't make a distinction between those who might either now or a little later become members of the club and the group of countries that we just can't imagine at any time being desirable members. So that we've got to adopt a policy that is unsatisfactory, perhaps, from the point of view of Guatemala or Colombia and so on, if we adopt a policy with reference to Sweden simply for the purpose of perhaps inducing Sweden to come into the club. That's one disadvantage of the policy.

Now, I question very much whether the refusal of the transfer right would be a large factor in inducing Sweden to come in; and in any event I question whether it is particularly desirable to bring in additional members. You say that the Great Powers have the real voice in the determination of this policy; but if you get a number of minor powers in, you can either form a minor bloc or the minor group can associate themselves with one of the Great Powers.

As a whole, it seems to me that it is preferable to develop the monetary policy - make it seem - in the hope that it will prove to be stable and effective, and that then in the course of time other countries will associate themselves, after there is a bit more experience in working these arrangements.

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- H.M.Jr: Well, do I gather from that, Professor Sprague, that you are arguing we should give this privilege of transfer to Sweden and countries like her?
- Sprague: Yes.
- H.M.Jr: You are arguing for it?
- Sprague: Yes. I see no unfavorable result on the working of the tripartite arrangement and, as I say, I see no particular advantage of bringing in more members at the moment, and I question whether the refusal of the transfer privilege would be a large factor in inducing them to come in anyway. I think that in substance is my position.
- Williams: I had much the same view yesterday morning about the wisdom of trying to get everybody into the club. Wouldn't want some, in other words.
- H.M.Jr: Well, of course, on the last three, we sort of call them associate members.
- Oliphant: May I ask whether in discussing these other countries it is on the basis of automatic earmark or automatic transfer, or automatic so far as the members of the club are concerned and then the policy of passing freely on special applications for earmark and transfer of earmark for the non-members.
- Knoke: Well, the question of automatic earmark has been decided.
- Lochhead: I beg pardon, Knoke.
- Knoke: The question of automatic earmark.
- Lochhead: You mean transfer of earmark.
- Knoke: No, automatic earmark.
- Sprague: Well, we haven't decided in the case of members to whom this privilege - we agreed to extend it - shall be given this privilege under a general blanket license or a specific license for each transaction. Now, if we granted the blanket license to the members, we

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might in the case of non-members keep it on the special specific license basis. There is a possible distinction between the members and the non-members there.

- H.M.Jr: Is that the point you wanted to raise?
- Oliphant: Yes, I wanted to raise that point.
- H.M.Jr: Let's see if I get it. Members to have the blanket automatic privilege to earmark and transfer - that we have all agreed on.
- Haas: That was in discussion yesterday afternoon.
- H.M.Jr: I mean that's what we were talking about yesterday.
- Harrison: I thought we agreed on that this morning anyway.
- Taylor: Well, not the automatic part of it.
- Lochhead: There was some question yesterday afternoon. I think it should be clarified.
- H.M.Jr: That's what I thought we'd agreed to.
- Opper: Mr. Secretary, may I recall that Mr. Taylor suggested that we were agreed on giving the privilege to club members but that the method had not been agreed upon, and the question of method still open was whether it would be a generally understood policy between the Treasury and the Federal Reserve Bank that those transfers would be permitted, but that there would be no general license, so that in each case the specific facts and the specific transaction would be authorized to the Federal Reserve Bank, but in such a way that it would be done without any delay.
- H.M.Jr: No - oh no - I'm not going to vote for that. I'm not going to go through that. I mean that makes it impossible for these fellows, and they haven't got anything. I mean I'm not going to go through this over and over again.
- Oliphant: We're merely reporting on what had been agreed on.
- H.M.Jr: I understand. I'm glad you brought it up. Let me

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clear the atmosphere. Not being in the room the other afternoon, I couldn't know just what you meant. When you said method I didn't know what you referred to. But if we're going to do this thing, let's do it so that it means something.

And with that I'd say to the club members - we'd say to first notify their governments what we're talking about and we'd say to those members, "You can come in here and earmark gold and transfer between yourselves as you desire, always remembering that this whole thing is still on a 24-hour basis. We always reserve that right." Huh?

Oliphant: (Nods yes)

H.M.Jr: Now, does that clear up as to method?

Oliphant: That decides the matter that was still left open.

H.M.Jr: I mean if we're going to do this thing, let's do it so that Lockheed and Knoke can operate. I mean they've got to be able to operate. Otherwise, they're both going to begin to lose weight; just now they look fairly healthy.

Now, the other thing that Mr. Oliphant brings up, or Professor Sprague, I think is a very interesting idea: the alternative on central banks who are non-club members - should we extend them this privilege on request but taking each request under special consideration? Now, that is possible. What?

Harrison: That's the next question. May I say just a word, Mr. Secretary? I've got this Open Market meeting.

H.M.Jr: Well, haven't you settled that question yet?

Harrison: It's just started.

H.M.Jr: It seems to me you're afraid they may catch their breath.

Bell: He's afraid they'll put something over on him.

H.M.Jr: All right, go ahead.



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Harrison: I think it is a big question of national policy that you've got to decide now. Admitting that the group recommended yesterday favorably that all central banks should be allowed to earmark, the question now is, as I understand it, whether they should be allowed to make shifts of earmarks one to the other, or from out the group to in the group, or vice versa. Leaving for a moment the question whether you get specific approval in each case or not, discussing the general principle, it does seem to me that from the point of view of the United States, which now owns pretty nearly half the monetary gold in the world, it's got the opportunity it never had before to become the principal gold market and the principal influence on gold of any market in the world. It seems to me that you will grasp that opportunity most firmly and make best use of it if, having authorized any bank to earmark gold here, you will authorize them to make transfers of earmarks; in other words, coming as near to a free gold market in the handling of gold in this country as you can.

If I could see the possibility of harm to you or the possibility of harm to the national policy, or the possibility of retarding the development of any plans that you may have, I would recommend against it. I can't see myself any argument against permitting those earmarks and transfers of earmarks, except the one that has been mentioned here; that is, that perhaps refusing the privilege might be an inducement to some of those banks to come in the club that are not now in. However, I am rather inclined to agree with Sprague that perhaps you don't want that preferred club to become too large anyway, and if that is so, that one argument, as an inducement to force them, loses some of its force.

I think that if you permit free earmarks between central banks who are - I mean transfers of earmarks between central banks who are permitted to earmark here in the first instance, you are doing as much as you can to convince the world that you mean to be a gold market here and that you mean to give them the freedom of ownership of gold that you recognize when you allow them to earmark here.

Frankly, it would be another way of providing a

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facility for smaller countries that are not now in the club to manage their own currencies much better than if they have to ship gold all over the world. You take little countries - as Mr. Cochran points out, some of them are not in a position to hold too large an amount of gold in their own country. There are certain risks incident to the shipment of gold back and forth. It is an expensive, uneconomical way of handling gold anyway, to the extent that you can avoid it. And it seems to me that you lose nothing and gain much by permitting the free shifts of earmarks between any central bank.

Now, if you feel that there is some risk there, then I think that the most you should do is to require special permission in each case, though frankly I don't yet myself see the force of the argument of even doing that if you accept the fact that this is a 24-hour thing anyway and any country that is abusing the privilege, you can stop them.

H.M.Jr: Now I want to ask you a very important question. Let's say we go the whole way and permit free earmarking by all central banks in our market, with or without special request. Let's say we go the whole way.

Harrison: Yes.

H.M.Jr: Then what do you think we should do about the B.I.S.?

Harrison: If you permit the free earmarks and the free shifts, I think it is a matter - it is almost immaterial to you whether you permit the B.I.S. to make the shifts or not, because that is just a convenient mechanism whereby some of the small banks, rather than hold gold themselves, have kept their balances in the B.I.S., have converted them from time to time into gold, then back into cash again; and the B.I.S., not itself wanting to hold gold in Switzerland - I don't believe they do hold.....

Cochran: They haven't anything there.

Harrison: I don't think they hold any. They have to hold it

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in England or Paris or in this country, and it's just a custody account and a great convenience, a necessary convenience to them, and I don't think from your viewpoint of any hurt to you. However, if you allow the free earmarks here, then I think it is much less important to the world that you permit it for the B.I.S., frankly, because then you will be doing much for the rest of the world that the B.I.S. is now in a position to do for the smaller banks.

H.M.Jr: Who owns the stock in the B.I.S.?

Harrison: It is owned by - the better part of it is owned by seven or eight of the central banks who are in it, reduced by the amount they have sold to their own markets. In our case, there was a block of stock sold under a syndicate headed by the First National Bank of New York.

H.M.Jr: Can I own stock in that?

Harrison: Yes.

H.M.Jr: I can own stock in that?

Cochran: You have no voting privilege as an individual.

H.M.Jr: Who does the voting?

Cochran: The original subscribers.

Harrison: The only vote that the stockholders of the B.I.S. have, as I understand the law, is the right in May of each year to approve the annual statement. They have no other authority.

Golden.: Have they the right to disapprove it?

Harrison: I suppose they have that right. They can't elect directors, they can't fix dividends, they can't fire officers, they can't do a blessed thing except approve of the annual statement in May of each year.

H.M.Jr: You want to go over to the other meeting?

Harrison: I'd appreciate it if you will excuse me.

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Golden.: I must go too, Mr. Secretary.

(Harrison and Goldenweiser leave;  
Secretary leaves room for few  
minutes and returns)

H.M.Jr: I think I got a temporary answer to this thing. Just see if it hits you people right. Why don't we do this? Let's talk to our five partners and put this proposition up to them: that we are ready if they are to give them the privilege to earmark and exchange freely in our market, if they do the same for us. Let's get their reaction. They may have some suggestions. Let's see how they react to it, see what they have to suggest, and then sit back and just take a look at this thing for two, three weeks, a month. I can see this step clearly; I mean I think this is all right. England or France - they may have some suggestions. They may bring up the question of the B.I.S., they may bring up the question of other countries. They may not like this. They may not want to do this at all. But let's just put this up to them; if they say yes, put it in force, sit back, watch it for a month and see what happens; not try to digest the whole gold world at one time.

Knoke: You are speaking of the second group now, of all banks?

H.M.Jr: Just the five countries, just the tripartite, just club members. And then, on the others, they can continue to earmark but that's all. And you'll have to simply tell them that the Treasury hasn't decided the policy beyond that.

Knoke: I'm sorry, I'm not quite clear.

H.M.Jr: I'll do it again, Knoke, I'll do it again. We will call in here the representatives of Great Britain, France, Switzerland, Holland, and Belgium, and say, "Gentlemen, we wish you to communicate to your Minister of Finance that the United States Government is ready to extend to your fiscal agent the privilege of earmarking gold in the United States and transferring this earmarked gold between these different countries

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at will, provided each of you gives us the same privilege in your own country." Period. Paragraph. No paragraph, just period.

Knoke: May I just say one thing?

H.M.Jr: Yes.

Knoke: If you bring in the question of earmark there, everybody will wonder why. It was understood heretofore that earmarking was - we wouldn't bring up, but just the question of transfer. Now....

H.M.Jr: You are quite right. Just the question of transfer. We won't bring up earmark.

Knoke: All right.

H.M.Jr: And then say, "We'd like to know what you think of it and what suggestions have you got?" And that - until they answer - until Mr. Chamberlain gets back from his week-end and one thing and another - it will take a week or ten days till we get that answer.

Lochhead: And then in the meantime if any of the outside inquiries come in, we won't tell them that we refuse to transfer, but simply we haven't made up our mind, and they will have to continue - if they have a specific important thing at the moment, if they will make a - in other words, we won't tell them that we won't, but simply that we are not fully decided on it.

Knoke: I would say if we get a general question that the answer would be simply that this thing is under discussion, but on a specific inquiry the Treasury would grant the license.

Lochhead: At least look it over.

H.M.Jr: We'd take a look at it. We'd give you our usual 12-hour service.

Now let's just - now, have I made - Wayne, we'll start with you.

Taylor: I think that's all right.

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H.M.Jr: What?

Taylor: I think that's all right. I wouldn't wait too long before I attempted to answer the other questions.

H.M.Jr: Well, I'm ready - I mean one of these five countries may have a very useful suggestion to make.

Taylor: I think that's all right.

H.M.Jr: What?

Taylor: I think that's all right.

H.M.Jr: Archie?

Lochhead: I agree on it.

Oliphant: I agree everything is to be gained by talking to them about it.

H.M.Jr: Oppen?

Oppen: Still to be qualified by the 24-hour basis.

H.M.Jr: Oh yes. The whole agreement is.

Livesey: And "reasonable amounts."

White: I should prefer not to have any mention made of reasonableness or unreasonableness. It raises certain questions, certain other aspects, and I think it isn't a matter that has to be decided now.

Lochhead: In fact, it's covered by the Federal Reserve right now. We can depend upon the Federal for that.

H.M.Jr: What's that other definition of the law? I mean just something we are always stumbling on. I mean the word "reasonable" would be awfully hard to define. I didn't know when I brought that up, Livesey, that the Federal Reserve already reserves the right to question any amount. Don't you think it might be a mistake to raise it specially?

Livesey: Yes. You have the thing under your control anyway.

H.M.Jr: I mean they might think, "What do they mean by 'reasonable amounts'?"

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Haas: Very small amounts; 135 million is the total earmark.

White: There may be reasons why - which we can point out - why at certain times you might want to alter....

H.M.Jr: (To Livesey) We'll write up a memorandum to these countries which I'll show you before we present it to them. See? We'll draft a memorandum which I will read to these five countries verbally. See? I'll read it out loud the way they do to us. And that memorandum - before we'll do it you people will have a crack at it. How's that?

Livesey: All right.

H.M.Jr: What?

Livesey: All right.

H.M.Jr: What do you think, Professor Sprague?

Sprague: I think that is a feasible way of treating the subject. And I think you've got all of the views that Stewart and I are likely to have in regard to the second stage, if you reach that stage. I wouldn't want to come down here a couple weeks hence on the problem of this second - the non-members. I think I've definitely expressed my views on that problem. And I can see no objection to deferring the other questions until you have settled matters with members.

H.M.Jr: No, I think that the other thing will sort of solve itself. I mean I think it will - but I just don't feel that I want to answer all of those questions today. Would you?

Sprague: No, I think that is a very reasonable attitude.

H.M.Jr: George?

Haas: I think it's O.K.

H.M.Jr: Well, let's go the other way. Bell?

Bell: I think it's all right. I raise the question as to

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whether these banks that are now permitted to earmark feel that they have a right to transfer. Do they know they do not have the right to transfer?

- Lochhead: Well, I'll tell you, it's been brought up because when they have asked the question so-and-so, we say, "We will refer this to the Treasury." I think up to that time they thought they had the right to transfer. Generally they feel - it's always been accepted - they have the right to transfer.
- Bell: I just wondered if this might not be a shock to them to hear that we have agreed upon this; they thought it was agreed upon.
- Lochhead: They have already had the shock, I think.
- Knoke: The important thing is that some have raised it.
- Lochhead: The question has been raised now.
- Knoke: And they have been told that "in this case the Treasury has granted the license," so I think the shock is a part of the past.
- H.M.Jr: Well, Knoke, after all you're in the trenches for us on this thing. Do you feel that you can handle your telephone conversations and so forth for a week or ten days without too much embarrassment?
- Knoke: Yes and no. Hundred percent as far as these so-called members are concerned. I don't know yet what you decide on the Swedish case.
- H.M.Jr: I don't either.
- Knoke: But I know that we'll have to send some kind of a cable.
- H.M.Jr: Yes, but I meant, seeing the direction we are moving...
- Knoke: I'm entirely satisfied, as far as it goes.
- H.M.Jr: Well, who isn't?
- White: There is just one point I'd like to raise for your consideration, and in order to give point to it, I'll have to go back to something else. The question as



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to getting further adherence to the agreement as to general principle, I think, is a little more important than Mr. Harrison indicated, because the extent to which you can get additional significant members to subscribe to the principles, which, if you will remember, are such that they could so do and add to the general world confidence of stability and go toward the goal that I think we'd all like to go toward - now, assuming that that is a desirable addition, then it may also be a factor which would hasten additions of certain countries to subscribe to those principles, which they well can do, many of them, without any changes in their structure at all, if they were deprived of a privilege that meant something.

Now the question is, Does the transfer mean something? It means - I agree with Mr. Sprague - it means not a great deal. It would mean more if the privilege of transfer and earmark were tied together. Consequently, you may decide that you might wish to deprive the countries that haven't subscribed to these principles of the permission to earmark. That is not nearly so serious in the case of the small countries as has been made apparent, because, though there are many small countries that avail themselves of that privilege, the amounts involved are small. They always have the alternative, at a slightly higher cost, of making those changes in dollars rather than in gold here, or in transferring the gold elsewhere. Granted it would be at a smaller cost; but so little is involved in their case that I am not sure I would let that weigh very much in the larger decision.

And this is what I'm leading up to. If that is so, then you might want to mention at this time what you initially said; namely, earmarking and transfer be freely permitted among these club countries, without making any statement at all as to the non-club countries. That's a possibility which I just thought would be up for consideration.

H.M.Jr:

Well, I think we'll simply get them excited. They won't know what we're getting at, and we couldn't tell them. And I don't believe in exciting countries

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unnecessarily. Simply get them - "What's the United States getting at?"

White: Well, that's.....

H.M.Jr: Glad you raised the point. Well now, Taylor, will you get your people together and see if you can draft me something? I'd like to be able to show it - I have an appointment in the morning with the President and I'd like to have something to take over

Oliphant: May I mention two things that we'll have to decide when we go to work on what you want Taylor to draft for you. One is, when we talk about club members, do we mean that earmark and transfer - earmark and transfer gold belonging to the governments for the governments' account, and also gold belonging to the central banks of those five countries; or, for the central banks?

H.M.Jr: Now wait a minute. You fellows always make it hard. I'm.....

Oliphant: I'm sorry, but I think....

H.M.Jr: As far as we know... We'll use England. The request comes, does it, Knoke, from the Bank of England, to earmark 10 million dollars of gold?

Oliphant: Of its gold.

H.M.Jr: Of its gold.

Knoke: Did you say "of its gold"?

Oliphant: Of its gold. That is, there are two questions there, aren't there? That is, its gold and its government's gold, two different kinds of gold.

H.M.Jr: Who's ever raised that point? What country?

Knoke: Take France, for instance, which has three million nine hundred of gold acquired and earmarked under the tripartite agreement; they also have 44 million dollars which they shipped over here for security, as a security measure when the franc looked very sick and they were

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afraid that the dollar market might close up some day in Paris; they wouldn't be in a position to support the franc and they wanted to have gold here.

- H.M.Jr: Yes, but do we know who that gold belongs to?
- Knoke: Well yes, because we have insisted that gold under the tripartite agreement be earmarked in a special account and we'd be so notified.
- H.M.Jr: If the Government of France asks us directly to earmark gold, the answer would be no, but as long as they clear through their fiscal agent, we'll do business with their fiscal agent. Now, does that make it clear?
- Oliphant: You'll do business through their fiscal agent on their gold.
- H.M.Jr: On their gold.
- Oliphant: Whether the gold belongs to the Government or the Bank of France.
- H.M.Jr: But I think I know what you're getting at. If we've got a request directly from the French Government to earmark - if the French Government sent their Ambassador, Mr. Laboulaye, and he said, "Mr. Morgenthau, will you earmark ten million dollars worth of gold for us?" the answer would be no.
- Oliphant: The answer would be "See you agent."
- H.M.Jr: Yes, "See your agent."
- Oliphant: But you would earmark gold the title of which was in the French Government provided it went through the central bank.
- H.M.Jr: Right.
- Oliphant: Then you would also earmark gold the title of which is in the central bank.
- H.M.Jr: Sure. That's what we're doing now, aren't we?

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Oliphant: Yes, earmark and transfer.

H.M.Jr: Provided that they always pay Archie the one quarter of one percent. - - I always get a nice smile on that.

Knoke: I'm glad you mentioned that, because Cochran in one of his cables spoke of the Federal Reserve Bank's charge of one quarter of one percent.

Oliphant: Now, the other thing I'd like to mention, if I may: that gold belonging to - use as an example, the title of which is either in the French Government or in the Bank of France, can be earmarked and transferred, provided it is all done through fiscal agents. I take it we want to make it clear that there can't be any hidden - that it can't be held in trust for anybody on the outside. We will only do business on gold really owned by a party, and there can't be any hidden beneficiary of that gold.

Knoke: Our regulations provide for that. We stipulate that we will earmark gold which is the property - "which is your property," addressing ourselves to a foreign central bank.

Oliphant: "Of which you are the sole beneficial owner."

Knoke: Those words are also in the agreement.

H.M.Jr: What else, Herman? This is important.

Oliphant: That's all there is. I don't want non-club members getting in by way of trusteeships or anything else. No, that's all.

H.M.Jr: Have you (Opper) anything?

Opper: (Nods no)

Oliphant: I think the latter thing is very important in terms of - if I may say so, Dr. Sprague, in terms of the future development of the earmark institution. I am very hopeful that it will be built up - it is a very recent thing - but I hope it will be built up to a point where it will ride up above wars and stresses

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as a sacred institution that will be respected; and the surest way to break that down is to allow people to use it for secret and hidden purposes.

Sprague: Yes.

H.M.Jr: Anybody anything else?

White: Why were you including the - if I understood it - the right of a government as such to earmark gold?

H.M.Jr: Now listen - take him outside, I mean.

Oliphant: I didn't include it.

White: Oh, you didn't? I thought...

Oliphant: No, it's clear that gold owned by a government may be earmarked and transferred provided it is done through the fiscal agent.

H.M.Jr: All right.

Cochran: How about the - my - that institution of the B.I.S.? Can it function in any way as agent for these partners?

Oliphant: May I point out, Mr. Secretary, that I raised that latter point because of a paragraph in this memorandum that Cochran read. Here it is: "It may be observed that in such transactions, since the gold in question is in any case earmarked at the Federal Reserve Bank in the name of the B.I.S., the transfers of ownership between customers of the B.I.S. do not necessarily entail actual changes in the deposit of gold appearing in the books of the Federal Reserve Bank in the name of the B.I.S." And that would be one type of transaction which would violate, it seems to me, the essential quality of earmarking, that there should be no undisclosed interests.

Knoke: I think that we are notified by the B.I.S. whose gold it is, even though it is earmarked in the name of the B.I.S., and furthermore the gold in all cases is the gold belonging to foreign central banks, as they state in Cochran's memorandum.

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- H.M.Jr: Well, if I understand what Mr. Oliphant is saying, and if I understand him completely, I am in complete accord - that if the B.I.S. earmarks, they must disclose whoever the ultimate owner is, and can only earmark for that person, and they can't be used as a blind.
- Oliphant: That's routine.
- H.M.Jr: That's right, and I would hold, if the legal question would come up, that if they do disclose the owner, then it ceases to be an earmark for the account of B.I.S. and becomes an earmark for the account of the foreign central bank. They are just nothing but a fiscal agent there.
- Knoke: Supposing that's what they claim they are.
- White: Suppose they earmark gold for foreign central banks, then they earmark gold on their own account. The gold which they are earmarking happens to be built up of earmarks of foreign central banks.
- Oliphant: It's the same thing.
- Sprague: I think the title is with the B.I.S. It is like a gold settlement fund.
- H.M.Jr: If I was pushed on this thing today, I'd just rule the B.I.S. out of the whole picture. I'd cancel the privilege to earmark and everything else. But I'd answer Cochran as to the way his pet child comes in that I'd like to leave the B.I.S. alone until the thing is settled.
- Cochran: But you have had transfers so far which will involve....
- H.M.Jr: Well, not you, but if the B.I.S. pushes I'd simply have to suspend their privilege to earmark here until we can take up the question of the other countries. I mean my advice would be to let the B.I.S. stay in status quo until we can clear up whatever the next step is going to be. But if they push us, then I simply say, "Well gentlemen, if you're going to push us, I'm sorry, we'll have to cancel your privilege here."

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Cochran: No, they're not going to push you.

H.M.Jr: Well then, I would simply let that thing rest as is until we can see what the next thing is.

Cochran: Each member would have to deal in his own name directly.

H.M.Jr: Say that again.

Cochran: Each club member would be obliged to deal directly in his own name.

H.M.Jr: And not through the B.I.S.

Cochran: That's right.

H.M.Jr: I mean if that isn't agreeable to them, we'll simply have to take the privilege away, because after all these five club members have designated who their fiscal agent is, and their fiscal agent is not the B.I.S.

Cochran: No.

H.M.Jr: Their fiscal agent is their own bank in each case. Now, Herman, so that - I mean so that this memorandum will flow freely, is there anything else?

Oliphant: No.

H.M.Jr: I mean I don't want - I mean I'd much rather settle the argument here so that this memorandum ought to be a very simple one and ought to be drawn up very quickly. But if there is anything..... Knoke?

Knoke: No, I have nothing.

H.M.Jr: On the B.I.S.?

Knoke: No. B.I.S. is not as close to my heart as others.

Cochran: But you will permit that in your memorandum that you are reading to your representatives.

H.M.Jr: About the B.I.S.?

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Cochran: At least make it understood.

H.M.Jr: Oh yes, it must be - that they've got to earmark through their own banks and not through the B.I.S.

Oliphant: I made a note of that.

H.M.Jr: Is neutrality still virtuous?

Livesey: I think so.

H.M.Jr: What?

Livesey: I think so. As a matter of fact, I wasn't around when that was brought up and discussed and put under Feis's observation.

H.M.Jr: All right.



January 26, 1937

The Secretary called Secretary Hull on the telephone this morning and said, "I have drafted a reply to Bullitt's telegram which I received today, (This was Cable 101.) wherein he makes another suggestion on the French financing. I consider it so important that I would like you personally to pass on the draft of the reply. I will send it to you personally. I have worded this a little bit stronger than usual because I want to give Bullitt and Rueff a 'poke in the nose'. This sort of proposition shakes my confidence in the French Government."

DRAFT

I am frankly disappointed to receive the suggestions contained in your 101 as they raise many doubts in my mind. Not only did Rueff's suggestion which you telephoned to me on Thursday appear unsound and in fact unreasonable, but I find no satisfactory explanation for today's suggestions. While this Government has made the efforts with which you are familiar to cooperate with the French Government in its desire to achieve exchange stability, and will continue to cooperate in this field, I do not feel that any of the recent suggestions fall within the spirit of the Tripartite agreement or the proper field of operations of the Stabilization Fund. Whereas some mention might be made of the discussions in Congress at the time of the passage of the Johnson Act it is clearly not the policy of this Government to extend unsecured credits for currency stabilization or other purposes to governments of countries in default on their obligations held by this Government.

O.K. W.M.H.

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: January 28, 1937, 6 p.m.

NO.: 38

FROM SECRETARY MORGENTHAU.

STRICTLY CONFIDENTIAL.

The suggestions contained in your telegram No. 101 have frankly disappointed me, as they raise many doubts in my mind. Rueff's suggestion, which you telephoned to me on Thursday, appeared not only unsound and in fact unreasonable, but I find no satisfactory explanation for the suggestions in your telegram of today. The United States has made the efforts with which you are familiar to cooperate with the French Government in its desire to achieve stability of exchanges, and this Government will continue to cooperate in this regard, but I do not feel that any of the suggestions recently made fall within the spirit of the Tripartite Agreement or the proper field of the Stabilization Fund's operations. Even though some mention might be made of the discussions in Congress at the time the Johnson Act was passed, it is clearly not this Government's policy to extend to Governments of countries in default on their obligations to this Government any unsecured credits for currency stabilization or other purposes.

HULL

January 26, 1937

Attached letter from Secretary Hull contains his reaction to the draft of cable to Bullitt which HM, Jr. submitted to him for comment.



DEPARTMENT OF STATE  
OFFICE OF THE SECRETARY  
WASHINGTON

January 26, 1937.

Dear Mr. Secretary:-

Answering your note of the 22d enclosing copy of draft to Ambassador Bullitt for my examination and comment, I would say that the statement seems to be in accord with the general conditions with which you seek to deal. I might add, however, with reference to the last sentence of four lines, that I have not undertaken to examine the technical law of the Johnson Act in its application to the matters referred to. You have, I am sure, had this done.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

January 28, 1937

My dear Mr. President:

I am inclosing herewith copy of  
the cable which I received from Bill  
Bullitt and copy of my answer to him.

Respectfully,

The President,

The White House.

January 26, 1937

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My dear Mr. President:

I am inclosing herewith copy of  
the cable which I received from Bill  
Bullitt and copy of my answer to him.

Respectfully,

The President,

The White House.

January 26, 1937

Gordon Rentschler telephoned to the Secretary today shortly after three o'clock and the following is record of their conversation.



January 26, 1937.  
3:13 p.m.

H.M.Jr: Hello

Gordon  
Rentschler: Hello there, Henry Morgenthau, how are you?

H.M.Jr: Oh pretty well for an old man.

R: Good. I want to ask you a question that's strictly off the record.

H.M.Jr: Yes.

R: We're being asked in London - and I don't know whether this is officially or not -

H.M.Jr: Yes.

R: - whether we would like to participate through our London branch in approximately a fifty million dollar sterling loan.

H.M.Jr: Yes - to whom.

R: To be loaned - we can't quite get it - one cable says to the Bank of France secured by gold.

H.M.Jr: Yes.

R: The other says to the government guaranteed by the Bank of France.

H.M.Jr: Yes.

R: If it's the latter, of course, we're distinctly out under the Johnson Resolution.

H.M.Jr: Yes.

R: If it's the former there is possibly an open question. Now heretofore we have always assumed that it may not be near enough to ask any question and we didn't want to ask a question and get a formal ruling...

H.M.Jr: I understand.

R: .....if, in any manner, it would be embarrassing to you.

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- H.M.Jr: Well now - now - which is the one that you think there may be a possibility?
- R: Well if it's - if it's a question that they ask us to loan to the French government guaranteed by the Bank of France, our answer will be "No".
- H.M.Jr: Yes.
- R: If they ask us - I mean without referring to anybody. If they ask us if it's a loan to the Bank of France secured by gold deposited in London why then, of course, we'd be very much interested. If it's to be gold deposited in France we might be a little less interested. But, in any event, we might want to be interested and we don't want to....
- H.M.Jr: Yes, now let me get this - this is important - I want to get it straight. The - the first one you don't need any advice on.
- R: No - no we need nothing about that. We won't answer anybody that is asking that question.
- H.M.Jr: The second one is a loan against French gold deposited in London.
- R: That's right. It would be a loan to the Bank of France secured by gold deposited in London, or a loan to the Bank of France secured by gold deposited in Paris. Now would that come under the Johnson Act. I don't even want to ask you that question.
- H.M.Jr: I understand. How - how much - how.....
- R: But would it be embarrassing if we asked....
- H.M.Jr: I understand.
- R: ....somebody in your Department or would you rather have us just remain quiet and keep this under advisement?
- H.M.Jr: Ah - how soon do you want an answer.
- R: Well I can be just as dilatory about it as you want me to be.

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H.M.Jr: But - no - well I imagine that they're closing that up to-day aren't they?

R: They're probably - they'll be - the Underwriter's market over there will probably close it to-day.

H.M.Jr: I'll try to give you an answer in an hour.

H: All right, that will be fine.

H.M.Jr: I mean when I say answer I don't mean answer but I'll try to let you know how we feel.

R: Yes - ah

H.M.Jr: Give me an hour on it.

H: Yes, I'm going to be at the Roosevelt Hospital.

H.M.Jr: Yes.

R: At - between 4:30 and 5 and I'll come out to a telephone just - if you will just leave word that Mrs. Klotz is calling me.

H.M.Jr: Mrs. who?

H: Just say your Secretary - for her by name. Nobody knows her.

H.M.Jr: I see.

R: But I will be at the Roosevelt Hospital tell Mrs. Klotz.

H.M.Jr: Yes, at what time?

B: Well I'll be there - I'll get there at 4:30 and I'll be there from 4:30 to 5:30 at a Trustees' meeting.

H.M.Jr: Well I'll - well I tell you what you do. I'll make it easier. When you get there at 4:30 you call me and I'll have the answer.

R: I'll call you back. How long will you be in your office?

H.M.Jr: Well - I'm not sure but if you'll call me when you get there, say about 4:30, I'll have the answer for you.

R: All right, fine.

H.M.Jr: And if you don't want to - you can reverse the charges and then they - you don't - that will make it easier for you up there.

R: Yes, well now that - that will be all right provided that you let me pay for it then.

H.M.Jr: Oh no, this is on the government.

R: I'm - I don't want to do anything that is in any way going to embarrass you fellows down there.

H.M.Jr: Oh no, no, no, no. You call me on this number - District 2626.

R: Yes, now there's one other thing that I just want you to know and that's also completely off the record and that is as these various French Editors....

H.M.Jr: As these what?

R: The various French Editors.

H.M.Jr: Yes.

R: Now there's the Credit

H.M.Jr: Yes

. the one that does the real estate loaning.

H.M.Jr: Yes.

R: And their - as they have come in and asked.....

H.M.Jr: Yes.

R: ....whether we thought this market would be open...

H.M.Jr: Yes.

R: ...and they have rather hoped that we might find out what the official attitude might be.

H.M.Jr: Yes.

R: We have said back to them that we do not wish to sound the official attitude.....

H.M.Jr: Yes.

R: ....because the market here is entirely unreceptive.....

H.M.Jr: I understand.

R: .....under present conditions and we've been saying that up until about two weeks ago which is the last time we were asked. I just want you to know that for your own information.....

H.M.Jr: Right.

R: .....as we have no record of it here.

H.M.Jr: I understand. I understand perfectly and I appreciate your calling me and if when you get there you call me on that number.....

R: All right and remember this - we're entirely - if it's a matter of foregoing some business to avoid embarrassment why we'll be delighted to forego the business.

H.M.Jr: Well the one situation I have my finger on above everything else is the French.

R: Yes.

H.M.Jr: And there's been an awful lot going on in the last three days.

R: I realize that.

H.M.Jr: And they've made me two different propositions - ah - ah - in the last forty-eight hours.

R: Yes, the markets rather indicate that there's been some progress and that's what I imagine these fellows are getting ready for over there.

H.M.Jr: But by 4:30 I'll have an answer for you.

R: All right and I thank you very much.

H.M.Jr: Thank you.

R: Right.

H.M.Jr: Goodbye.

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The Secretary spoke to the President at 4:30 and said to him, "I have been asked, off the record, by the National City Bank whether they should or should not participate in the loan in London to either the French Government or the Bank of France against gold which will be deposited either in London or Paris. Can you see any objection to that? Our people say that, under the law the Attorney General says they have to consult their own attorneys; that we cannot advise them. It is just a policy matter. This is a commercial loan, a syndicate of private bankers who are going to make a loan to either the French Government or the Bank of France, and the collateral is gold."

The President in substance said he felt that this would go against the spirit of the Johnson Act and that even though it was secured by gold, that a loan to a nation that had not paid its war debt would be against the spirit of the Johnson Act.

The Secretary then said to the President, "I will not quote you. As a matter of fact, whether this bank participates or not will not make or break the French situation."

The Secretary, summing up for the President, said, "If it is a question of the purchase of foreign exchange against the delivery of gold, it is O.K., and outside of that, it is against the spirit of the Johnson Act."

Mr. Rentschler called the Secretary back at about a quarter to five to get the Secretary's reaction to the "off the record" inquiry, and in effect the Secretary's response was "Don't ask me." Mr. Rentschler thoroughly understood the Secretary's implied attitude.

Following is a record of their conversation:

January 26, 1937.  
4:46 p.m.

H.M.Jr: Hello

Gordon  
Rentschler: Hello Henry.

H.M.Jr: How are you?

R: All right.

H.M.Jr: This is what I want to say. I think you better not ask me.

R: Very good.

H.M.Jr: See?

R: I understand completely and will not.

H.M.Jr: Ah - we - we - it's - we've talked a lot - it's a...

R: Both him and I think that's a smart answer.

H.M.Jr: Ah - I just want to say this. We go into the spirit of this particular Act, see?

R: Yes.

H.M. Jr: See ?

R: Yes, and we both think that's exactly the proper answer.

H.M.Jr: All right.

R: So that's it's - we'll leave it on the basis of a question that was never asked.

H.M.Jr: That's right.

R: See, it will never be asked.

H.M.Jr: Yes, now what I've done is - for your information - I've told George Harrison so in case he is asked by any other banks in New York he'll tell the same story.

R: Yes.

H.M.Jr: See?

- 2 -

R: Yes.

H.M.Jr: And - because normally those things clear through George.

R: Yes.

H.M.Jr: You understand.

R: Well we didn't ask George - I- ah....

H.M.Jr: No, but he's here.

R: I see. Well I thought it was such a procedure....

H.M.Jr: No but it's all in the family.

R: Yes, that's right.

H.M.Jr: He understands and....

R: I was afraid it would be entirely formalized if it went over there.

H.M.Jr: No - no - ah - he understands but I'm just telling him in case some of the other banks ask....

R: Yes.

H.M.Jr: .....you might say, "well gosh somebody.....

R: Yes

H.M.Jr: - somebody - the Chase..

R: All I have to do if anybody asks us we'll tell them we thought it over and decided we didn't want to do it.

H.M.Jr: That's right.

R: Well I'll send the cables back tonight that we're not interested.

H.M.Jr: No, any more than I'd want to have it known that...

R: No, no - all I'll do is just say that if the banks offer us that we're not interested.



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

R: Yes, we'll do that.

H.M.Jr: All right.

R: Everything else moving all right?

H.M.Jr: I think so.

R: Good.

H.M.Jr: I think so.

R: All right, fine.

H.M.Jr: Thank you.

R: Thank you very much.

H.M.Jr: Goodbye.

R: Goodbye.

The Secretary then instructed Mr. Taylor to call George Harrison and inform him of the "off the record" inquiry of the National City Bank. Mr. Taylor was also instructed to advise Mr. Harrison, for his guidance in the event of similar inquiries, to offer the same unofficial advice, that is, that participation by American bankers in the loan would be against the spirit of the Johnson Act.

January 26, 1937

In the course of his conversation with the President today reporting on the call from Gordon Rentschler, the Secretary told the President about Cable 101 from Bullitt and of his reply. He also informed the President that before sending his answer to Bullitt he had cleared it with Secretary Hull.

C O P Y

FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE January 26, 1937.

CONFIDENTIAL FILES \_\_\_\_\_

SUBJECT: TELEPHONE CONVERSATION

Allan Sproul \_\_\_\_\_

\_\_\_\_\_ WITH MR. CARIGUEL, BANK OF FRANCE

Mr. Cariguel of the Bank of France telephoned me at 12 o'clock noon today. He said he had nothing special to tell us, but wanted to let us know that they are still up against it and are daily losing heavily to the market. From a technical point of view, he said, he does not see what can be done to reverse the trend. I suggested that their situation is now almost wholly responsive to political and budgetary developments and he said that is right.

Mr. Cariguel then said that, naturally, the Paris market has been a big buyer of dollars and he wondered if we had noticed anything special in connection with these transactions, such as for heavy French purchases of our securities. I told him that recently the transactions in securities for foreign account in our market have not been nearly so large as they were two or three months ago, and that I did not think net French purchases here had been very heavy. He said that perhaps the movement away from the franc was now taking the form of purchases of commodities rather than securities, and I agreed that this might be so as far as our market is concerned, in that foreign purchases of our securities have been retarded both because of the state of the market itself and because of some uncertainty about whether steps might not be taken here to make foreign investments in our securities less attractive. I then told Mr. Cariguel that the rumors were increasing of a further depreciation of the franc to the lower limit of the range permitted by the present law, perhaps within the next few days. He said that he did not know what his people are going to do, that he is now only an executor of orders; but he repeated

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 26, 1937.

CONFIDENTIAL FILES \_\_\_\_\_

SUBJECT: TELEPHONE CONVERSATION WITHL. W. Knoke \_\_\_\_\_MR. CARIGUEL, BANK OF FRANCE. \_\_\_\_\_

- 2 -

that he did not see what could be done from the technical point of view. I told him also that stories about new French short term borrowing in London were becoming pretty specific and that this had been somewhat disquieting to the market, as it could not see how such borrowing would do anything but temporarily patch up a bad situation. Mr. Cariguel said that he thought conversations were still going on and that, unfortunately, he thought the market was right in its view of such a loan.

I told him that I thought this was a time when perhaps a political gesture might be helpful, but that there did not seem to be anything new to be done in the technical monetary sense. Mr. Cariguel agreed. He then said he had just wished to keep in touch with us, although he had nothing special to say, and repeated that his market is in bad shape.

AS:R

MED

GRAY

PARIS

Dated January 26, 1937

Received 6:15 p.m.

Secretary of State

Washington

109, January 26, 4 p.m.

FOR TREASURY.

The exchange market today was fairly quiet but we understand from our market contact that the exchange fund was called upon to pay out a considerable amount of sterling. The franc rallied somewhat in relation to dollars and is quoted at 21.44 and no alteration. The Swiss franc improved following intervention by the National Swiss Bank. The forward rates again moved against the franc, three months rate for dollars moving up from 47 to 53 centimes and for pounds from 2.30 to 2.44 francs.

The security market was irregular and weak. There were few buying orders apparently as a result of approaching month end settlement and probability of carry-over rates. Most rates showed losses of about 40 centimes.

The radical socialist organ, ERE NOUVELLE, severely criticises the Government in connection with indications that a large French loan with a gold guarantee is about to be concluded in London. This paper finds it difficult

to

IED - 2 - #109, January 26, 4p.m. from Paris

to believe that such an arrangement is under consideration, claiming for instance that it would seriously endanger the gold reserves, and thus French national defense, not to speak of the ratio of gold to the note circulation. This paper points out that if the same guarantee were offered to French investors a more substantial issue would be easily covered in France, and it is unable to understand why a gold guarantee is reserved for foreign lenders.

Some notice is still being given to the suggestion of a "tourist franc" for the Paris International Exposition, but many observers contend that it would be a psychological mistake at a time when an attempt is being made to consolidate the existing currency on its new basis. It is suggested that wide use of the "tourist franc" would put a strain on the market for the official franc and that speculators would probably be tempted to assume that sooner or later advantage might be taken of the situation arising out of such an arrangement to bring the official franc into line with it.

BULLITT

S/S:NPL

11-30 Appt 65  
THE WHITE HOUSE  
WASHINGTON

File  
January 28, 1937.

MEMORANDUM FOR MAC

Tell Carroll Miller that I have this draft of a proposed letter to me and I think before the Interstate Commerce Commission sends this to me he had better come and see me.

F. D. R.

Told Mac 1/28/37



**Interstate Commerce Commission**  
**Washington**

OFFICE OF  
JOSEPH B. EASTMAN  
COMMISSIONER

January 26, 1937.

Honorable Henry Morgenthau, Jr.,  
The Secretary of the Treasury,  
Washington, D. C.

My dear Mr. Secretary:

When the chairman of the Commission talked with you recently in regard to certain comments which appeared in our recent Annual Report with respect to the undistributed earnings tax, imposed by the Revenue Act of 1936, he agreed that a representative of the Commission would confer with you in regard to this matter at an early date. Subsequently, the Commission decided that I should be its representative for this purpose, presumably because I am chairman of its Legislative Committee.

You were good enough to send to our chairman a copy of the letter which you wrote to the President upon this subject on January 12, 1937, and we have studied it carefully. We were also informed that at a press conference the president indicated that he was expecting from us a reply to that letter. Before communicating with you in regard to the proposed conference, therefore, I thought it well to prepare a draft of such a reply as, on the information now available, it seems to me should be made. I am sending you a copy of that draft herewith. If, after reading it, you feel that a conference

Honorable Henry Morgenthau, Jr. - 2.

would be desirable, I am at your service at any time this week that may be convenient to you, if you will advise me. However, with your permission, I should like to bring Commissioner Mahaffie with me, because of his great experience with these financial matters. If you feel that a conference is unnecessary, please notify me accordingly, and we shall then send our reply to the President.

Respectfully yours,

*Joseph B. Eastman*

Encl.

E-B

(draft)

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Honorable Franklin D. Roosevelt,  
President of the United States,  
The White House.

x137  
x31-18  
x962  
x5

Dear Mr. President:

The Secretary of the Treasury has been good enough to send me a copy of the letter which he wrote to you on January 12, 1937, in regard to certain comments which appeared in our recent Annual Report with respect to the undistributed earnings tax, imposed by the Revenue Act of 1936. We have given this letter careful consideration, and it appears that the Secretary is laboring under certain misunderstandings or wrong impressions in regard to this matter, as I shall now endeavor to make clear.

The letter indicates that the Secretary is under the impression that we have recommended "vital and far-reaching changes in the undistributed earnings tax, imposed by the Revenue Act of 1936, as it affects railroad corporations coming within the jurisdiction of the Commission", and also that this recommendation was "prepared and published without the courtesy of consultation with the Treasury Department". The facts are, we believe, quite otherwise.

We did not, as we see it, recommend "vital and far-reaching changes in the undistributed earnings tax". All that we did was to recommend that the situation of steam railroads under the Revenue Act of 1936 be given further consideration with a

Honorable Franklin D. Roosevelt - 2.

view to encouraging railroads with weak financial structures and those just emerging from bankruptcy or receivership to use their earnings, to the extent authorized and approved by the Commission, to "build up<sup>and improve</sup>/their property, retire their funded debt, and create corporate surpluses in amounts sufficient to meet emergency needs, support their borrowing power, and afford insurance against obsolescence."

The Revenue Act of 1936, Section 14(d), specifically exempts from the surtax certain corporations, including banks, insurance companies, joint stock land banks organized under the Federal Farm Loan Act, and corporations which for any portion of the taxable year are insolvent and in receivership. The corporations exempted are those having semi-public functions or those in difficulty. The railroads are public service corporations, and those which the Commission suggests be given relief from the full operation of the surtax are those chronically in distress because of their poor financial structures or those just emerging from bankruptcy or receivership proceedings.

The surtax is imposed on the undistributed net income. Under the provisions of Section 14(a) of the Revenue Act, in arriving at the undistributed net income, certain deductions, including the credit provided in Section 26(c), are allowed. The credit provided in Section 26(c) is for amounts paid out or reserved for retiring funded debt or withheld from stockholders under written contracts of a certain kind executed prior to May 1, 1936. We think consideration should be given to the desirability of extending this provision to amounts paid out under

Honorable Franklin D. Roosevelt - 3.

similar contracts executed after April 30, 1936, under requirements imposed by the Commission.

Further precedent for what we suggested is found in the provisions of Section 14(a) (1)(C) and (D) of the Revenue Act, under which there may be deducted from net income, in arriving at the undistributed net income, in case of a holding company affiliate, the amount allowed as a credit under Section 25(d), and in case of a National Mortgage Association created under Title III of the National Housing Act, the amount allowed as a credit under Section 25(e). The credit allowed in case of a holding company affiliate is the amount of the earnings or profits which the Board of Governors of the Federal Reserve System certifies to the Commissioner (of Internal Revenue) has been devoted by such affiliate during the taxable year to the acquisition of readily marketable assets other than bank stock in compliance with Section 5144 of the Revised Statutes. The credit allowed in case of National Mortgage Associations created under Title III of the National Housing Act is the amount of earnings or profits which the Federal Housing Administrator certifies to the Commissioner has been devoted by such Associations during the taxable year to the acquisition of such reserves as the Administrator may require under the provisions of Section 303 of that Act. This seems to us to be a precedent for the suggestion that the railroads be encouraged to build up their surplus for purposes consistent with the public interest, to the extent that we may authorize.

Honorable Franklin D. Roosevelt - 4.

In the light of the above, we do not feel that we suggested "vital and far-reaching changes in the undistributed earnings tax". Nor is it correct that the suggestion was made "without the courtesy of consultation with the Treasury Department". The duty of preparing for the consideration of the commission a chapter for the Annual Report on sinking funds and other reserve funds was delegated to C. E. Boles, assistant director of our Bureau of Finance. Before undertaking to prepare the draft, he spoke informally to Mr. King, Special Deputy to the Commissioner of Internal Revenue, about the objections railroads were making to setting up sinking funds because of the effects of the undistributed earnings tax. Mr. King suggested that Boles speak to the head of the Legislative Division of the General Counsel's Office, Bureau of Internal Revenue. Boles' account of what then transpired is as follows:

After the draft of the chapter on sinking funds and other reserve funds was completed, I submitted it, under instructions from Commissioner Meyer and the Director of this Bureau, as evidenced by the attached copy of the Director's memorandum of October 21, 1936, to the Legislative Division of the General Counsel's Office, and it was checked by the assistant head of that Division and by other employes who were called in to take part in our discussion. It was generally agreed by those with whom I conferred that there should be no objection to making such changes in the Revenue Act as were suggested, as the provisions necessary to relieve weak carriers and those emerging from receivership and bankruptcy would be similar to those provisions to which I have called specific attention above. Neither they nor I considered that the changes necessary to produce the desired result would be inconsistent with the major objectives of the undistributed earnings tax or the principles upon which the President's message to Congress under date of March 3, 1936, were based.

Honorable Franklin D. Roosevelt - 5.

At their suggestion I inserted in the draft after the word "encouraged" (page 19, line 5, of the Commission's Annual Report) the words "to use their earnings, to the extent authorized or approved by us". As originally drawn, the chapter concluded: "It is recommended that such changes be made in the Revenue Act as will be conducive to that end". Representatives of the Bureau of Internal Revenue suggested no changes in this language. The Commission, however, substituted for this conclusion the one used in the Annual Report, namely, "We suggest that the situation of the steam railroads under the Revenue Act of 1936 should have the further consideration of Congress".

.There was certainly no intent to make any recommendation contrary to the principles upon which the President's message to Congress under date of March 3, 1936, was based, or to make recommendations for any vital or far-reaching changes in the undistributed earnings tax, or for any changes contrary to the major objectives of the undistributed earnings tax. We were under the impression that we were taking the proper steps to see that our recommendations would be in line with the major views of the Administration on taxation.

We would, of course, have been glad to consult the Secretary of the Treasury in regard to the matter also, but the need for such consultation was at no time suggested by the Legislative Division of the General Counsel's office, Bureau of Internal Revenue. In all of the circumstances it did not occur to us that we ought to bother the Secretary with such a consultation.

The statements in the third paragraph of the Secretary's letter to you summarize in substance what we said as to the effect of the provisions of the Revenue Act on railroads required to set up sinking funds and other reserve funds, with this exception: Our report shows that the surtax would apply

Honorable Franklin D. Roosevelt - 6.

adversely not only to weak roads reorganized subsequent to April 30, 1936, but to all weak railroads required to set up sinking funds or other reserve funds subsequent to April 30, 1936, for the purpose of retiring a part of their funded debt or improving their property.

Beginning at the bottom of page 2 of the Secretary's letter, he sets forth some "important considerations", numbered (1) to (4), which he says our report "does not mention". The first of these appears to have no bearing on the questions that we discussed. The exemption referred to is provided in Section 14(d) of the Revenue Act, and has been mentioned above. It applies only to corporations which for any portion of the taxable year were in bankruptcy under the laws of the United States, or were insolvent and in receivership. As we understand this exemption, it applies only to a corporation while it is in bankruptcy, or is insolvent and in receivership, and for such portion of the taxable year as is unexpired when bankruptcy or receivership proceedings terminate. It does not apply to such a corporation after reorganization, except during the remaining portion of the taxable year in which it was in bankruptcy, or insolvent and in receivership. Except for the very limited period stated, the corporation upon termination of bankruptcy or receivership is no longer entitled to exemption. We are not interested in sinking funds and reserve funds for corporations in bankruptcy or receivership. Our interest is in the gradual improvement of the financial structures of such cor-



Honorable Franklin D. Roosevelt - 7.

porations after they emerge from such proceedings, and in the gradual improvement of the financial structure of weak railroads that have barely avoided them, in many instances only with the aid of the Reconstruction Finance Corporation.

With reference to the second consideration, which the Secretary states our report does not mention, we have been unable to find any provision in the Revenue Act exempting reserves for improvement of property or retirement of debt, other than such reserves as were required to be set up under contracts entered into prior to May 1, 1936. The attention of Mr. Boles was not called to any such provisions during his conference with representatives of the Bureau of Internal Revenue. Section 23 of the Act does allow deductions for obsolescence and depreciation, and for that reason the reference to "insurance against obsolescence" on page 19 of our report should have been omitted, or limited to obsolescence for which no provision has been made in the past, as contrasted with currently accruing obsolescence. With this possible exception, such allowances are in no way pertinent to the matters which we discussed. They serve merely to enable the carriers to set aside part of their gross income to reflect the cost of property that is currently being worn out or otherwise losing its value, and really are part of the operating expenses that must be considered in arriving at net income for tax purposes. The problem which we were considering was not so much the proper maintenance of property of the carriers, but rather the improvement of their financial structure, where needed, through retirement of

Honorable Franklin D. Roosevelt - 8.

a part of their funded indebtedness or by building up property out of earnings without the issue of any securities, whether stocks or bonds.

With reference to the third consideration, which the secretary mentions, this is to the effect that carriers may reduce their funded indebtedness through withholding their earnings for that purpose and paying dividends in preferred stock to their common stockholders, or by using their earnings for that purpose and reimbursing their treasury through the issue of securities offered to common stockholders for subscription. The Chesapeake & Ohio Railway Company resorted to a preferred stock dividend to escape surtax, authority to issue \$15,315,500 of preferred stock having been authorized by the Commission, Division 4, on December 3, 1936, in Finance Docket 11429. Similar action was authorized by Division 5 in the case of the Greyhound corporation.

The requirements of weak carriers for retiring funded debt could seldom be met through the issue of stock to be sold stockholders, because stockholders of such companies are not likely to subscribe for additional stock. The method suggested of withholding earnings and declaring preferred stock dividends, as was done by the Chesapeake & Ohio, one of the strongest carriers in the United States, would be objectionable in case of weak carriers, for two reasons. First, many of the weak carriers are overcapitalized, and substitution of stock for funded debt will not cure this defect. The only way to do it is to reduce the total amount of securities outstanding, preferably funded debt

Honorable Franklin D. Roosevelt - 9.

securities, or build up the property out of earnings without issuing any securities. Second, under well established principles followed by us during the last 17 years, railroads are not permitted to issue securities, whether stocks or bonds, in excess of their total capitalizable assets. If weak carriers, which as a rule have little if any surplus, and many of which show deficits in their surplus accounts, are permitted to capitalize all their capitalizable assets through the issue of stock, no margin will be left upon which they may base an issue of bonds in times of trouble, and at such times it would be impossible for them to issue stock of any kind.

The fourth consideration which the Secretary states our report does not mention, namely, the fact that instead of a flat rate of 15 $\frac{3}{4}$  percent, the present law admits corporations to a gradual rate from 8 percent to 15 percent, does not appear to have any application to the matters which we discussed. The question under discussion in our report was the applicability of the undistributed earnings tax, which may be avoided by certain carriers required to set up sinking funds, and can not be avoided by other carriers required to set them up. In passing, it should be noted that the 15 percent rate mentioned by the Secretary applies to net incomes in excess of \$40,000 per year. The benefits of the graduated rate would be a very small matter in most cases as compared with the heavy burden imposed by the surtax, which often would amount to about 21 percent of the undistributed net income. See Section 13(b) and Section 14(b) of the Revenue Act.

Honorable Franklin D. Roosevelt - 10.

With reference to the statement in the first paragraph on page 4 of the Secretary's letter, that it is inaccurate to describe the tax as a penalty: Whatever the correct description, the tax would in effect throw a burden on financially weak railroads required by us to set up sinking funds out of their earnings, whereas this burden could easily be avoided by the strong carriers. There is no reason why these corporations should not receive preferred treatment under the law, as well as corporations in receivership and bankruptcy, which do receive preferred treatment under the law. It is merely a matter of degree. In case of corporations in bankruptcy and receivership, the bondholders are benefitted to the extent that earnings of the corporation are not subject to the surtax, whereas in case of weak carriers, if they were exempted in certain circumstances, as we suggested, stockholders as well as bondholders would be benefitted. Furthermore, the corporation itself would not be forced to pay a tax that stronger corporations may lawfully escape.

Summarizing the matter, we are not persuaded, after reviewing the Secretary's letter, that we erred in the suggestion which we made in our Annual Report. Nor do we feel that we can justly be convicted of lack of courtesy to the Treasury Department. It remains to consider one further general criticism that the letter contains. That is to the effect that we should have taken this question up with the National Emergency Council before including the suggestion in our Report.

Section 21 of Part I of the Interstate Commerce Act directs

Honorable Franklin D. Roosevelt - 11.

the Commission to make and transmit an annual report to Congress, which "shall contain such information and data collected by the Commission as may be considered of value in the determination of questions connected with the regulation of commerce, together with such recommendations as to additional legislation relating thereto as the Commission may deem necessary". The law contains no direction that we shall take such matters up with the National Emergency Council before making this annual report. As a matter of courtesy, we would have no objection to taking them up with the Council, but our annual report is quite a bulky document and we doubt the practicability of such procedure. Nor did we know that it was desired.

Finally, we are unable to believe that the submission to Congress by the Commission of the views which the law directs it to submit can be prejudicial to the cause of good and efficient government. If the views are unsound, they will not long stand up under attack. If they are sound, they should be of benefit to Congress. The free expression of honest opinion by informed bodies is, it seems to us, eminently desirable.

Respectfully yours,

Chairman of the Commission.

January 27, 1937.  
9:12 a.m.

Eccles: Hello

H.M.Jr: Marriner

E: Yes, Henry.

H.M.Jr: How would 4 o'clock suit you?

E: Suit me fine.

H.M.Jr: Well will you come here then?

E: Yes.

H.M.Jr: And then will you just come to my door and tap on the door and I'll - I'll - I'll have it opened for you.

E: You mean the door off the elevator?

H.M.Jr: Yes.

E: All right, I'll do that.

H.M.Jr: Right.

E: All right.

H.M.Jr: Now - ah - are you going to give me a chance to have some memorandum or talk, if I want to, to Goldenweiser or how am I going to get all the facts that you've got?

E: Well what I thought I'd do over there is bring you some charts that Goldenweiser had prepared that just gave you a picture rather quickly.

H.M.Jr: I see.

E: What I wanted to talk to him besides just giving you the picture too is - ah - was the question of your plan on financing and then I wanted to talk to you about the matter of timing this thing.

H.M.Jr: Yes.

E: As well as giving you the picture.

H.M.Jr: Yes.

- 2 -

E: Now if you'd like me to bring Goldenweiser over I'll be glad to do it.

H.M.Jr: Well just let's talk and if we want him I can send for him, if I want to ask any questions, right?

E: Yes.

H.M.Jr: All right.

E: All right.

January 27, 1937.  
10:25 a.m.

H.M.Jr: Marriner.  
Eccles: Yes  
H.M.Jr: I just left the President. I went to see him  
this morning and he's going to have you and  
me in at 4 o'clock.  
E: Oh at four.  
H.M.Jr: Yes.  
E: All right.  
H.M.Jr: Now if you want.....  
E: Then I'll - I'll meet you over there.  
H.M.Jr: How about coming here at three and let's - let's  
talk the thing out first here.  
E: Well that'll - that'll be fine.  
H.M.Jr: See?  
E: That would suit me better.  
H.M.Jr: Well then let's have - because - I - I - I want to  
clear it in my own mind.  
E: Well all right then I'll be there at three.  
H.M.Jr: Righto.  
E: And then we'll go over there at four.  
H.M.Jr: Righto.  
E: That's fine.  
H.M.Jr: Thank you, Marriner.  
E: All right.



January 27, 1937.  
12:35 p.m.

H.M.Jr: Hello

Operator: Eccles.

H.M.Jr: Hello

Eccles: Hello.

H.M.Jr: Marriner.

E: Yes.

H.M.Jr: On account of the time being so short I wonder if this program would be agreeable to you that when you come over - hello -

E: Yes.

H.M.Jr: That when you come over that I have the people in here who advised me so they can hear what you've got to say and we'll all go along together because I won't have much time and they'll all hear the story and we'll chew it out right in front of you.

E: Well I - I don't -

H.M.Jr: I mean...

E: Yes - who - who would you want?

H.M.Jr: Well you - I mean - the regular people - Haas and Taylor and Upham and Bell.

E: Yes, that's all right.

H.M.Jr: I mean the people that Haas has working with us.

E: Ah-ha.

H.M.Jr: I mean - ah...

E: That's all right. Well now.....

H.M.Jr: The only reason - I mean

E: What I would like to do is to merely give you the picture as we see it, see?

H.M.Jr: Yes.

E: Then I - I don't want to put you on the spot at all. I mean I wouldn't - it isn't for the purpose of saying, "What's your view and we ask you to take the responsibility". I mean - we - we - we're willing to do that - take the responsibility of the thing but you naturally want to be in a position if the President - ah - asks you your opinion as to what you think.

H.M.Jr: Yes, well the point is normally what we'd do is - I - I - I think he will ask me.

E: Yes, sure he will.

H.M.Jr: The normal thing would be that I'd talk to you and then I'd come in and ask these people to come in and I'd say this is what Eccles said - what do you think. Now in order to short circuit that - if you don't mind - after all you know all the boys here in the Treasury.

E: That's all right - that - that would suit me fine.

H.M.Jr: And you can - you can trust them.

E: Yes.

H.M.Jr: And then they can go along as we go along because we've only got an hour on this thing.

E: That's right.

H.M.Jr: Until I listened and then called them in I won't have time.

E: That's O.K. with me.

H.M.Jr: - And on account of - is that all right?

E: That's O.K. That's - that's all right.

H.M.Jr: And on that basis you bring anybody who you want with you.

E: Yes.

H.M.Jr: See?

E: Well I.....

H.M.Jr: That's up to you.

E: All right.

H.M.Jr: I mean I don't - it's entirely up to you but I - I just didn't.....

E: Well I won't - I - I wouldn't bring more than one or two. I'm pretty familiar with the whole thing myself.

H.M.Jr: All right. Well it would make it much easier for me if you'd be willing to work that way.

E: I would. I would. That's - that's perfectly agreeable.

H.M.Jr: Thank you very much.

E: All right, thank you.

January 27, 1937.  
11 a.m.

Operator: Go ahead.

H.M.Jr: Hello

How are you Henry?

H.M.Jr: Hello Pat.

Pat  
Harrison: Yes.

H.M.Jr: I got your message - that you called.

H: Yes, I called you and they told me you were at the  
White House and I had to go a conference....

H.M.Jr: Yes.

H: .....and I was afraid you would think I wasn't able  
to get you.

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

H: I told Oliphant I called up Parker and found he had  
the flu and he'll probably not be up this week, you  
see?

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

H: Well any conference I had without Parker why I  
couldn't get very far because he's made an exhaustive  
study on this.

H.M.Jr: Well here's the thing. I'm going away for a week.  
Next week I'm going to be away.

H: You'll be away all of next week?

H.M.Jr: All of next week.

H: Ah-ha. Well this stuff - as soon as you come<sup>back</sup>/then  
we'll have a conference.

H.M.Jr: All right.

H: I just don't want to get myself in a jam down here before my Joint Committee. I don't want any report to be made.....

H.M.Jr: I understand.

H: .....on this proposition until I get - have talked it over to him.

H.M.Jr: Well I want to make it - just explain to you personally that I'm going to be gone all of next week.

H: You'll be back about Monday week.

H.M.Jr: I'll be back Monday week.

H: Well when you get back we'll have the conference.

H.M.Jr: All right Pat.

H: Unless you want - unless you want Oliphant and Magill just to have a conference with us and then we'll have a conference when you come back.

H.M.Jr: I'd a little rather be there for the first one.

H: All right, let's put it off till the following week.....

H.M.Jr: All right.

H: .....when you get back and then you have your Secretary notify me.

H.M.Jr: I'll do that Pat.

H: All right, thank you.

January 27, 1937.  
12:50 p.m.

H.M.Jr: I just wanted to say I appreciated so much your coming down and I'm sorry I didn't have a chance to say goodbye.

Walter Stewart: Well that's very nice of you. I wanted to say goodbye to you and we got separated.

H.M.Jr: Well I'm sorry and I just - I really appreciate it so much when you do come down.

S: Well that's very nice of you to say it and I'm glad to come when you feel that I can be of any help.

H.M.Jr: And you always do make a real contribution.

S: Thank you very much.

H.M.Jr: Goodbye.

S: Very nice of you to call.

H.M.Jr: Goodbye.

S: Goodbye.

(Note: Mr. Walter Stewart is with Case Pomeroy)

January 27, 1937.  
2:40 p.m.

Operator: Senator Moore. Go ahead.

H.M.Jr: Hello  
Arthur H.  
Moore: Hello

H.M.Jr: Senator Moore?

M: Yes sir.

H.M.Jr: Morgenthau

M: Oh yes sir.

H.M.Jr: How are you?

M: Well I'm pretty good.

H.M.Jr: Since when do you need an Ambassador from South Carolina.

M: (Laughs) Well Jim is my pal.

H.M.Jr: (Laughs) I see. Well he's a good pal to have. He's mine too.

M: By God I thought nobody could get near you unless he's in line to have

H.M.Jr: No, you never called me before.

M: By God it's the

H.M.Jr: What?

M: So I thought it'd be better for him because you might believe him and I'm just a Hudson County Democrat.

H.M.Jr: I see. Well I'm just a Dutchess County Democrat. Senator, the President did send that over to me and what we - we're following the usual routine on the thing and having an investigation made of Hogan and until that's completed I won't know where I'm at.

- M: Well I only wanted to say this. We don't care whether it's Hogan. Any Democrat up there is good enough for us.
- H.M.Jr: Well now Senator....
- M: There's a lot of other fellows and the only reason he said Hogan was that the first man is - Downey and Downey had been there 25 years and Helvering said he was too old.
- H.M.Jr: Helvering did.
- M: Yes. Downey's been there 25 years. Downey lives in Paterson - he's an organization man.
- H.M.Jr: Yes.
- M: And we'd like him but he said he was 60 something.
- H.M.Jr: Well I didn't know.
- M: So then we thought that well Hogan came from Kansas. In fact Helvering was the same in his party. He's been there 34 years and but we don't care. There are four or five other Democrats there.
- H.M.Jr: Well Senator, I asked Helvering over here yesterday. We talked about it.
- M: Yes
- H.M.Jr: And he says it will take a little time but just as soon as it's ready and when we know I'll ask you whether you'd drop in some morning on your way to the office....
- M: Yes.
- H.M.Jr: .....and we'll have a talk about it.
- M: Yes, well keep in mind that we don't care about Hogan.
- H.M.Jr: Oh good.
- M: It doesn't mean a thing.
- H.M.Jr: Well....



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M: There are four or five other fellows that have been there 10 and 20 years.

H.M.Jr: All right.

M: Any one of them will do.

H.M.Jr: All right.

M: Our only point is that it looks awful bad when here's a Republican that Hoover put there and did all he could to hurt us and we can't change it.

H.M.Jr: Well will you be a little - give me - be a little patient and I'll - I'll do the best I can.

M: That would be fine but understand we don't care about Hogan; anybody.

H.M.Jr: All right - all right.

M: Just anybody's a Democrat, that's all.

H.M.Jr: And - and just remember that anytime you want me if you give me - oh a couple of hours' notice I'm always available.

M: That's fine. Thank you.

H.M.Jr: Thank you.

M: If we just get that - we don't care who's in there.

H.M.Jr: All right.

M: Thank you.

H.M.Jr: All right.

M: I'll hear from you next week I suppose.

H.M.Jr: Well no I'm going away for a week's vacation. I stayed here while the President went to South America...

M: (Laughs)

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H.M.Jr: .....and while Mr. Hull was gone so it's my turn and I'm going away for a week.

M: Well -

H.M.Jr: But as soon as I get back it will be the first order of business.

M: Well that's fine. All right, thank you but bear in mind we don't care who you put in as long as he's a Democrat.

H.M.Jr: Suits me.

M: All right.

H.M.Jr: Thank you.

M: Thank you.

January 27, 1937.  
3:04 p.m.

H.M.Jr: Well you're it Roswell.

Magill: Well you certainly did a good job.

H.M.Jr: They confirmed you at 2:25.

M: Well that's - that's fine.

H.M.Jr: So come on down so I can go away now.

M: (Laughs) Well I may. You know I'm glad that you had some incentive like that.

H.M.Jr: Right. Well -

M: I'll come down there. I'll come down tonight as we spoke of yesterday.

H.M.Jr: All right. You'll be around here about 9 - 9:15 tomorrow.

M: Yes I'll be around anytime and place you say.

H.M.Jr: About 9:15 I'd say.

M: All right, well I'll - I'll get over about then.

H.M.Jr: O.K.

M: All right. Well that's fine. I'm glad there was no trouble about it anyway.

H.M.Jr: No. All right, I'll look forward to seeing you.

M: Anything you want me to do in the meantime?

H.M.Jr: Just be a good boy.

M: (Laughs) Well I think I can hold out that much longer. (Laughs)

H.M.Jr: (Laughs) All right.

M: Thank you very much.

H.M.Jr: Goodbye.

M: Goodbye.

January 27, 1937

The President today approved the following proposal:

"The United States Treasury is prepared, on the basis of reciprocity, to authorize transfers of earmarks of gold between the treasuries, exchange equalization or stabilization funds, or fiscal agencies, referred to in the announcements of the Secretary of the Treasury of October 13 and November 24, 1936, as well as the central banks of such countries.

"This authority would be revocable at any time with respect to any transfer not fully consummated at that time. Both with respect to earmark and to transfers of earmarks, the authority would extend, in accordance with present regulations of the Federal Reserve Bank of New York, only to such gold as is the property of the institution for whose benefit the earmark is created.

"The United States Treasury would appreciate being advised as to the attitude of the governments and institutions concerned on the foregoing proposal."

and I asked Taylor to call in the five tripartite countries at four o'clock this afternoon and present this agreement to them and ask for their answers.

(1)

The United States Treasury is prepared, on the basis of reciprocity, to authorize transfers of earmarks of gold between the treasuries, exchange equalization or stabilization funds, or fiscal agencies, referred to in the announcements of the Secretary of the Treasury of October 13 and November 24, 1936, as well as the central banks of such countries.

This authority would be revocable at any time with respect to any transfer not fully consummated at that time. Both with respect to earmark and to transfers of earmarks, the authority would extend, in accordance with present regulations of the Federal Reserve Bank of New York, only to such gold as is the property of the institution for whose benefit the earmark is created.

The United States Treasury would appreciate being advised as to the attitude of the governments and institutions concerned on the foregoing proposal.

January 27, 1937

In connection with the attached report of meeting held in Mr. Taylor's office, refer to entry of March 31, reporting replies received from foreign governments.

January 27, 1937

The following representatives of foreign countries met with Mr. Taylor and Mr. Lochhead at the Secretary's request:

Baron von Breugel Douglas,  
Netherlands.  
Mr. Eduard Feer,  
Switzerland.  
Mr. T. K. Bewley,  
Great Britain.  
Mr. Charles Saint,  
France.  
Mr. Leonard,  
Belgium.

Mr. Livesey of the State Department was also present. The following is a stenographic report of the meeting:

Mr. Taylor: This is not of major importance, but we are attempting to inform all the cooperating countries in the original tripartite agreement and then the subsequent additions later of the technical moves which we are making. It may be we are going out of our way a little too much in order to explain everything, but we would rather do it that way, and so and so.

This has to do with certain questions which have arisen in connection with transfers of earmarks between Central Banks who are acting as fiscal agents for the Treasuries. When our law was first established in 1934, in which we nationalized gold and established this license system, and so and so, we treated the question of earmark -- it was extended to all Central Banks and Governments, and so and so, but we did not take into consideration, or we did not clarify the question of transfers, so it became automatic and acted always on the basis of special request.

As a matter of fact, until the last two or

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three months since -- really since the tripartite -- with all these countries, cooperating countries, the question did not arise because the United States was not used, to any great extent -- well, either as custodian of gold particularly for the Continent, except small amounts which had been left here. We had been used by certain Latin American countries and China to some extent, and so and so, but we were to all extents comparatively an inactive custodian for monetary gold stocks, so that it was perfectly simple to be able to act on any special request, and so and so, for transfer.

The question has arisen several times within the last month from members of what we will call "the members of the Club," for want of a better term, as an almost automatic transfers. We realized with each one of your countries and various other countries that has been automatic and a courtesy which had been extended, and was part of the custom, and so and so.

Mr. Bewley: I don't exactly understand what you mean by automatic transfer.

Mr. Taylor: We have to operate under license. It goes back to this Gold Act of 1934 and the license which we give to the Federal Reserve Bank -- it is on the basis of general license which we extend to them to hold gold for various purposes, included in which is earmark, but the question of transfer, which in your country would be automatic because you don't operate under that license system; in other words, if we requested you, or whatever Central Bank it might be, to transfer certain gold which we own under earmark there from, let's say, Belgium to The Netherlands, why it would not be any question. It would simply be handled through the Code. We say, on account of the license provision of the Gold Act, we have to have special permission to be able to make a transfer, but this action which we are taking now -- I think you can almost call it, now, a housekeeping action, so as to be able to make it easier to take care of certain things.

We have had some discussion on how to do it, and so and so, and have come to the conclusion that



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at this particular stage we were going to make it automatic -- equivalent of automatic -- for all the members of the six countries, you see, but at least temporarily we will continue the other situation as it is, in which we will earmark for any Central Bank, etc., but at the risk of some slight inconvenience. Also, awaiting any comments that your Treasuries may have as to the desirability of extending that, and so and so, we will just leave that as it is, because that does not bother us very much, or it has not been any great inconvenience.

And we also, in the light of past history, and so and so, recent history, wish to extend this to your countries on the basis of reciprocity. You remember, it's really a matter of confirming something you already do, but we think it is sufficiently important, on account of our own problem, to just confirm that.

Baron Douglas: Would you expect an answer from the Governments? A definite answer?

Mr. Taylor: Yes.

Baron Douglas: Because, as you say, it goes automatically in our system.

Mr. Taylor: We are asking for an answer from the standpoint of simply confirming.

Baron Douglas: That we have received this communication?

Mr. Taylor: That, and if you are glad to do it, we would like to hear about it.

Baron Douglas: All right.

Mr. Taylor: And if there is any reason why you can't or you don't wish to do it, of course we want to hear about that.

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Baron Douglas: So it would only be for the countries who form .....

Mr. Taylor: Who form the club, so to speak. That's as far as we are going.

Baron Douglas: And as for the others, you will leave it as it has been?

Mr. Taylor: As it has been. But we would definitely appreciate any comments that you would like to give us as to, frankly if you think it would be generally helpful if we were to extend that I think if you would just give us anything that you want on that subject. Our mind, frankly, is completely open on that. Occasionally there is minor inconvenience.

Mr. Bewley: How much difference does it really make, because you have never refused a license, I take it?

Mr. Lochhead: May I explain it? From the operating standpoint, the way the thing happens ....

Mr. Taylor: It's a question of delay....

Mr. Lochhead: ...at the present time. If for instance, France had some gold under earmark here and they wished to dispose of that gold, say to Belgium, they would cable over to the Federal Reserve Bank and say, 'We wish to transfer that; will you do it?' The Federal Reserve says, 'All right; we can get an answer shortly.' But from an operating standpoint, for the man on the other side it would help him to know that he does not need to ask; that he has instructions; it means that they will know that all they need is to give instructions to transfer whenever they have to transfer, instead of having to ask.

Mr. Bewley: In practice, when they have asked they have not been refused?

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Mr. Lochhead: If they ask specifically, I don't know of any, but if they simply say, 'Can we as general practice?', we ask 'What is it you want to do?'. We haven't committed ourselves for future transactions, up to the present time.

Mr. Taylor: Frankly, there have been delays. The answer has been yes, but delays which were inconvenient to someone who was operating on the other end. We desire to avoid any delays of that type.

Mr. Bewley: Yes.

Mr. Taylor: For your convenience, these represent notes which I am giving you, instead of reading them to you, and saying this is just exactly what we would do, etc., etc. I just make it for your convenience if you would like to have it because it takes care of some of the technical language. (Gave each a copy of the following:

"The United States Treasury is prepared, on the basis of reciprocity, to authorize transfers of earmarks of gold between the treasuries, exchange equalization or stabilization funds, or fiscal agencies, referred to in the announcements of the Secretary of the Treasury of October 13 and November 24, 1936, as well as the central banks of such countries.

This authority would be revocable at any time with respect to any transfer not fully consummated at that time. Both with respect to earmark and to transfers of earmarks, the authority would extend, in accordance with present regulations of the Federal Reserve Bank of New York, only to such gold as is the property of the institution for whose benefit the earmark is created.

The United States Treasury would appreciate being advised as to the attitude of the governments and institutions concerned on the foregoing proposal."

Baron Douglas: We will just transmit this note and ask what they think of it?

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Mr. Taylor: This is boiled down and I wanted to give you background.

Baron Douglas: This is enough for our Governments to be able to answer.

Mr. Taylor: Oh, yes.

Baron Douglas: We don't need to add anything to this note?

Mr. Taylor: No.

Mr. Saint: The only thing that would have to be added to the note, didn't you say we could request an opinion of our Governments?

Mr. Taylor: Yes. Any comments. In effect, this is what I have been talking from. I haven't talked very straight to it.

Mr. Bewley: This second sentence in the second paragraph, does it mean anything of importance? I don't quite follow it. Is gold earmarked which is not the property of the institution for which it is earmarked?

Mr. Taylor: There are occasions where the B.I.S. does operate as agent, you see, and it depends; there might be some particular situation in which there might be a question raised as to the actual ownership.

Mr. Bewley: Yes.

Mr. Taylor: I think the first paragraph actually takes care of that and where you speak of the Treasuries, fiscal agents, and so and so, and in all the countries, for instance, of the group, why the Central Banks do act as the fiscal agents directly.

Mr. Bewley: Yes.

Mr. Taylor: Now, there are occasions where

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the B.I.S., I think, has acted as the agent of some of the participating countries and it is simply to clarify that situation that that is put in.

Mr. Bewley: Yes.

Mr. Lochhead: It's a question of clarifying all questions of earmark. We have no laws with regard to earmark. It is quite recent. It is understood that gold earmarked belongs to the country in whose name it is, but if you are going to build up the sanctity of earmarked gold it should not be used for a third party, not that I know of any time, but for instance you would not want a Bank to be holding gold in their name which does not belong to them, as a convenience to evade regulations.

Mr. Bewley: Yes.

Mr. Taylor: It is perfectly clear that your Central Banks are specified fiscal agents and the other situation just never had been clarified. As a matter of fact, we have had one transfer already.

Mr. Lochhead: We have had a couple of transfers.

Mr. Taylor: Of gold which belonged to one of the countries that was held in B.I.S. Wasn't it held by B.I.S.?

Mr. Lochhead: Part of it was. It's kind of complicated going around transferring from one to the other and, of course, it causes a little delay if you had to start in licensing every transfer back and forth.

Mr. Taylor: This is not a question of any public announcement or anything on your end. It's so much housekeeping.

Baron Douglas: Oh, yes; of course.

Mr. Bewley: Yes.

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Mr. Taylor: But, as you will recall, the original agreements themselves were initiated and carried out by the Treasuries and we feel that this does affect Treasury operations in various ways and, therefore, we wish to kind of give you the information and have the comment back.

Mr. Lochhead: And then it was agreed that if -- in principle this was agreed upon -- any details would be taken up by your fiscal agents with our fiscal agent; details would not have to go through the Treasuries. Any working details can be arranged through your fiscal agents with the Federal Reserve Bank of New York.

Mr. Taylor: (To Mr. Livesey) Can you think of anything I have left out?

Mr. Livesey: No. I think you have covered it.

Mr. Feer: You expect an answer?

Mr. Taylor: Yes, we would. You will notice the very first sentence is prepared on the basis of reciprocity. We would like to have you confirm something that you probably already do, but it was a relationship which was really between fiscal agents and Central Banks which was built up before we ever discussed it and it is really a formality, but our practice was different.

Baron Douglas: The only change that takes place is here?

Mr. Taylor: It is simply a system of earmark. Transfers have been concentrated in a certain area and maybe there have been changes in that practice that none of us know about.

Unless there is something you want to ask, thank you very much for coming down. I think it saves everybody's time to do it this way.

Baron Douglas: It certainly does, because it helps a great deal to have the word this way.

oOo-oOo

RB

GRAY

London

Dated January 27, 1937

Rec'd 4 p. m.

Secretary of State

Washington.

30, January 27, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

A meeting will be held with the British Treasury representatives tomorrow and I understand that a personal message from the Chancellor of the Exchequer to the Secretary of the Treasury will go forward today giving full details of contemplated French financing on the London market.

There seems to be considerable skepticism in the city regarding the French currency position; the pressure on the franc has been so constant and recently increasingly severe that many hold that it will have to go to at least its legal devaluation limit of about 112 to the pound. Pressure at the end of last week was particularly severe, the French control losing to London for example, 7,000,000 pounds of gold on Friday alone.

Reginald McKenna's address at the annual meeting of the Midland Bank was of an optimistic character. As the foremost advocate among the banking community of a

managed

RB

-2-#30, January 27, 6 p. m. from  
London

managed currency and a managed exchange be expressed satisfaction with "the wise handling of our monetary system that we have had in the past five years" and with the continuance of it he foresaw no reason to fear " a return to the stringency to which our business life was formerly subjected" under the gold standard.

McKenna opposed the argument that cheap money engenders evils which can be corrected only by making money dearer, namely, rising cost resulting from labor shortage, the growth of speculation and a possible adverse balance of international payments. Of these McKenna said shortage of labor was a threat only to a further advance of activity and need not bring about any set back; he denied that there was any sign of the growth of speculation becoming excessive or dangerous; and he indicated that the balance of payments should not cause alarm for it was probable that increased imports of raw materials at rising prices would in due course be balanced by greater exports.

ATHERTON

CSB



## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 27, 1937, 6 p.m.

NO.: 115

FOR SECRETARY MORGENTHAU.

STRICTLY CONFIDENTIAL.

I conveyed to Rueff this morning the sense of the last sentence of your telegram No. 38 of January 26, 6 p.m. Rueff showed no disappointment or surprise.

Mention was made by Rueff of reports published in the foreign press, as in the WALL STREET JOURNAL of yesterday, with regard to the necessity of devaluation of the franc to the limit which existing law authorizes. He said that their difficulties in Paris were being added to by such stories, and that today there was unusually heavy pressure on the forward rate of the franc. Rueff told me that Auriol was issuing a statement to the press denying these rumors that further devaluation is impending. He added that there was slow but satisfactory progress in the negotiations for the loan in England. He said that the Treasury would certainly not be in the position of finding itself without funds, with the loan from England and the three billion francs gold which the stabilization fund had sold to the Bank of France and which could be bought back. He gave the impression, nevertheless, of being distinctly unhappy over financial affairs.

A reliable source has informed us very confiden-

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tially that the strain of the past few days upon the exchange stabilization fund has been considerable, especially since the information published regarding negotiations of a credit in London, and that there has been such an important outflow of capital that unless there is an early change in the situation the discount rate of the Bank of France might soon have to be raised.

BULLITT.

EA;LWW

REPORT OF SECRETARY MORGENTHAU'S  
PRESS CONFERENCE, JANUARY 27, 1938:

H.M.Jr.: Well, I'm at your service.

Q. Can you tell us something about today's meeting of the Interdepartmental Subcommittee?

A. There isn't going to be any.

Q. Today?

A. No, it was put off until tomorrow.

Q. Tomorrow morning?

A. They need a little more time. Yes, eleven o'clock tomorrow.

Q. What was the reason?

A. They needed a little more time--some of the people did--to do their homework.

Q. Will Senator Glass be in this meeting?

A. No, no. I mean - - .

Q. Have you decided on your suggestions, Mr. Secretary?

A. No, I'm going to listen.

Q. Is it fair to assume that out of this meeting there will come some sort of a legislative proposal?

A. Well, not necessarily, but I don't know what they are going to propose. I don't know how--when you appoint a committee to make this study it's up to me, as chairman, to listen, and I don't want to guess at what will come out of it--this isn't a rubber-stamp committee. I mean, these fellows are all - - .

Q. Will you discuss any of the bills already proposed?

A. Well, they will go over the whole thing. They have had plenty of time. I mean, these are intelligent people and there will be a full discussion of the whole subject.

Q. Mr. Secretary, around the first of the year you said you were keeping in constant touch with Mr. Hopkins regarding the relief situation; has that changed any?

A. You mean my keeping in touch with them?

Q. No, at that time you said as a result of those contacts - - .

A. No.

Q. There was no change in the picture at the moment.

A. That's still true. I have here their release as of the week ending January 15th and I get the advance figures for the week of January 22nd and there still isn't anything in the picture but what can be taken care of by the money provided for in the Budget.

Q. Money provided by what?

A. By the Budget.

Q. Anything new on this French situation, Mr. Morgenthau? I see the franc almost touched an eleven-year low the other day.

A. Nothing new that I can say about it except that we are watching it very closely, but there's nothing I can say.

Q. Is the Tripartite monetary understanding still in effect?

A. Still in effect.

Q. Mr. Secretary, Reuters had some report that the Van Zeeland report is going to be made public in Washington at the Treasury or White House tomorrow morning.

A. All I know is we won't release it. My guess is it would come from the State Department.

Q. Is this the Van Zeeland report from all those trips around that he made?

A. Well, strictly in the family, it came here late last night and it's about that thick, and I have asked somebody to read it, now, and that somebody hasn't because I gave it to him late last night and I don't think they have waded through it yet. But I greatly question that I will make any comment on it. I imagine it will all be State Department and I would be

surprised if the White House did anything about it. But this is just amongst us, but my guess would be--a diplomatic document--it would come out of the State Department.

Q. There are going to be some things on money in it. Will you comment on them? At least, according to what Mr. Van Zeeland said.

A. I've got to wait until this fellow reads it. But you remember, here a month ago, there was a dispatch coming over what they are talking about going with gold and if that is in the report I think I laid that one to rest, but as long as it's so big I suppose the whole report will be released.

Q. Mr. Secretary, isn't it rather unusual in this current French franc crisis that there have been no actual physical shipments of gold from Paris?

A. No.

Q. Has it been confined to earmarking?

A. No. Use this for background. The dealings in francs in this country are not very heavy, see--this is for background. And the big play on that is between London and Paris, and when a time like this comes, what they do is more or less just make, more or less--this is for background--just make official transactions in francs the way it is now. I mean, there isn't a free play in the franc right now, you see, but the shock of it is mostly on London and again and again when the franc gets these sinking spells, which they have had three or four times, we don't get the full brunt of it and then they have always taken extra good care to treat the United States well and we are fully protected.

Q. But still it doesn't account, though, why there have been no gold shipments; I still think some metal should have been shipped.

A. The answer is they've got enough here to take care of the present situation--you can use this for background--but they've got enough gold and dollars to amply take care of the very limited transactions which are taking place, but the big brunt of this thing comes either in London or on the Continent and we don't get it--we never get it; I mean, there's just as little mystery about it as possible and I'm telling you the whole story; there's nothing else to it.

Q. Has the French Stabilization Fund exhausted its resources? You see constant reports that the Stabilization Fund is not supporting the franc or to a limited extent.

A. Well, that I can't answer because it's their operation, but I'm simply telling you, as far as we are concerned, they are very small operations. They have ample funds on deposit for them. Do you think I'm talking too much, Herbert?

Mr. Gaston: Not for background; it's all right for background purposes.

Q. Mr. Secretary, if it's true that the French Stabilization Fund isn't supporting the franc, then the Tripartite monetary agreement isn't working.

A. The answer is we do get a rate every day. It's working every single day.

Q. What do you mean by rate?

A. Didn't I explain that the other day? They give us a buying rate for the franc and they give us that every day, after their market closes, they instruct us please to take care of the franc--buy at such and such a price and sell at such a price, and when the day is over they have enough money or gold or dollars here that they take whatever francs we bought or sold off our hands. In other words, we simply operate for them and we never get stuck. We take darn good care of that. Every single day we get a rate for buying--this is all for background purposes.

- Q. Mr. Secretary, what happens when their balances here become exhausted?
- A. That is, again, their worry. In other words, as far as the United States Treasury is concerned, we don't take any risk at all, you see. I mean, just as long as we have gold or cash we are more than willing to operate for them at their risk and expense.
- Q. Do you check the amount of gold they have here before you start buying or selling?
- A. I am a very careful fellow. And it goes for all of these people. When I'm operating for the United States Treasury or the United States Government I don't take any chances at all.
- Q. No rubber checks.
- A. No, I'm not taking any chances, whether it's France, or Mexico, or Canada or any other country. When the day is through the United States Treasury is amply protected. This is all background. And at the same time, doing this, why do we do it? Well, we are operating for them--it eliminates the sharpshooter in the foreign exchange market and he can't depreciate or inflate this thing and start a run on the Bank of France. It has always heretofore been handled by these sharpshooters and no flag means anything to them and if they can make a profit and in that way start a run--they have always done it. That, really when you get down, is what the Tripartite has done; it keeps this thing regular in times like this. When a country like France is trying to straighten out its internal difficulties and they know they don't have to worry and the American businessman--if he has francs due him--he knows that he can get francs at a reasonable rate and that's what it does for the importer or exporter. Now you go to any other country outside of, I mean, where they've got this thing shut down--the American businessman can't get his money and that's the great difficulty and that's why--they know what they can continue to buy and sell and import and export--

he's taken care of and that's the service we are rendering him.

Q. Has the Treasury issued any sort of de facto orders asking American banks not to engage gold in France for psychological reasons?

A. No. They might have on their side, but we haven't.

Q. Do you know if they have asked?

A. I don't know; that's their business. As far as I know, anybody can buy or sell--our market is open. I mean, if any government wants to sell, we will buy. They can take it out or buy it; there's no restriction whatsoever, as far as the United States Government is concerned. It's absolutely free--that is again for background. Now if the French want to do it that is their business and I don't want to talk about it. When you get all through there's no mystery about it as far as what we are doing, other than I don't want to say what I am doing for another client--that's his business. If he says to me "I don't want you to say how much I'm doing" and he has to keep the secret. And if he's my client I should, as a matter of ethics, live up to his request and as long as I do that he trusts us and I think they trust us as much as anybody else in the world, because we keep their confidence; it's no secret as far as what I am doing, but just as far as I am operating for another government.

Q. Purely off the record, don't you think the Tripartite Agreement stays alive on a pretty slim balance, if it depends on French balances in this country?

A. Well, yes and no. The fact that they have this agreement has enabled them to keep going and to keep from slipping into exchange control--that's what they don't want and that's why we don't want. If this thing fails, as far as France goes, what happens? They go into exchange control and this present government has again and again--this group starting with Blum--has again and again said they don't want exchange control.



Q. Can we use this for background?

A. Sure, and that's one of the economic foundations they stand for; and there's this other party who wants exchange control; it's of tremendous interest to this government to keep as many countries from going on exchange control. Why? As soon as they do it makes it that much more difficult for our business men to do business in that country, and just as long as we can keep France open and free it means the chance for world trade is that much better. There's the whole story and if we can keep that it makes it that much easier for Mr. Hull to keep his trade treaties going and keep the world trade going. Every time a country slips back into exchange control it's that much more difficult to do business. This thing, when you get me going! There's an awful good reason for all of it.

Q. Can we say free exchange control in your policy in the Treasury is essential for American trade instead of for background?

A. I wouldn't say it was essential, but it's the basis. Herbert, is that too strong? I think it's the basis for trade. What?

Mr. Gaston: Yes.

Q. The absence of exchange control is the basis of American trade policy?

H.M.Jr: Yes.

Q. We can quote you on that?

A. Why not?

Mr. Gaston: I think that's all right.

H.M.Jr: If you want something, let me have a minute.

Q. The absence of exchange control is the basis of the American trade policy?

A. That's a kind of a double negative, isn't it? If you want something-- let me just think a minute. I put it something like this: That the Treasury is constantly working--I can't give it to you offhand. It's too important. Let me think about it. I don't mind you using it for background, but just to give you something which would stand up around the world--it's too important--I can't do it. You get what our policy and our program is--it's tremendously important that we keep as many countries open, tremendously important, not only for ourselves but for the whole world, and I may point out that one of the reasons that business kept up as well as it had is on account of the very remarkable volume of our import and export trade at the end of '37. I don't think people yet appreciate the tremendous increase in volume of our export and import business for the last quarter of '37 and the basis of that whole thing is that a man, if he sells a million dollars worth of merchandise, knows that he can go to his bank and cash that thing--on the other hand, if he goes up against a country that has exchange control he's got to worry and has to take harmonicas in exchange for oil, which they do, and has to send his boat into a country to get it painted in order to get money for his bananas, which they do. That's the fight I have made here. I trust you fellows to use it for background.

Mr. Gaston: It was very carefully stated in the Tripartite understanding itself, in the last paragraph of the Tripartite understanding; it said these nations (I don't remember just the words used) expressed the hope for relaxation of exchange control and other restrictions on trade.

H.M.Jr.: Would you get that for the boys and send it down?

Mr. Gaston: Yes.

- H.M.Jr.: And that's why we burn the midnight oil time and time again when something is happening in another country, to strain every point and still stay within the spirit of the law, which we do very carefully-- to helping a country from slipping into exchange control.
- Q. What other countries, Mr. Secretary, have you prevented, besides France, from slipping into exchange control?
- A. The most recent one is Mexico; that's the most recent one.
- Q. How about Japan?
- A. Well, they have a semi-formal exchange control now; there isn't a free flow.
- Q. Any other countries besides Mexico?
- A. That's the most recent one.
- Q. Was your policy towards China with the same view in mind?
- A. Partly, yes.
- Q. How about Brazil?
- A. Well, we gave them an agreement last Summer and they never took advantage of it and since December 10th--I think the date is something like that-- they have had more or less exchange control. This is all for background.
- Q. Is there any likelihood that France may slip into exchange control?
- A. Well, that's the fight that's going on right now and I hope that they can pull themselves through again. I mean, I sincerely hope that they can, but that's the big fight which is going on there now. All this is for background, but I sincerely hope, and it's a matter which only the Frenchmen can decide.
- Q. Mr. Secretary, would it be accurate to explain, for background, that this country is doing whatever it can to help France avoid exchange control?

- A. Well, that's the whole Tripartite agreement, which is, as long as they are in it, just as long as they can live up to the Tripartite agreement, there won't be exchange control.
- Q. The thing that has troubled all of us is just what are the qualifications for living up to it; just when do they and when don't they?
- A. Well, they live up to it just as long as--say you sell France \$5,000 worth of dollars and you send it over there and you can get paid that minute, and just as long as there isn't any exchange and as long as they don't depreciate their currency in order to get advantages through that depreciation, that is one thing. Because it drops, and we are convinced it drops on account of French capital moving out, that's one thing, but just as soon as they decide to depreciate for their advantage, then they wouldn't be living up to that thing. Through that Tripartite agreement we have set this principle--here are three countries who say we won't take competitive advantage by depreciating currencies. We hope the other countries won't either. Since that agreement, no country has done that in order to get trade advantages.
- Q. Does that apply to countries outside of the agreement?
- A. Here are six countries who have laid down these principles including Holland, Switzerland. Since that agreement, no country has depreciated its currencies in order to get trading advantages; they have all had their difficulties but no country has depreciated in order to get trade advantages. We have accomplished that, you see. Again, all this for you fellows, but for background.
- Q. In the event that the French Stabilization Fund metal reserves were exhausted and its metal resources of earmarked metal, and again the Tripartite Agreement hangs in the balance, what would happen to the efforts to continue that Tripartite Agreement? You said it was pretty slim.

- A. No, I didn't say it was pretty slim. I said they still had plenty of funds available with us here. They can go quite a long time as far as our markets are concerned.
- Q. In other words, you are not concerned about the situation, Mr. Secretary?
- A. No, I didn't say that. I'm not concerned as far as their operations in our market are concerned, but I also pointed out that their operations in our market are very limited. That's one thing, but what is going on in France is entirely different. But I hope you don't write anything about how concerned I am with how long they can go. That would not be fair and would not express what I have said, but I have talked very frankly in order to give this to you people and just let you really know what we are trying to do.
- Q. Did you say, Mr. Secretary, that the Tripartite Agreement was an essential preliminary to trade negotiations, as with Great Britain--it stated a policy.
- A. Well, I think this, and I think that the State Department will agree with me, that having concluded the Tripartite Agreement and having handled the work so well and having brought the three countries that much closer together, it makes a trade agreement that much easier--it makes it much easier, very much easier.
- Q. Paved the way?
- A. I don't think there's any question about it.
- Q. Mr. Secretary, back on the record a minute, do you know of any plans being developed to have a Federal agency that would expend small industrial loans or help the market for bond issues of small businessmen?
- A. Yes, but I don't want to talk about that. I mean, unfortunately, I always am truthful and it is embarrassing at times. I do, but I can't discuss it.
- Q. Thank you, Mr. Secretary.

MED

GRAY

PARES

Dated January 27, 1937

Received 7:15 p.m.

Secretary of State

Washington

114, January 27, 5 p.m.

FOR TREASURY.

Exchange market today was nervous and agitated and there was a large turnover in both dollars and pounds. The dollar strengthened to 21.46½ but is now slightly lower at 21.45 3/4.

Forward rates reflect the extent of adverse pressure, the dollar being quoted at 32 centimes for one month and 36 centimes for three months. The one month rate for the pound is 1.50 francs and three francs for three months.

The security market was irregular and generally lower. Rentes were down 25 to 85 centimes.

We are told that information heretofore made available by French Customs regarding gold shipments will be withheld for the time being.

French press references to the impending credit to the Treasury under negotiation in London are chiefly confined to references made to the question in the British press. The London papers carry considerable

comment

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comment mostly favorable and claim that no insurmountable difficulties will be met with although the FINANCIAL TIMES contends that more than one bank had intimated its inability to participate without a gold guarantee. This paper expresses the view that any hitch which may have arisen in the loan negotiations will doubtless prove temporary and observes that the need for French credit by France has been enhanced by recent difficulties experienced in renewing maturing railway obligations and also by the failure of gold hoarders to give up their holdings in subscription to the "national defense" loan of December 17.

The LONDON FINANCIAL NEWS considers that the conclusion of a French credit on the London market is bound to produce a favorable moral effect and to strengthen the prestige of the French Government both at home and abroad. It considers the gesture implied in the willingness of the British Treasury to waive the embargo on foreign loans in favor of this transaction is not without significance either from a financial or from a political point of view. According to this paper the completion of the credit arrangement is being held up owing to; (a) divergence of opinion in regard to a security; (b) rate of interest and (c) the period of the credit. The LONDON DAILY TELEGRAPH understands

MED - 3 - #114, January 27, 5 p.m. from Paris

understands that the proceeds of the loan will go toward bolstering up the French exchange fund which it suggests has been somewhat weakened by the effort to support the franc.

It is reported in the British press that customs statistics show that for the four days ending January 25, 4,254,331 pounds gold was imported to England from France, "presumably representing metal acquired by the British exchange fund in defense of the franc". The "FINANCIAL NEWS" comments that unless the conclusion of the contemplated credit to France is accompanied by other arrangements, calculated to restore confidence, the amount obtained will be a mere drop in the ocean.

Questioned as to the situation of the Treasury, Auriol stated to a representative of Havas early this afternoon that he would refrain from making a statement in this respect before his appearance before the Parliamentary Finance Committees. Figures published in certain newspapers were absolutely false he said and that it was only necessary to compare them with those carefully established by the budget reporters of both houses. He contended that such statements formed part of a systematic campaign to injure the Government through disturbing public opinion at the risk of undermining

public



MED - 4 - #114, January 27, 5 p.m. from Paris

public credit. Our market contact told us that Auriol's statement was not taken very seriously on the Bourse.

With respect to reference to appearance before the Finance Committees (please see my telegram 83, January 21, 4 p.m., and to pages 8 to 12 Embassy's despatch No. 256, January 7).

Considerable curiosity and speculation is evident in the press regarding the progress of conversations going on in Washington between members of the government and Runciman as cabled by Parker Willis to AGENCE ECONOMIQUE and United Press messages to PARIS-NEW YORK HERALD TRIBUNAL. Parker Willis refers to the visit of Mr. Cochran to Washington and rumors that discussions at Treasury have notably concerned the tripartite monetary arrangement but reports no further rumors in this respect. The United Press cables to PARIS-NEW YORK HERALD that the weekend conversations with Runciman are viewed by some observers as one link in the series of international moves by means of which world statesmen hope to avert war. United Press also states that great importance is attached to the re-constitution of the Economic Committee of the League of Nations and the appointment of a subcommittee on raw materials. It is added that the neutral territory trend of the present international political maneuvering

is

MED - 5 - #114, January 27, 5 p.m. from Paris

is believed to be directed toward the redistribution  
of, and access to the world supplies of raw materials.

BULLITT

GIM:NPL



HEADQUARTERS

ADDRESS THE COMMANDANT, U. S. COAST GUARD  
AND REFER TO HQ.

## TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 27 January, 1937

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

After a conference with the Red Cross and Army authorities last night, and due to the possibility of the Mississippi levees breaking which would probably cause the worst disaster this country has ever experienced, we have ordered additional 165-foot patrol boats, 125-foot patrol boats, and 75-foot patrol boats from the Gulf coast and from the Atlantic Coast as far north as New York to proceed to the Mississippi River. While it will take some of these vessels ten days to arrive at the mouth of the Mississippi, the flood in the Mississippi Valley will not subside for six weeks or more.

In addition thereto, we have started shipment of our heavy motor lifeboats from the Great Lakes and the Atlantic and Gulf coasts, by rail, to St. Louis, Missouri, which is the nearest place that these heavy boats can be unloaded.

Total Vessels and Boats In Area or Enroute

|         |     |                                                                |
|---------|-----|----------------------------------------------------------------|
|         | 6   | 165-foot Patrol Boats                                          |
|         | 8   | 125-foot Patrol Boats                                          |
|         | 9   | 75-foot Patrol Boats                                           |
| Total.. | 23  | Major Units                                                    |
|         | 40  | Motor Lifeboats                                                |
|         | 275 | (approx.) Motor Surfboats and other Coast<br>Guard motor boats |
|         | 63  | (approx.) Navy boats                                           |
|         | 11  | Lighthouse Service and Coast & Geodetic                        |
| Total.. | 389 | Boats - Survey boats.                                          |

All of the above boats are shipped in accordance with Coast Guard instructions and will operate under the Coast Guard in the flood area.

Additional Coast Guard officers have been ordered to key cities to take charge in the immediate localities.

Additional amphibian planes are being prepared in a standby status. Additional portable radio sets and all communication trucks are being assembled.

More than 2000 officers and men are involved in the foregoing operations.

R. R. WAESCHE

Rear Admiral, U. S. Coast Guard  
Commandant

Copy to Assistant Secretary Gibbons.

TREASURY DEPARTMENT

125

INTER OFFICE COMMUNICATION

DATE January 27, 1937.

TO Secretary Morgenthau

FROM Miss Roche

Re: Flood Relief

Dr. Parran talked with Dr. Olesen who is in Louisville helping the State Health Department last night. The report from Louisville was that the field hospital which Dr. Parran felt might be needed when he was discussing conditions with you yesterday would probably not be needed unless something unforeseen happened to the City Hospital in Louisville. Contrary to rumors which reached us yesterday the Public Health Service hospital at Louisville has not yet been evacuated.

The doctors report that the general health situation in and about the Louisville area is extraordinarily good. No additional doctors are needed at the present time.

Dr. Olin West, Secretary-Manager of the American Public Health Association, has wired the President offering the services of the American Medical Association in mobilizing physicians over the country for service in the flood area. Appreciation was expressed to Dr. West for his offer of cooperation and he was assured that advantage would be taken of his services if necessary.

Mayor LaGuardia offered to the Red Cross a unit of 8 trained sanitary engineers and he has been advised that his offer would be accepted a little later on if the expected needs developed.

Dr. John Sundwall, Professor of Public Health and Preventive Medicine at the University of Michigan, offered the services of all of the doctors and nurses in training at his school and a unit of 10 doctors and 10 nurses was sent by bus last night to Louisville to report to Dr. A. T. McCormack for assignment to duty in western Kentucky.

Coast Guard planes transported large quantities of biologic products from the airports at Newark, New Jersey, and Boston, Massachusetts, to Louisville, Kentucky, yesterday afternoon. The cooperation of the Coast Guard has been most cordial and prompt and its services have been greatly appreciated by the Public Health Service.

A shipment of 30,000 cubic centimeters of typhoid vaccine was secured from the Army Medical Center last night and transported to Columbus, Ohio.

The Public Health Service, through its liaison officers, is cooperating closely with the Red Cross and the WPA and relationships are most cordial and the work has been proceeding smoothly.

J Roche

## Baradelle Case

January 27, 1937

HM, Jr's telephone conversation with Senator Moore. Senator doesn't particularly want Hogan to be Internal Revenue Agent in Charge at Newark, but wants a Democrat. HM, Jr. said it would be his first order of business after his return from Sea Island.

February 6, 1937

Memo from Russell to Commissioner Helvering. (Note: This is an attachment to diary entry of February 16.)

February 13, 1937

Helvering transmits Ireys report to which was attached the detailed report of Mr. Mack in regard to Mr. Hogan.

February 13, 1937

Special Agent Mack's report that there is possibility that immediate cause of criticism against Mr. Barradelle is fact that he is pressing tax investigation of Mayor Frank Hague.

February 16, 1937

HM, Jr's conference with Helvering and Gibbons before Senator Moore's appointment at 10 o'clock. Helvering recommended removal of Barradelle, the Internal Revenue Agent in charge, and submitted names of possible successor.

February 23, 1937

HM, Jr's telephone conversation with Senator Moore. HM, Jr told the Senator he has decided to move Barradelle and is waiting for recommendation from Helvering as to a successor.

February 26, 1937

Ireys memo to the Secretary that McQuillan and Mack are making active investigation into income tax affairs of Mayor Frank Hague under direction of Barradelle.

Russell confirmed this to Ireys and also said he was preparing a memorandum recommending appointment of an agent to succeed Barradelle.

February 23, 1937

HM, Jr told President that Senator Moore was willing to leave it to us to name successor since we were willing to move Barradel.

March 1, 1937

Acting Commissioner Russell's report that in his opinion Reuben O. Thornton is outstanding man in Newark Division. Attached is full report on Thornton.

March 10, 1937

Telephone conversation between HM, Jr and Senator Moore. Senator Moore said Helvering arrived back in town the day before. HM, Jr. promised Senator Moore a decision tomorrow.

January 27, 1937.  
2:40 p.m.

Operator: Senator Moore. Go ahead.

H.M.Jr: Hello

Hello

H.M.Jr: Senator Moore?

Arthur H. Moore: Yes sir.

H.M.Jr: Morgenthau

M: Oh yes sir.

H.M.Jr: How are you?

M: Well I'm pretty good.

H.M.Jr: Since when do you need an Ambassador from South Carolina.

M: (Laughs) Well Jim is my pal.

H.M.Jr: (Laughs) I see. Well he's a good pal to have. He's mine too.

M: By God I thought nobody could get near you unless he's in line to have

H.M.Jr: No, you never called me before.

M: By God it's the

H.M.Jr: What?

M: So I thought it'd be better for him because you might believe him and I'm just a Hudson County Democrat.

H.M.Jr: I see. Well I'm just a Dutchess County Democrat. Senator, the President did send that over to me and what we - we're following the usual routine on the thing and having an investigation made of Hogan and until that's completed I won't know where I'm at.

- 2 -

- M: Well I only wanted to say this. We don't care whether it's Hogan. Any Democrat up there is good enough for us.
- H.M.Jr: Well now Senator....
- M: There's a lot of other fellows and the only reason he said Hogan was that the first man is - Downey and Downey had been there 25 years and Helvering said he was too old.
- H.M.Jr: Helvering did.
- M: Yes. Downey's been there 25 years. Downey lives in Patterson - he's an organization man.
- H.M.Jr: Yes.
- M: And we'd like him but he said he was 60 something.
- H.M.Jr: Well I didn't know.
- M: So then we thought that well Hogan came from Kansas. In fact Helvering was the same in his party. He's been there 34 years and but we don't care. There are four or five other Democrats there.
- H.M.Jr: Well Senator, I asked Helvering over here yesterday. We talked about it.
- M: Yes.
- H.M.Jr: And he says it will take a little time but just as soon as it's ready and when we know I'll ask you whether you'd drop in some morning on your way to the office.....
- M: Yes.
- H.M.Jr: .....and we'll have a talk about it.
- M: Yes, well keep in mind that we don't care about Hogan.
- H.M.Jr: Oh good.
- M: It doesn't mean a thing.
- H.M.Jr: Well



- 3 -

M: There are four or five other fellows that have been there 10 and 20 years.

H.M.Jr: All right.

M: Anyone of them will do.

H.M.Jr: All right.

M: Our only point is that it looks awful bad when here's a Republican that Hoover put there and did all he could to hurt us and we can't change it.

H.M.Jr: Well will you be a little - give me - be a little patient and I'll - I'll do the best I can.

M: That would be fine but understand we don't care about Hogan; anybody.

H.M.Jr: All right - all right.

M: Just anybody's a Democrat, that's all.

H.M.Jr: And - and just remember that anytime you want me if you give me - oh a couple of hours' notice I'm always available.

M: That's fine. Thank you.

H.M.Jr: Thank you.

M: If we just get that - we don't care who's in there.

H.M.Jr: All right.

M: Thank you.

H.M.Jr: All right.

M: I'll hear from you next week I suppose.

H.M.Jr: Well no I'm going away for a week's vacation. I stayed here while the President went to South American...

M: (Laughs)

H.M.Jr: .....and while Mr. Hull was gone so it's my turn and I'm going away for a week.

M: Well -

H.M.Jr: But as soon as I get back it will be the first order of business.

M: Well that's fine. All right, thank you but bear in mind we don't care who you put in as long as he's a Democrat.

H.M.Jr: Suits me.

M: All right.

H.M.Jr: Thank you.

M: Thank you.

January 27, 1937  
2:55 P.M.

Present: Mrs Klotz  
Mr. Eccles  
Mr. Upham  
Mr. Bell  
Mr. White  
Mr. Haas  
Mr. Murphy  
Mr. Goldenweiser  
Mr. Seltzer  
Mr. Taylor

Eccles: As you know, the Board acted last summer and then gold continued to come in and with the sterilization froze the excess reserve picture at around two billion two. As was announced last November or December, the matter would be brought up for consideration after the first of the year. Shortly after the first of the year, the Secretary announced that - I don't remember just what you said, but at least the effect was given that you were leaving a blank period.

H.M.Jr: Clear the decks for the Federal Reserve to act if they wished.

Eccles: That's right. Now, we have had the staff studying this whole question from every aspect. We have had a good number of conferences during the last month. Every member of the staff is favorable to some action. We had a meeting of the Bank Presidents on Monday and we had Dr. Goldenweiser present the question, and John Williams, and then we gave each of these men an opportunity to ask questions or to express an opinion if they wanted to. And, outside of two of the twelve, they were in favor of increasing reserve requirements by the full amount. The two were in favor of selling off our portfolio instead. They wanted to sell off a large volume of Government bonds and pass the earnings to the member banks, and that's what it would do, you see.

Now, the Board - no member of the Board has been asked an opinion on it. We merely had all this preliminary discussion in order to give the Board an opportunity to determine what they want to do. We wanted to try to get all of the facts, get the complete picture for them. What they will do I don't know. We expect to have a meeting very shortly and of course to determine it.

Now, if you will put that chart up, I'll.....That's right. The question of timing it is important. I don't know whether I ought to work or make Dr. Goldenweiser be the teacher. I think you (Golden.) better go ahead and show them what this chart means.

Golden.:

This is just an attempt to estimate the situation in regard to reserves now. It shows the amount of reserve balances of the member banks and the amount of deposits of all the banks, and currency outside of banks. It is not only member banks, but non-member banks as well.

In 1922 we had 17 billion 80 of reserves, 39 billions of - say let's call it money for the time being. In 1929 we had 2,360 (millions) of reserves, no excess reserves, and 55 billions of money. Now, near the depth of the depression we had 2,200 (millions) reserves and 42 billions of money, and eight billions of possible expansion that didn't occur - I mean there was some excess reserves on which this much would have been based.

Now, at the present time we've got six billion eight hundred millions of reserves, on which there could be based 39 billions of deposits and currency. Now, you see, we've got 57 (billions), which is more than what we had in '29 by about two billion, and we could build on top of that another 32 billions, if the ratio between time and demand deposits was as high as in 1929. This involves a considerable element of uncertainty, but the margins are so big that in effect the picture is quite accurate and the two billion two hundred million of excess reserves is the basis for that much more expansion of money, if it was all used.

If the Board takes out  $33 \frac{1}{3}$ , raises their reserve requirements by another  $33 \frac{1}{3}$ , which is all the legal power that is left, it would reduce the expansion - the possible expansion, from 32 billions to seven billions. In other words, we would still have 57 billions of money that we have now and there would be seven billions to go, which would give us a total of 64 billions of money, compared with 55 billions at the top of the boom.

It would cut down the volume of possible inflationary money or injurious credit expansion which 32 billions obviously carries, to seven billions, which may not

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include - which may be a reasonable estimate of possible growth.

The amount of money that there is now is sufficient, at the normal turnover, to produce a national income of over - of about 90 billions, and this - if we had all this money, the amount of national income would be 240 billions.

- Eccles: In other words, the total amount of money that is in existence, at the same turnover as we had in '29, would support a national income of six billion more than we had in '29. All right.
- Golden.: Just shows what it would do. Shows it would cut it down from 32 billions to seven; that we have now more than we had then, and that we would still have a considerable amount to grow even after the action.
- H.M.Jr: Now, Goldenweiser, if you did 16  $\frac{2}{3}$ , would it be just half that much?
- Golden.: It would be up to about here then (indicating on chart).
- H.M.Jr: I mean it would just come half way.
- Golden.: Not quite half way, because the ratio of expansion would change a little; but for practical purposes, half way, let's say. Well, that's all on this chart.
- Eccles: Yes, that's all.
- Murphy: Do you want another chart, Dr. Goldenweiser?
- Eccles: Take the one on deposits as it is related to that one.
- Golden.: This shows the composition of deposits, shows that we have more deposits than we had then, and shows how they were composed. Some growth in Postal Savings, mutual savings. The time deposits in commercial banks are still considerably lower than they were. Adjusted demand deposits are very decidedly at their highest point, and the total deposits are higher. And when you add currency to it, it is five billions higher than it was in 1929.

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If you take adjusted demand deposits and currency alone, which is the most available medium of payment more usually referred to as money, we've got five billions more than we had in 1929. What brings the total down to only two billions more is the fact that time deposits are considerably lower.

Eccles: Take those other charts now, Dr. Goldenweiser, on the factors of production, and the one showing the turn-up in credit.

Golden.: This, I think, is the production chart. This just simply shows that we've got a volume of industrial production that is now practically as high - a little below the peak of '29. It is 21 now, as compared with the peak of 25. It is higher than the average for '29; the level in itself is not. There is nothing that calls for restraint in that level, because I think we could well afford to have a production of 140 now, considering the growth in population. But the fact that there has been an extraordinarily rapid increase for nine months and that this increase has nevertheless not kept up - kept pace with the demand - that there are a whole lot of industries that have forward orders for a year or 18 months....

Eccles: Show the price chart.

Golden.: ...and as a consequence - I haven't any price chart in there on a large scale. But you are fairly familiar with the price chart. I have a little price chart here that I think you can see. Here's your - Mr. Secretary, here's your price chart. You have a whole lot of price charts in your shop, so you are familiar with that figure, and it's been going up. The prices have been going up very rapidly, and they haven't been only farm prices; they have been industrial prices, semi-finished commodities that the demand - that the prices have gone up on partly because of armament demands and monopoly conditions in one or two industries, like copper.

But this - we have a feeling in our shop that the rapid rise - a rise as rapid as that, when it is accompanied by reports of capacity and shortages of skilled labor and forward orders, and reflected in prices, carries in it an element of uncertainty, an

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element that makes it more difficult to look forward to its being sustained. So that we see from the industrial situation that some diminution of excess reserves and some slight tightenings of short term money rates might be an advantageous thing.

H.M.Jr: Might be an advantageous thing?

Golden.: Might be an advantageous thing to slow down this rate of advance, because we are all in favor of an advance but we are afraid that if the advance is too rapid it will - it creates...

Eccles: It will run away with prices.

Golden.: ...and is accompanied by a rise in prices, it might result in a slump; that it is better to advance a little at a time - not necessarily slowly, but not as rapidly as that, so as not to create a situation that might result in....

H.M.Jr: Are you going to show other charts on prices?

Golden.: That's all I was going to say on prices.

H.M.Jr: Are you worried by the rise in prices?

Golden.: I'm worried about the rate of rise, yes. I think the rise in prices in itself - but we've got a five point advance in a very short time, from 80 to 85.

Eccles: You're not worried about the price level.

Golden.: No, the price level - if the price level should go on up gradually, I wouldn't worry about it. But when individual prices shoot up and the average goes up pretty rapidly, you begin to have a feeling that there is something unhealthy developing; that it might be very difficult to keep from slumping. All our worry in the matter is to prevent a slump. If we were sure that there was a constant growth of this sort all along the line, we'd be perfectly satisfied.

Did you (Eccles) want to turn to the money rates?

Eccles: Yes.

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Golden.: Well, of course you are more familiar with money rates than we are. But this shows the money rates, shows your Treasury bills, which have recently gone up some; and the commercial paper, still considerably below one percent; and Treasury notes, a little over one percent; Treasury bonds, a little below  $2\frac{1}{2}$  percent. It shows that we've got a very low level of interest rates, particularly in the short money - very low money rates; that a rise in these money rates would not be damaging to anything because it is an open market rate and the rates to customers are not particularly low. And there is nothing inherent in a rise in these rates that would necessarily be reflected in a reduction - in a rise in the long time rate; that the long time rate is way out of its usual relationship to short time rates; it is usually right along here. It is a little higher; usually it is considerably lower.

H.M.Jr: The long time rate....

Golden.: ...ought to be lower than the short time rate in normal circumstances; so this would go up, we feel, without reflecting a rise in long time rates. Our position, as I know the Chairman's.....

H.M.Jr: Excuse me just a minute. Hello (On phone. Has conversation with Roswell Magill).

Golden.: I was just going to say that we all believe that a long time rate should not go up - see no reason why it would go up, and we do feel that probably there is no particular advantage in its getting any lower. In fact, the lower - if the long time rate should continue to go lower, it might result in forcing people into speculative activity rather than in fixed return investments, and that would not be a desirable thing. And besides, if it should go still further, then the fiduciary institutions that buy a lot of long time stuff find later that they are - if the rate stiffens and their portfolios go down in value, they find themselves in financial difficulties.

So we feel that this rate should probably be maintained; not in favor of advancing, but we feel that probably it ought not to go any lower, particularly for the corporate bonds, which in relation to the



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Treasury bonds probably are a little over-priced. And so we think that if the net result of doing - taking the excess reserves out of the picture to a considerable extent would result in some slight stiffening of short time rates and maintenance of the long time rate on a steady level, that that would be a desirable situation. That's all I have to say on it.

Eccles: The low rate that gets so low that it can't be maintained, stabilized - it will of course mean that as the rate advances then you have put your insurance companies, mutual savings banks, your trustees, in difficulty through great depression. What I'd like to see is the long term rate down to a point that - where there is some assurance that it can be maintained and where people, investors in general, won't say that it is more of a speculation to invest funds in a long term fixed interest security at the rate that is so low, than it is to go into real estate commodities and securities.

As living costs go up or as the price of money - as money buys less, there will be the tendency to, if rates on the long term securities - well, they won't go lower, because I think you've reached the resistance point pretty well now - well, there will be a speculation instead; you will see a drift into speculation instead of into securities, and that would be unfortunate, undesirable.

The long term rate, after you have created a volume of money such as we now have created, as shown on those charts, should be maintained, should depend very largely on the savings accumulations rather than upon a rate that is determined by the bank rate.

You can of course continue excess reserves long enough and encourage an expansion of credit far enough to where, of course, you get an inflation; and it was desirable certainly, in a period of deflation when the volume of money was very small in relationship to our needs, to do deficit financing so as to increase the volume of money through spending; and all we have done I was very much in favor of. I think we are to a point now which is a very

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different one than we have been in. We have gradually got to a position of transition, where it calls for an effort at stabilization of our position - balanced budget - and these are - this is all part of it to my mind: a program of attempting to bring about a general condition of stability in the economy.

Golden.: With a continuous forward movement.

Eccles: Oh yes, and we will get some in the price level. I don't think - I think if we get prices going up too rapidly we get a speculation that is undesirable. You get an abnormal buying in anticipation and you get buying beyond immediate needs, and then you get your slump.

If reserve requirements are increased by the full amount, there would still be, of course, about 600 million of excess reserves, which are more excess reserves than the System ever had before the - even in '32; it is just about where they were in '33, when the System quit buying Governments, when it was felt that they had such a cheap money - puts you back just to that position.

The Reserve Board completely failed to exercise any influence at all on the money market until you first tightened up the reins to a point where action taken by them influences the market. In other words, we are so deep under water with the huge excess of reserves that there is no possibility of the Reserve System influencing the money market with that sort of a situation, or exercising any control whatever over it.

It hasn't been necessary to exercise any control over it, because everyone was willing to have the maximum amount of pressure to keep - force rates down, get them down just so as to stimulate in every way that we could recovery, and to build up balances. But, as I say, we have now reached another period.

H.M.Jr: Can I interrupt you at that point? Supposing - after all, we are all human - just supposing you increase them the full amount and, by doing that, in three months, six months, or some time within the next

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year you find that, having done that, it was too sharp a curb, and let's say your production starts to fall off.

Eccles: Carry out an open market operation. In other words, we've got a more flexible instrument there; we would increase the purchase of bills. That's what I was going.....

H.M.Jr: What remedy would you use?

Eccles: We'd buy bills. The reason for that is that this isn't a flexible instrument because it applies universally throughout the country. And that was another point I wanted to make: that at the present time the excess reserves are very widely distributed. The reason we couldn't consider this problem before was that we didn't start to make the survey until the 13th of January and didn't get it completed until last Monday. Now, the reason we didn't start before the 13th was because we wanted to give the excess amount of currency an opportunity to flow back and to have what would be considered a more nearly normal picture, before we started the survey. Therefore, it wasn't until Monday that we really had the survey of where the reserves were, just what effect it would have on certain banks.

Now we have that picture, and it shows that the reserves are very widely distributed. The total number of banks that will be deficient is 197, out of over 15,000. The total amount of their deficiency is 122 million. However, there are other banks that will have an excess of over 700 million, so, deducting the 122 from it, the System as a whole will still have an excess of 600 million. But they are so widely distributed that only 197 banks will have a deficiency. The total deficiency is 122 million.

Now, of the country banks, the deficiency is only \$2,249,000, assuming that they use only one-half of their balances with city correspondents.

H.M.Jr: Will you say that again?

Eccles: There is only \$2,249,000 deficiency in what we call country banks. Those are the ones that people do the

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most hollering about.

H.M.Jr: Two and a half million?

Eccles: Yes, two and a half. It's nothing.

H.M.Jr: I didn't get it because you've been talking in billions.

Eccles: Yes.

H.M.Jr: Two and a half sounds awfully low.

Eccles: Well, there's two and a half million deficiency in country banks. What are the number of country banks? Do you remember, Dr. Goldenweiser?

Golden.: There are about 5,600 - 5,600 about.

Eccles: Yes, about 5,600.

Bell: How many involved in this?

Eccles: 168 is the number involved, out of 5,600, and the total amount of deficiency is \$2,249,000.

Bell: What are the total banks involved?

Eccles: 197.

Bell: 30 banks then in city banks.

Eccles: Well, the New York City banks - there's 12 of them with 100 million. But you see, there are other New York banks with an excess; the total in New York would still show some excess.

Golden.: About six percent.

Eccles: So that gives you a picture of how universally these excess reserves are now distributed, which is important. So we can increase reserve requirements today with less disturbance than you could if you waited until there was a situation where the distribution was not as widely diffused as it is now.

And to meet the problem with open market operations,

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of course, is a much more flexible means. You couldn't increase reserves by 100 million or 200 million. You'd have to do it by some percentage. And you wouldn't want to increase it often; it is a very disturbing thing to do, because it affects every bank. Whereas you could buy or sell 100 million of bills or 200 or 300, and it could carry you over a period, and you could sell by the day and week to meet a money market situation, and it is a much more desirable and flexible instrument to use. But before it can be used effectively, we've got to cut these reserves down to a point where action through open market operations will be effective. And this seems to be, from every indication, a desirable time certainly to give some serious consideration to the question.

- Golden.: I might add right there, Governor, that one reason this is a better time is that up to now we have had no increase in bank credit other than through the purchase of Government securities, and in the last eight or nine months there has been a very considerable increase.
- H.M.Jr: Is it still over a billion?
- Golden.: Over a billion?
- H.M.Jr: Well, the increase was a billion last year. What's the total now?
- Golden.: Well....
- H.M.Jr: Bank credit.
- Golden.: Total bank credit - if you count it, it is about 55 billion.
- Haas: Commercial loans.
- Golden.: Commercial loans? I have a commercial loans chart. Here it is. It is nearly six billion.
- H.M.Jr: What's happened to it in the last couple weeks?
- Golden.: In the last couple weeks it's gone off. But you have

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had a bank credit growth that was all Government securities up to the middle of last July.

H.M.Jr: No, I had in mind commercial loans.

Golden.: Commercial loans, down at the bottom at the end of last year, gone up a billion since that. And this is only important banks, and if you had all banks it would be over a billion of increase; shows they are beginning to utilize those reserves in a way which would make it more difficult to restrict them without possibly starting a deflation, which we would want to avoid.

H.M.Jr: In considering this thing over there, you people weighed the possibility - the alternatives of doing it 16 and a fraction as against 33 and a fraction?

Eccles: Yes. Everyone unanimous for going the full distance, or never using the balance. In other words, the very fact that you use half of it now - it doesn't get your reserves reduced to a point where open market would have any effect at all; you still haven't got them down to a point where your open market operation would be flexible and where it would influence the picture.

H.M.Jr: You're sure of that?

Eccles: Yes, because, you see, we'd still have a billion and a half excess reserves.

H.M.Jr: You mean if you did 16 and a fraction?

Eccles: That's right, you'd still have a billion and a half excess. Now, there would still be the same uncertainty. They would still wonder just when you were going to put the other 16 on, and they would - the wise banks would want to keep it locked up so that when you did - want to keep it available, so that when you did increase the reserve requirement he would be able to meet it readily; the unwise bank would go out and get loaded up and then he'd immediately be forced to liquidate, which would be bad.

So it seems to us that this is desirable, and then to meet the problem by increasing or decreasing our

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portfolio, based upon the money market condition at the time.

There is one - this, however, has got to be timed, and I'd like to talk in connection with the Treasury financing and the tax period, because it is a very, very important matter from your standpoint as well as ours.

It is desirable that we should be able to give 30 days' notice whenever this may be done, for the reason that - that it would possibly be desirable - I'm not sure, but it is my personal opinion as a practical matter that half of it be done in 15 and half in 30 days, so that...

H.M.Jr: How do you mean, Marriner?

Eccles: I mean you'd increase it  $1\frac{2}{3}$  - increase it the whole amount now - announce it now and say you make half of it effective in 15 and half in 30. See? The reason for that is because of this shortage in some banks and the excess in others; there is a certain amount of adjusting, you see, and the more time that they are given to effect a complete dis-adjustment, the more orderly the market would be; whereas, the shorter the time, the more wide the fluctuation and the greater the danger in making the adjustment - more difficult to effect it.

Speaking of your March picture, as I see it, you will possibly collect on the 15th of March - just assume that this program was put into effect and the excess reserves were reduced to 600 million. Now, on March 15 you will have an abnormal - that is, abnormal compared with anything we've known in the past - tax income.

H.M.Jr: Yes.

Eccles: About 800 million that you will expect to pull out of the money market into the Treasury. Is that about right, Dan?

Bell: It is over several days.

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- Eccles: But you don't put much of it out. You will pull in 300 million dollars.
- H.M.Jr: Put out 300 million.
- Eccles: That gets to the question of financing, if you finance in March.
- H.M.Jr: No, we've got Treasury bills maturing on the 16th, 17th, and 18th.
- Eccles: If you refund them.... Maybe I've got the picture wrong. You bring 300 million in, and that pulls it out of the market.
- H.M.Jr: We pay off 300 million.
- Eccles: All right, you pay off 300 million and you possibly pay off 200 million in other payments, interest and other items. That's about 500 million that immediately would be put out. Is that right?
- Bell: That's right.
- Eccles: If you don't do any financing.
- Bell: That's right.
- Eccles: See? So that you'd still then reduce the excess reserves down by at least 300 million. You'd get close enough... Now, that's a bad time to do financing, because your rate would be higher at that period, because you're pulling out of the money market all this money. It is a good time to have Government bills mature. In fact, it is the proper time to have as much - to have enough maturities to offset - that is, to be in a position to put back into the market almost enough to offset what you take out of the market.
- So what I was going to suggest was that the financing - if you pay off your 300 million in bills, if you don't put any - well, don't do any financing in March; let it go until the first of April, 15th of April - it certainly would be an easier time to finance than in the March period. If you financed in March and didn't get any



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new money, but merely refunded your 300 million, or you sold bills equal to 300 million, you sold notes, you sold bonds equal to the 300 million, it would mean, of course, that you would, instead of putting that 300 million back in the market - you would offset it by the refunding, so that it would be a bad time to do it, because you'd have a period when excess reserves were at the very lowest ebb point due to the tax period.

Now, I talked to Burgess about that last night before he went back. The thought occurred to me that I wanted to get his view. And he agreed with me fully. And Dr. Goldenweiser may have something to say on that - the money market effect of that.

Golden.: Haven't anything to add, Mr. Chairman.

H.M.Jr: But just don't forget when I took this thing, somebody laid down the rules. When I came over here they had maturities - financing - about eight or ten times a year. They had the market constantly upset. It's taken me three years to get the market in the condition it is in. And I don't know whether it was Burgess or who it was gave the advice before, but certainly they constantly were in the market every single month when I came here. I took the greatest care - only with the greatest care that we have been able to get this thing so we are doing it four times a year, and all of the people, our customers, like it. Now, you've got something to sell and you've got to sell it so that the fellows will buy it. And when I first came in here we had something every single month. You no sooner get through one financing....

Eccles: I think you've done a good job on that.

H.M.Jr: I know I have.

Eccles: And I think if it was a question here such as you have had in the past, you'd - you had to go to the market for a lot of new money in the past; you weren't collecting as much in taxes and you had huge excess reserves, so it was not a factor. You've got a different picture today.

H.M.Jr: I know, but you've got - if you don't mind my saying,

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you're not all over on my side, my responsibility. It's taken me three years to get it where it is, and I'm not going to - I'm not going to risk that and - Burgess or anybody else. I mean when I first started in here - I mean if we'd listened to the fellows up in New York, this country would have gone broke; at least, that's the way they talked.

Eccles: Well, Burgess didn't mention it to me; I mentioned it to him.

H.M.Jr: Well, they told me I couldn't do it, I was going to miss it by three billion dollars. When I first came in here in the fall of '33, in the first two months of '34, they just said we couldn't do it.

Eccles: Well, I think by March 15....

Golden.: Couldn't do what?

H.M.Jr: Couldn't finance Mr. Roosevelt's administration. Just couldn't be done. I mean nobody who was a professional financier by training would admit that it could be done. Nobody. There wasn't a single person would admit that it could be done.

I mean I don't think - I think that when you've got a machine which is working, I think you want to be very, very careful. I mean I think some of the other things better be adjusted to our program on timing rather than try to have us upset our sales program.

Eccles: Well, even if we did nothing about excess reserves at all, I would still say that from the standpoint of your financing, when you've got this big amount of tax money coming in on that date, it would be much more favorable from a Treasury standpoint to finance at a time other than the time when that huge volume of tax money is coming out of the market.

H.M.Jr: But the whole thing has been geared here to do our financing just at that period. Now, I haven't said and I'm not going to say that - if you ask my advice, that you should have to stop and consider Treasury financing as to what you do in regard to excess reserves. But when you get into the timing of our selling securities, that's something entirely

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different. You'll have to adjust yourselves, your timing, to this, because we adjusted ourselves and gave you two months and you've had your two months. And we made that adjustment once, but I'm not going to do it again. We made that adjustment once.

Eccles: Well, as I understand, you want action on this by the 15th of February.

H.M.Jr: I'd like to have it.

Eccles: Well, if we could have the two months, that's all right.

H.M.Jr: I gave the two to you.

Eccles: Well, I mean January and February.

H.M.Jr: Well, two months is all.

Eccles: That would be perfectly agreeable. I mean if we could give 30 days....

H.M.Jr: What everybody thought you'd do was you'd announce on the 15th of January.

Eccles: Well, we couldn't. We just didn't have a survey of the picture and we couldn't get the survey until after - as I explained, we got the survey on the 13th, which was really a week sooner than we would like to have tried to get it. We got it just as soon as we could and got it just as fast as we could, so as to give final consideration to this. It was practically impossible to do it until this week.

H.M.Jr: Well look, you're sure you need 30 days?

Eccles: Well, it is my judgment. I certainly think it is desirable to take 30 days.

H.M.Jr: Because I....

Eccles: Give them 30 days after you announce it.

H.M.Jr: Well, I think your people are ready, but...

Eccles: Well, New York doesn't know how many balances they

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are going to lose. That's the difficulty, you see.

H.M.Jr: Well, let's say you do need 30 days. Let's say you make an announcement February first.

Eccles: Well, either on or before February first.

H.M.Jr: All right; well, that's next Monday. I mean on or before February first. Then you give 30 days. You let me worry about the financing.

Eccles: Yes, but I'm not attempting to advise you about financing. The point I'm making is that I thought that you wanted action on this on the effective date; if we are going to do anything, not later than the 15th of February. Now, if you say we can have the full month of February, then I haven't anything more to say.

H.M.Jr: No, I'm not going to say that - if you feel that you need 30 days, then you take the 30 days.

Eccles: Well, that's all I wanted you to say.

H.M.Jr: But I mean - I mean if you feel you need 30 days, you take your 30 days and then let us worry whether we can get the money. That's fair enough, isn't it?

Eccles: Oh, sure.

H.M.Jr: What?

Eccles: Oh, sure.

Taylor: That would be 30 days - really 28.

Eccles: Well, a good time to put it is on the first of March. I don't mean any number of days.

Bell: Does that mean there would be two adjustments, probably one the 15th of February and one the first of March? Is that what you mean by 30 days, or 30 days before the first?

Eccles: No, 30 days clear. Then the question of adjustment: it is my personal view now that it would be better to

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take two bites of it.

Upham: Half the first and half the 15th?

Eccles: Half the 15th and half the first.

Taylor: Be completely out of the way by the first.

Bell: That's what I'm getting at.

H.M.Jr: In order to give you 30 days - I mean what you're trying to do is very important, but we have a program of more than one tax date, and I don't want to get off my financing on tax dates in order to adjust ourselves to something that you are going to do once.

Golden.: Well, I think that's splendid. If it's all right with you not to have the - to have the effective date as late as March first, why then I think that settles our difficulties.

H.M.Jr: Well, I'm not going to....

Eccles: That's right.

H.M.Jr: I'm not going to put you people in the hole. You've got a job to do. Now, I've done everything that is humanly possible to cooperate. What?

Eccles: That's right.

H.M.Jr: Everything humanly possible. You say that it will upset conditions too much to do it in 15 days?

Eccles: Well, I'm afraid it will.

H.M.Jr: All right, you say you need 30.

Eccles: The banks need 30 after the announcement.

H.M.Jr: All right, that's your end of it.

Eccles: Well, it isn't after it laps on to yours, and I wouldn't want to do it - I would sooner defer action altogether, see, than put it in too short a space or

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have you feel that it was interfering with your operation.

- H.M.Jr: Well, we're talking - you're talking here. Give us - we've got a little time. What do you think, Dan? I mean do you think that if they - if they make the step, there is a number of things that we can do; you gave me three different programs this morning.
- Bell: Well, I think that they've got a program laid out and they need 30 days to do it and if they announce it on February first the market will have adjusted itself before March first without interfering very much with the market.
- Taylor: I think that too; it will be out of the way by March first.
- Bell: We could announce about the eighth for March 15 financing.
- H.M.Jr: This is the way I feel. This is the only thing I'm going to say myself. I mean I want to make it so that nobody can misunderstand. If you say you need 30 days to do this thing... This is just going to happen once.
- Eccles: That's all. This is the full amount - out of the way.
- H.M.Jr: But I wish I didn't find that you were in the position of trying to get me to change tax dates, which I've got to do four times a year, in order to accommodate you once. Do you see what I mean?
- Eccles: That's a fair statement.
- H.M.Jr: I mean I don't want to throw my whole machine out of gear, because if I shift once then I've got to keep it up. I'll take my chances. I'll take my chances. And if you say you need 30 days, I say God bless you and take 30 days.
- Eccles: Well, I'd like to be able to say to the Board in considering this, see, that we've got the Secretary

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willing to leave the whole month open. If I can say that and then if we can get by with 20 or 15, if they decide that, O.K. But I didn't want to go and say, "You've got to do it in 15 days."

- H.M.Jr: Well, Saturday is the 27th of February. Clean it up that week.
- Eccles: Make it effective so it will actually - the new reserve requirements start on March first.
- H.M.Jr: Starts, yes. But they'll have to clean it up. Will it be cleaned up by the 27th? And then we'll start Monday the first of March.
- Eccles: That's the way I want to do it, because the first of the month....
- Taylor: It will actually have to be out of the way before that - Saturday week-end.
- H.M.Jr: Well, I will say, until somebody raises his right hand, that as far as the Treasury is concerned, you can have the month of February to make your adjustments, and we'll take our chances about our financing.
- Eccles: Well, that will help, I think. That's better.
- H.M.Jr: There's a number of things - Bell came down with three different programs this morning. We decided that we wouldn't make up our mind until Friday or Saturday, waiting to see what you were going to do. See?
- Eccles: Yes.
- H.M.Jr: I mean there are three different - combination of four or five different ways to do this thing, and we simply thought we'd wait, thinking that you most likely would do - be able to tell us what you were going to do by Friday or Saturday before I left.
- Eccles: Well, we'll be able - in a position to help, if help is needed, in March through an open market operation, if this is done.

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- H.M.Jr: Well look, you needn't worry. It's a marvelous thing to be able to say about the Treasury being able to finance... You do what you think is right from a credit standpoint and you needn't worry about how the Treasury is going to do its financing. We'll get by, see?
- Eccles: Well, we worry about the money market and not alone from the Treasury standpoint, but from the money market generally. For instance..
- H.M.Jr: I mean what you normally would expect, the Secretary of the Treasury would be worried that it's going to cost him a little more money and one thing and another. Now, that isn't one of the factors that you've got to add to your worries in making up your mind on this.
- Eccles: Well, I appreciate that. I'm glad you take that attitude. That's a very fair attitude to take, and we appreciate it.
- H.M.Jr: Well, I don't see how it can be any fairer.
- Golden.: I think it is splendid cooperation.
- H.M.Jr: How can it be any fairer? Now it just gets down to the merits, what you want to do. Do you mind - we've only got a few minutes - if some of my boys ask you a few questions.
- Golden.: Surely.
- Haas: On that chart which showed the amount of credit expansion possible under various situations, Dr. Goldenweiser, I think you mentioned that in order to reemploy the unemployed - you made a rough estimate that the Federal Reserve Board index might have to get to 140 or thereabouts; or you put it a different way, on the basis of increment in population, etc., to justify it.
- Golden.: That's right.
- Haas: The question might be raised that is it advisable at this time to shrink this low. In other words, I



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don't think you should compare it with '29. I think you should compare it with '29 plus something in addition, because our situation never again will fit into a '29 pattern, provided we want to put all the people back to work. So that you would want over here to figure you might assume certain additions in '29 plus a business activity sufficient to reemploy all the people, and then shrink this (indicating excess reserves on chart) probably not to this extent, but have something on this new estimate for reemploying all the people, and then give yourself a little margin on top of that. I think a good case could be made up that you might be cutting off too much by looking backwards rather than forward, and on the assumption that the most vital thing that we have to meet at this - at some stage of this, is that we have to get these people back in employment. And this will mean a much higher level of business activity than in 1929.

The other thing is this. I am not particularly - the curves have been going up rather sharply. I have seen some things that have disturbed me. Because they have been going sharply, prices have gone rather sharply. As far as you can make out by analyses, we have made out the situation is not unhealthy. But many times even in a fairly healthy situation you do get a reaction. And that wouldn't disturb me. I think that's the way business makes progress. And also in the general business situation there is nothing in the situation that is really disturbing at the moment. It has been increasing rapidly, true; you have a plentiful supply of unfilled orders, which I think is healthy if we are going to move ahead at a fairly healthy rate. So I'm not at all disturbed about them.

Then, yet you haven't had any indication to amount to anything of any credit expansion.

Another thing that disturbs me is that I'm not at all sure that we couldn't, to the best interests of this country, have even lower interest rates than the present level, and it is very difficult to make an analysis which would justify freezing it at that level. And what disturbs me in that regard is this: that interest rates are something you can't consider

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in the aggregate. You have a rate in one section, or in New York, or in an industry. Where the interest rate is of prime importance to this country at this time is in the construction industry, where you haven't had much revival, and that industry holds hope of absorbing the unemployed.

Golden.: That's right.

Haas: And the longer we keep - lock down the long term rate, the more it will absorb into the construction field, the mortgage field. And I'm not at all sure that you can take the relationship between short term money rates now and long term money rates and say they are abnormal, because you have had a situation where you were bringing about a forced - somewhat forced decline, and that affected short term market, and that pulled the long term slowly down, see?

You will note too - I notice this man Colt, who is President of the Bankers Trust - he was commenting on the fact that some of the banks, because these rates were so low - it was forcing them to go in the mortgage field, and that's the only way you can get a reduction in the mortgage rate of interest.

The point which I am emphasizing is that I don't think there - well, there is one thing that has been demonstrated: we can stop a recovery, we can shock it, stop it, disturb it, on the upside; it is much more difficult to start it upward; it is easier to bring it on a decline than it is to increase business activity. I fully appreciate the proposition of getting hold of this so you can control it at certain stages, but my apprehension would be to be careful and not bite off too much at one time. I have a very serious apprehension...

Eccles: If we didn't have the open market operation to meet any necessary expansion, what you say would be true, but we of course have that facility. Now, it is desirable, and I agree with you, to maintain the long term rate so as to encourage refunding and mortgage financing. That is largely done out of savings accumulations, which - from funds of insurance companies, mutual savings banks, and investors generally. That of course will show an increase as those funds begin to go out, in velocity of existing

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deposits, which is unusually low. See?

Haas: Yes, I see.

Eccles: And we've got the deposits there. And the long - if the long rate can continue where it is by merely the turnover of deposits now that are turning over very slowly, the deposits, the excess funds of these trusts, mutual savings, the insurance companies, and investors generally that have funds that are seeking investment just as rapidly as an opportunity affords - that will continue to be a pressure on the long term market. Whereas, to create more money - after once created, it is a very difficult thing to extinguish it, and it gets into velocity where the volume is great, and you can get an inflation beyond your control. You've got to anticipate the thing rather than wait for it to get to you and then shock it.

Haas: Well, there are schools of thought on that too. But the - Marriner, you probably haven't thought about this: say you decide, your Board decides to go ahead and puts this extra requirement on. Will there be - I think it is important - I'm thinking in terms not of the Treasury; I'm thinking in terms of the whole general business picture - Would the public be given assurance of an easy money condition, that you would...

Eccles: Yes. The long term market, the mortgage market.

Haas: You would use open market or such instruments available.

Eccles: Yes, sir. We had in mind giving out a statement that would say that we had the open market to meet any problem. And we also had in mind possibly even publishing or printing this sort of a chart, so as to actually give the picture and to show that there was room for this substantial expansion yet - that there was still a pressure of excess reserves more than we had ever had even after this was done, see?

Haas: Do you think you're taking any risk? One of these things that might work and yet....

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- Eccles: The longer you wait, the greater the risk.
- Golden.: The risk of not doing it is greater than the risk of taking it.
- Eccles: That was the opinion of Williams, the opinion of everybody that we discussed the thing with.
- H.M.Jr: Might I ask if this thing - what do you think the immediate effect would be? Do you think the long term Governments would go up or down?
- Golden.: I think they will not be affected.
- Eccles: I wouldn't be surprised personally temporarily to see them go up until this adjustment is completed.
- Golden.: If they hadn't expected it, I'd think that too. But they have expected it.
- H.M.Jr: The reason I asked, you've had a sharp rise in long term Governments today. Here's some of them up five to eight thirty-seconds.
- Bell: I think some of this action has already been discounted.
- Golden.: I think in general it is discounted. One of the things that was interesting, Mr. Secretary, was that we found that, with a little less excess reserves on January 13, when our survey applies, than there were in November, when our previous survey was made, we had fewer banks that would be unable to meet it, because there have been adjustments; especially in New York, where the survey shows that out of 22 banks, 11 are completely prepared.
- H.M.Jr: Well, thanks very much for coming. I think Mr. Eccles and I had better go.

U.S. COAST GUARD HEADQUARTERS  
Washington, D. C.  
27 January, 1937.

FLOOD REPORT  
(4:00 P.M.)

The United States Coast Guard flood relief force as of this date consists of practically 389 floating units, 65 communication units, and 1500 officers and men. Of this number, approximately 175 floating units are active in the flood area, together with all the communication units. The aviation force, participating in the flood activities, consists of 9 planes, and in addition to this, a concentration of Amphibian planes is taking place at the Biloxi, Mississippi, Air Station in anticipation of activity in the Mississippi River Valley.

Coast Guard land planes V150 and V151, piloted by Lieutenants George Bowerman and R. L. Burke, delivered their loads of vaccine at Louisville this morning, and are returning to their bases at Washington, D. C. and Cape May, New Jersey.

Commander Henry Coyle and Lt. Commanders R. C. Jewell and G. E. McCabe have been ordered to duty on the staff of the Flood Relief Commander.

Flood Relief Commander reported this date that fast Coast Guard picket boats are now employed in distributing serum at various points in Kentucky.

A Coast Guard communication truck stationed at Paducah, Kentucky, reported this morning that the evacuation of 25,000 people was proceeding, and that the morale of the people was good; that medical supplies were available; that the medical staff present was taking care of those in need of medical attention; that the water supply was limited, but electricity was available, that the report of loss of 14 lives due to over-turning of boat on 26 January was in error. This report was the only communication received, by any agency, from Paducah before noon this date.

Flood Relief Commander reports conditions at Evansville unchanged. Very slight rise in water, with level about 54 feet. Crest not expected before Thursday or Friday. Current in river has slackened. Food is short, and water supply limited.

Arrangements have been made with the United States Marine Corps to furnish the flood relief force with 1,000 heavy lined coats, as heavy clothing is badly needed.

The Chief of Staff, U.S. Army, announced this date that plans were being prepared and would be completed by 29 January for the evacuation of the 500,000 inhabitants of the Mississippi River lowlands in event that evacuation should become necessary. The Army Engineers feel that the levee system might not be equal to holding back the flood.

The Ohio River has reached an apparent crest at Louisville this date, but was still rising at Evansville.

Red Cross and Public Health Service officials are hopeful that the worst of the disaster is past in the Ohio River Valley, and announced that no more volunteer nurses and physicians will be needed.

Working all night, the Engineers, with the assistance of 2,000 volunteers, erected a 3-foot bulkhead atop the 50-foot flood wall at Cairo.

The St. Francis River in northeast Arkansas rose to a new level. A levee broke, inundating Truman, Arkansas.

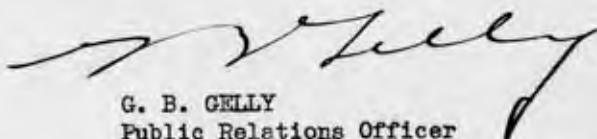
600 regular troops are now on duty in Louisville, Kentucky assisting the police authorities.

Officials of leading railroads of Chicago offered to place all available cars at the disposal of Army authorities if evacuation of the Mississippi Valley lowlands becomes necessary.

The Red Cross announced collection of \$1,222,000 of the \$10,000,000 requested.

Army officials estimate the crest of flood is moving from 80 to 90 miles a day, and that it would not reach Cairo for at least 7 days, and Memphis, Tennessee, for possibly two weeks. The river fell to 58 feet at Cairo, a drop of 0.6 feet, possibly due to dynamiting of levee below city.

Weather forecasts for Ohio Valley precipitation general for next 26 hours.



G. B. GELLY  
Public Relations Officer

Copy to:

Assistant Secretary Gibbons  
Mr. H. E. Gaston  
Mr. Fussell  
Commandant, U.S.C.G.  
Chief Operations Officer, U.S.C.G.  
Mr. Myers, U.S.C.G.

27 January, 1937  
4 p. m.

COAST GUARD OPERATIONS IN FLOOD AREA

Because of the increasing peril in the Mississippi Valley, Coast Guard forces en route that region have been augmented to six 165-foot patrol boats, eight 125-foot patrol boats, nine 75-foot patrol boats, and 40 large motor lifeboats, the latter being destined to Memphis and Cairo.

Additional officers are proceeding to the more important centers of distress to coordinate and supervise Coast Guard activities.

Requests received at Headquarters from Members of Congress for dispatch of Coast Guard boats to specified localities are being relayed to the Commander, Coast Guard Relief Forces, Evansville, Indiana, for attention.

Coast Guard planes transported ten Red Cross nurses from Evansville to Paducah, and picket boats were engaged in distributing serum to various points in Kentucky.

Six Coast Guard planes are being concentrated at Biloxi, Mississippi, to await instructions.



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Summary of Resources in Area or En Route

|       |          |                       |
|-------|----------|-----------------------|
|       | 6        | 165-foot Patrol Boats |
|       | 8        | 125-foot Patrol Boats |
|       | <u>9</u> | 75-foot Patrol Boats  |
| Total | 23       | Major Units           |

|          |            |                                              |
|----------|------------|----------------------------------------------|
|          | 40         | Motor Lifeboats                              |
| Approx.- | 284        | Motor surfboats and other Coast Guard boats  |
|          | 56         | Navy boats (under supervision of Coast Guard |
|          | 11         | Lighthouse Service and Coast & Geodetic      |
|          |            | Survey boats (under supervision of Coast     |
|          |            | Guard)                                       |
| Total    | <u>391</u> |                                              |

Approximately 2000 officers and men with  
Coast Guard Relief Force.

|         |    |                     |
|---------|----|---------------------|
|         | 7  | Planes              |
|         | 11 | Radio Trucks        |
| Approx. | 40 | Portable Radio Sets |

General Water Level Conditions

Water receding at Louisville and Cincinnati; also at  
Cairo following opening of levee; rising slowly at Evansville,  
expected to reach crest in day or two; rising at Memphis and  
expected to reach not to exceed 50 feet about February 5-7.

PRW

January 27, 1938

Judge Moore of the State Department addressed a letter to Mr. Taylor in connection with Narcotics.

Since parts of this letter were objectionable from the Treasury's standpoint, Mr. Taylor asked the Secretary's permission to call on Judge Moore and ask that the letter be recalled.

January 27, 1937

I told Taylor today to call in the Chinese Ambassador and tell him that I am not satisfied with the information which I received as to the future of China and, therefore, I will only extend the privilege for them to borrow \$20,000,000 in exchange against their 50,000,000 ounces of silver for the month of February; that I will take the matter up with them again on the 19th of February for March. Also to tell the Chinese Ambassador that I want General Chiang Kai-shek to see Professor Buck.

(The following is the cable which we received from Buck which is responsible for the decision of the Secretary as outlined above)

"26 January 1937.

From: Spagent, Shanghai, China  
To: Secretary of the Treasury

Message from Professor Buck. High official close to Chiang considers now is not a good time for me to see Chiang because exact situation will not be clear until plenary session meets in February. He stated that his own prediction is that so called Communists will be represented on a specially created advisory board without exclusive power and there will be no appointments of Communists to government positions. This should be interpreted in light of apparent real change in so called Communist program and as a method of stopping civil war which neither side wants. Same official also opines that external policy towards Japan will continue about same as in last few months. This information is probably as good as could be obtained directly from Chiang."

January 27, 1937  
12 Noon

Present: Mrs Klotz  
Mr. Haas  
Mr. Seltzer  
Mr. Murphy  
Mr. White  
Mr. Upham  
Mr. Bell  
Mr. Taylor  
Mr. Gaston

H.M.Jr: Wayne Taylor here? (On phone) Tell Mr. Taylor to come in. - - I thought you said he was sick.

Haas: He just came in -

H.M.Jr: All right.

Haas: - in time enough to dictate a short memorandum.  
(Hands Secretary a memorandum, copy of which is attached to this transcript)

H.M.Jr: I haven't got much voice again today. Can you give Bell a copy of that?

(Taylor comes in)

(Secretary reads memo)

H.M.Jr: Now, may I ask - you teacher today, George? All right, well....

Haas: We've got a class; call on the class.

H.M.Jr: Well, there is....

Haas: Maybe I better speak last. Call on the others.

H.M.Jr: Well, I'll talk last, Mrs. Klotz next to last. Now let's do it this way. Again, I can't talk very loud. How would you write this memorandum, or would your conclusions be changed any if you had to leave out reference to Treasury influence on cheap money and use of the Stabilization Fund? Now, how would you.....

Haas: We debated that in there this morning, and my feeling,

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if you must have an answer - I wouldn't want to do anything. But here is the dilemma we're in; the situation is messed up a bit because they have made this - let out this semi-official leak, and I think if we do something we'll clear that atmosphere. If we stop and do nothing, you take a firm position, won't do anything, that, I think, is - will probably be interpreted as some conflict in the Administration. I think it is desirable if that can be avoided. One way of avoiding it is to do it this way but at the same time announce you are going to insist upon easy money if you have to use these other forces.

H.M.Jr: Now look, George, if I did it your way - after all, the public relation angle on this thing - what I want would be entirely wrong. See what I mean?  
(On phone) Ask Mr. Gaston to come in.

Here's the thing we've got to be terribly careful about. Eccles will come over here at three o'clock. We're going to go over and see the President at four. Now, he's going to tell me undoubtedly what he's heard and what he wants to do. Now, for me to take the position - "I think it's all right for you to do 16 2/3, but if the thing goes wrong, then I'm going to step in and use the Treasury power" - I think that leaves me in a very weak position; that leaves the country in a very weak position.

In other words - just give me a couple minutes to think out loud - I ought to be able to tell the President, "For the Federal Reserve to do nothing, to do 16 2/3, to do 33 1/3" - I either think it is wise or not; and certainly not say, "Well, if it goes wrong, the Treasury is going to step in." I think that's a very weak position.

Haas: What we had in mind, Mr. Secretary, is this. If you put yourself - say you are the President and then he looks over this whole field and he says, "First of all...." - his first consideration would be this: that we can't take any chance on anything which would interfere with recovery; there's too much at stake.

H.M.Jr: Now, that's that. Let's start on that premise.

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Haas: Then the next - then he's got to weigh that against the possibility of an uncontrolled inflation, and along with that the factor that the Federal Reserve Board has put out the statement, and every....

H.M.Jr: Just hold everything a minute. (Leaves room to talk on phone with Mrs. Morgenthau and returns)

All right now. I think the premises that you were starting on - here's the President of the United States; he wants the facts. Now we've given him the facts about commodities from Wallace; we can give him this whole thing. Now, is this, from his standpoint - the whole administration, and recovery - is this thing right? Now, again, if you don't mind, I want to emphasize that he oughtn't to make this move feeling the minute he's going to make this move he's got to prop it up with something. This move ought to stand on its own feet; either it is right or wrong. Oughtn't to have to do it and - let's say, for example, it has an adverse effect on cotton; he says, "Well, if it goes wrong, I'll tell Jesse Jones to stop selling cotton until the price adjusts itself." I mean the thing ought to stand on its own feet and ought to be right because it is right, not immediately to give it a shot in the arm from the Stabilization Fund. Would you mind going on from there?

Haas: I can't go on from there, because you tie me up on that basis. To my way of thinking, these powers - I don't think that you can isolate them. I think that you have to consider them jointly, and that many of these problems - that no man living can be positive whether it is right or wrong. Therefore, you take a move to counteract a certain disadvantage. Some people might think you are going toward uncontrolled inflation. But you might decide to take that move, provided you can protect yourself on it. In other words, you aren't going to go down a dark alley; you say, "I won't go down there at all, but if you give me a gun I'll take a chance."

H.M.Jr: George, do you mind if somebody else....

Haas: Go ahead, Harry.

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White: I possibly feel a little more strongly....

H.M.Jr: You usually do.

White: ...that we ought to recommend....

(Hearty laughter)

H.M.Jr: What did he say?

White: Sort of takes the wind out of my sails.

H.M.Jr: That's all right. He always come back. Just change of tactics.

Haas: Now Harry lost his idea.

H.M.Jr: Listen, I'll make you feel better; I'll tell a little story. What's-his-name, Taylor, has had a couple things he wants to see me about for several days. He comes in here very tense - you (Taylor) don't mind my telling the story - and he says, "I've got to see you."

"All right, Wayne, sit down."

He says, "Sugar."

And I say, "Why, darling....."

Upham: You should have objected.

H.M.Jr: Then he says, "I haven't got time to play."

All right, I just wanted to make you feel better. I try my best to do the Treasury job and not let anybody get too tense, including myself first.

White: I think from the point of view of the President, the present situation contains elements, which I can enumerate very quickly....

H.M.Jr: We've got from now till one o'clock.

White: All right, the elements are as follows: We have adjusted demand deposits which are considerably in

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excess of '27-'28-'29 level. We have a price level that is lower - even though it is rising, will not reach the other for a couple of years, even at the same rate. And what is the most serious characteristic is that we've got what we technically call an income velocity of money, or sort of a rate of turnover, if you like. That was in '27-'28-'29 about 3.1, and is now only about 2. In other words, there are two separate sources from which you can get increased purchasing power, increased demand for goods, increased money instruments. One is the amount of money and the other is the rate of turnover. Now, if and when this rate of turnover begins to increase from 2 to  $2\frac{1}{2}$  to 3, you are having a tremendously potent factor and a factor that is very difficult to control. We don't know yet how to control the net volume. We have some measures of control over the Board; we don't know how to control the income velocity.

And therefore, we already have enough money to get a very considerable degree of recovery, and a good deal more than a degree of recovery should you get that rapid impetus of increased velocity. So it is about time that we pause and look ahead a couple of years. I'm not thinking of this year, but - because I don't think that this measure will make any difference, will have any effect at all on checking recovery.

H.M.Jr: This 16  $\frac{2}{3}$ ? You're talking to 16  $\frac{2}{3}$ ?

White: Oh, I didn't know that was mentioned.

H.M.Jr: You're talking to 16  $\frac{2}{3}$ ?

Haas: Yes, both of us were talking that.

White: Oh, I see; all right. And that therefore the position is that you have to take what reasonable measures you can now to protect yourself against a situation which may arise a year or two years from now, in which it is a little difficult - more difficult to do then than it is now.

Now let me come to the second part. However, I think that the recovery is so fundamental and so important that - and that we ought to do nothing that will in any way increase the obstacles to that recovery - that



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I would hesitate even to take that step, even though it may help us two or three years from now, if I thought I were left without any possibility of recovering that move should events unfortunately demand it, should events now or in the next year or two turn in the direction of stiffening interest rates before I think we are ready for that. So I ask myself, "What can I do if that does happen?" And the answer is very simple. We have an instrument which we can apply to that. Not that I expect to bring it into play, because I quite agree if I expected to bring it into play reasonably I wouldn't take this step, because the effect of this doesn't come until a couple of years.

H.M.Jr: May I ask a question on that now?

White: Sure.

H.M.Jr: Why don't you men think of some instruments to correct the move, think of reducing it - reducing the excess reserves? You increase them, why not lower them?

Haas: That's what we're doing.

H.M.Jr: Oh, through the Stabilization Fund.

White: Well, that's the instrument that we have in mind.

H.M.Jr: But, as I get it, what you say is do it now, 16 2/3; if the thing turns wrong, use the Stabilization as a shot in the arm to hold down the situation. Now, the point I raise is if you increase 16 2/3, why isn't the first thing you think of to reverse yourself on the excess reserves?

White: Oh, because, I think....

H.M.Jr: Rather than the Stabilization. I mean if this instrument brings around a faulty situation, why not use the same instrument to correct it before you use the Stabilization Fund?

White: I think there are two reasons. The first is, the less that reserve requirement is manipulated, the better, because that is spectacular, it hits a lot of points at the same time. It is not nearly as fine an instrument, it is not nearly as delicate an

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instrument, as the other ones that are available, one of them being the use of the inactive gold - both ways it is a more delicate instrument; another one being the open market operation, in a different direction being a more delicate instrument. Therefore, the time to use the cruder instrument is when it is most likely to have no effect, or a bullish effect. That's the first reason.

The second reason is that, other things being equal as between the two instruments, the extent to which you use the inactive gold saves you some money at a time when interest rates are stiffening. I'll grant the second reason is less important. It is merely another reason. The first reason is important.

- H.M.Jr: I didn't get the other day at luncheon, talking to Eccles - he talked about buying 200 million dollars worth of - was it short term notes, or something?
- Upham: Yes.
- H.M.Jr: What was that thing that he said he'd do? I didn't quite understand it, he went so fast.
- Upham: If they were to re-raise the reserve requirements and there is a market difficulty, they are prepared to step in and support the market to an extent of 100 or 200 million of short term capital.
- Taylor: It gives them a bigger portfolio so they can be more effective in their open market policy to that extent later on, and it takes off the effect of the increase of the reserves.
- H.M.Jr: What are they going to buy?
- Taylor: Securities, maybe bills.
- H.M.Jr: You mean increase that?
- Taylor: Increase their portfolio, which, by the extent they increase it, offsets the...
- Haas: That...
- Taylor: It gives them that much more effective portfolio to utilize in open market operations.

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- Haas: Exactly the same thing. If they had the Fund over in the Reserve Board, rather than here, it would be practically - the portfolio thing would be merged. I mean as far as their thought with regard to the market is concerned, it would be just exactly the same. You have a fund here and they have a fund over there.
- H.M.Jr: Well now, are all of you fellows in favor of increasing this thing  $16 \frac{2}{3}$ ?
- Seltzer: I am.
- Haas: With that condition.
- Seltzer: But I feel that you've got to have something to the windward here, you've got to be able to retrace your steps if you find it doesn't take.
- White: Not so much if you find it doesn't take as if events between now and some time in the future warrant.
- Haas: You must keep an easy money situation, it seems to me. This construction industry hasn't really got moving yet, and that is of fundamental importance. I notice in one of those articles this man Colt suggests the banks get into real estate loans; when they do, that eases the interest situation in that field, which is very important. And it takes a long time for the low interest rates to work themselves back into the mortgage field.
- H.M.Jr: May I just read this a minute. - - Well, what Wallace says - it all boils down to this: "As far as the immediate future is concerned, I am more disturbed about a possibility of high prices than of low prices. Nevertheless, the situation thus far seems to be a normal one, with no unusual evidence of speculative excess." That's on the commodity situation.
- Well, I think - I don't know. Do you want to say anything about this, Dan?
- Bell: Well, I don't see that there is any obligation upon the Federal Reserve Board to take definite action to

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raise the reserve requirements, as stated in the first part of this memorandum. All they said was that they were going to consider it in the months of January and February; they didn't say they were going to raise them. I think there is an obligation to take some action, either to say, "We are not going to do anything now," or otherwise, to relieve this strain on the market.

I think the Treasury would like to see easy money rates, but I don't think that it should be subordinated, or that everything else should be subordinated to that. I think it is the responsibility of the Federal Reserve Board to say whether or not reserve requirements should be changed, and they should submit their reasons to you and to the President. I think you can make your statement as to how it is going to affect the Treasury. Now, if it is going to adversely affect the bond market, I think you've got to advise Mr. Eccles that you are going to support the bond market like you always have, and to the extent you support it, why, you counteract the action the Board is taking. That, I think, is as far as you can go.

Haas: I think that expression of easy money maybe - when I was thinking of easy money, I wasn't thinking at all of the Treasury - what the Treasury.... I think that's of minor importance. I was thinking of business recovery and the relation of easy money to business recovery.

Bell: Primarily that is the responsibility of the Federal Reserve Board.

Haas: I question whether the President should take the Treasury viewpoint on that at all.

H.M.Jr: Well, we are out of the woods; I mean the Treasury is out of the woods. I mean we've been fortunate enough and, if I may say, foresighted enough to push the refinancing just as fast as the country would take it, and now that is behind, so I can be very noble about this thing.

White: May I comment on that? I think it would be an error for the Secretary of the Treasury to take the position that his advice and his interest is circumscribed by fiscal considerations. I think that the whole trend has been in all our operations - no, I mean in many

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of the recent developments and in the general trend - that he is interested in the monetary development, which of course involves others; and, though it is quite true that the Secretary of the Treasury is not directly responsible for the control of the credit situation, I don't think that should be carried to the extent where his interest is merely one of saying, "Well, you make your proposals as to what you think should be done with the credit situation and we will see how it affects the Treasury." I am inclined to think he ought to go a little further than that, and he ought to be among those who recognize when the situation is sufficiently important to warrant a step - a monetary step of major importance, even though it may not be his direct responsibility to initiate that step. It appears to me that he ought to be right on top of the credit and monetary situation.

Bell: The law doesn't put him there.

White: The law, you say, doesn't.

Bell: No, sir.

White: I agree with you that the law may not put him there, but everything else - I won't say everything else - I mean the general trend, the mere fact that a great deal of the interest that we have been taking in international monetary affairs is important only in so far as they relate to the domestic monetary and credit situation. I think the notion that the Treasury is confined to fiscal operations, which was doubtless true in the past decades, has ceased to be nearly so true, and it is becoming quite otherwise. The Treasury has gone into the far more important field at the moment of credit and monetary control, which is in turn involved with recovery. And the Treasury's direct interest is very simple, even from the legal point of view. We are interested in revenue; we are interested in expenditures. Both are directly related, dependent upon recovery. Therefore he has a vital interest. We've got 30-odd billion dollars of outstanding obligations, which is another reason why we're interested in the state of recovery.

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I dislike to see the Secretary take any step which would seem to indicate to the President that he is concerned chiefly with fiscal operations and that credit matters are a concern of the Federal Reserve Board.

But, as you say, the law...

- Bell: Well, I should hate to see the Secretary of the Treasury take any steps or advise the President that if he personally, as a Treasury official, didn't like the effect that the action of the Federal Reserve Board had taken on the market or recovery, that he would step out on his own.
- White: Well, I should...
- H.M.Jr: Listen, you fellows...
- White: I won't - I won't express myself.
- H.M.Jr: You fellows go out for lunch together.
- Bell: I just think you've got to be careful on that.
- H.M.Jr: Well, that's why I raised that point.
- Bell: I agree with you exactly on what you said.
- H.M.Jr: That <sup>+</sup> can't go to the President on that and - well, I know what these fellows want and I think there is a happy medium. We went all through that with Eccles the two weeks when this Stabilization Fund and sterilization was up; and after all we did accomplish not that I should exercise all control - but we did get Eccles to back-track on his position that he was the final authority, and Eccles - now his position is that he doesn't want to make any move unless the Treasury is in accord with the Federal Reserve. And I feel the same and I feel the two bodies should move together. And what we accomplished was to have Eccles come down off his high mount, that he was sole authority on domestic money, the domestic economy. Now, you know, he takes the position that....
- Haas: And that's what we have in mind here.

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- Bell: That's exactly right.
- White: And we don't....
- Bell: A different attitude is taken in the memorandum.
- White: Well, in fact I also felt that oughtn't to be the position, but I still think that in your advice you should have in mind certain things.
- H.M.Jr: Your legal position and then your active position. Now, when I was in Farm Credit, what business was it of mine to go see the President and advise him what price he should pay for gold? But he asked my advice at that time. It's the same now; he asked me to come with Eccles to see him when he makes up his mind on this. Now, fortunately, over a period of two, three months - Taylor and Upham have been very helpful on these things - we have gotten to a point where I really think the relations between the Federal Reserve and the Treasury are as nearly ideal as they will ever be.
- White: But it seems to me - I don't want this idea to get lost - I mean this particular point you seem to wish to avoid, that we feel, if it were myself, that I would not wish to recommend this increase unless I were ready later to use that power if necessary, obviously in conjunction with them....
- H.M.Jr: Well, the only place where you and I differ is that I want them to take this as their responsibility, but feeling that if they made a mistake they would make use of their own instruments that they have at their disposal under law to correct the mistake they made, and we only come in as a very last resort.
- Haas: That may not be good for the country, Mr. Secretary.
- H.M.Jr: Well, only it would not be good for the country if they refused to use the instruments which they have.
- Haas: But their instrument may not be as good as the one that you have legally under your control.
- H.M.Jr: Well now, let me just.... Are you through, Bell? Wait, you haven't told me - do you want to express

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an opinion as to what position you think I ought to take - I mean have you heard enough or do you think you can't do it until you hear what Eccles has to say?

- Bell: I think you've got to find out what Eccles is going to do. He may say 16 2/3 percent, until these boys....
- White: I didn't think the proposal....
- Haas: This is just half the way, Dan, that's all.
- Bell: Yes. But he might say 16 2/3 percent as his figure, and then you are in perfect agreement.
- Haas: No, we are not, unless they are willing to use such powers that they have - if they will do this and insist on maintaining easy money and use it for...
- H.M.Jr: Hello (On phone. Has conversation with Marriner Eccles, record of which follows:)



January 27, 1937.  
12:35 p.m.

H.M.Jr: Hello

Operator: Eccles.

H.M.Jr: Hello

Eccles: Hello.

H.M.Jr: Marriner.

E: Yes.

H.M.Jr: On account of the time being so short I wonder if this program would be agreeable to you: that when you come over - hello -

E: Yes.

H.M.Jr: That when you come over that I have the people in here who advised me so they can hear what you've got to say and we'll all go along together because I won't have much time and they'll all hear the story and we'll chew it out right in front of you.

E: Well I - I don't -

H.M.Jr: I mean...

E: Yes - who - who would you want?

H.M.Jr: Well you - I mean - the regular people - Haas and Taylor and Upham and Bell.

E: Yes, that's all right.

H.M.Jr: I mean the people that Haas has working with us.

E: Ah-ha.

H.M.Jr: I mean - ah....

E: That's all right. Well now.....

H.M.Jr: The only reason - I mean....

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- E: What I would like to do is to merely give you the picture as we see it, see?
- H.M.Jr: Yes.
- E: Then I - I don't want to put you on the spot at all. I mean I wouldn't - it isn't for the purpose of saying, "What's your view and we ask you to take the responsibility." I mean - we - we - we're willing to do that - take the responsibility of the thing but you naturally want to be in a position if the President - ah - asks you your opinion as to what you think.
- H.M.Jr: Yes, well the point is normally what we'd do is - I - I - I think he will ask me.
- E: Yes, sure he will.
- H.M.Jr: The normal thing would be that I'd talk to you and then I'd come in and ask these people to come in and I'd say, "This is what Eccles said. What do you think?" Now, in order to short circuit that, if you don't mind - after all you know all the boys here in the Treasury.
- E: That's all right - that - that would suit me fine.
- H.M.Jr: And you can - you can trust them.
- E: Yes.
- H.M.Jr: And then they can go along as we go along because we've only got an hour on this thing.
- E: That's right.
- H.M.Jr: Until I listened and then called them in I won't have time.
- E: That's O.K. with me.
- H.M.Jr: And on account of - is that all right?
- E: That's O.K. That's - that's all right.
- H.M.Jr: And on that basis you bring anybody who you want with you.
- E: Yes.

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H.M.Jr: See?

E: Well I.....

H.M.Jr: That's up to you.

E: All right.

H.M.Jr: I mean I don't - it's entirely up to you but I - I just didn't.....

E: Well I won't - I - I wouldn't bring more than one or two. I'm pretty familiar with the whole thing myself.

H.M.Jr: All right. Well it would make it much easier for me if you'd be willing to work that way.

E: I would. I would. That's - that's perfectly agreeable.

H.M.Jr: Thank you very much.

E: All right, thank you.

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- H.M.Jr: Makes it much easier. Well now, as I.... You (Upham) want to say anything?
- Upham: Well, I think Mr. Bell voiced my thoughts much better than I could myself, but perhaps with not so much heat. I feel very strongly that the most that you should do is to say that a proposal of theirs is either acceptable or unacceptable, and if it is unacceptable only because of very strong reasons.
- H.M.Jr: Well, there's no argument on that.
- Upham: All right.
- H.M.Jr: Wayne?
- Taylor: I'm sitting right on this side here (with Bell and Upham). The only position that I think we can take is that if this instrument is used, what will that possibly do to the credit requirements and the cheap money - I mean the credit availability and the cheap money, which is definitely in the national interest. It happens to be in the Treasury interest, let's say, to a minor degree; but I think it is fundamental that this country should continue a cheap money policy, let's say, indefinitely. All right, does this move, whether it is 16½ or whether it is the full amount - what position does that put the Federal Reserve System and the country in? Is there sufficient flexibility so that if your legitimate credit demands do increase so and so, you can continue the cheap money policy? And would they go backwards on this particular instrument? In other words, having increased it to the full amount, would they use that same one again, and under what circumstances would they use it?
- But it happens to be the clumsiest method that there is, and that is one of the reasons they want to get it out of the way, because as long as that isn't used, why, if some other method should be used, people will say, "Why didn't you do that?" But it is only after it is utilized to the full, which is what I assume they are going to do.... What else have you got that they can do without our feeding the Stabilization Fund?
- H.M.Jr: Are you through?           Murphy?

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Murphy:

I would take the position of the broader interpretation of the functions of the Treasury. It seems to me, the Treasury having been intrusted with the Stabilization Fund and with other things of that kind, it can't make any decision without reverting to the general national interest rather than the peculiarities of the National Debt.

I am sufficiently in favor of a  $16 \frac{2}{3}$  percent rise so that I would rather see the risk, I believe, even of a statement, than not at all. However, I would rather not have a  $33 \frac{1}{3}$  percent rise without a statement; that is, I'd rather have no action than a  $33 \frac{1}{3}$  rise without a statement.

I feel that a statement could be sufficiently generally phrased so that it would be both satisfactory to the market and would not have any appearance of being a prop, as you put it. That is, the statement simply be to the effect that the Federal Reserve Board believed in the continuation of the easy money policy; that they did not believe that the  $16 \frac{1}{2}$  percent increase in reserve requirements would interfere with the easy money policy, and that if there should be any hike in the money rates which they consider to be unwise, appropriate steps would be taken.

I don't think that any reference need be made to the Stabilization Fund, but that if you were queried about it in press conference you could state that you would not hesitate to use it if in your judgment it seemed to be correct to do so.

With respect to the instrument which ought to be used if a further - if some effect in the direction of loosening the money market is considered, it seems to me that a reduction in reserve requirements would be very unwise, that we should consider that as a one-way street.

And I should like to add a reason in addition to the two given by Mr. White; that is, it is cumbersome and has a shock, affects all the banks; second, that using the Stabilization Fund is a positive good because it throws from the United States Treasury to the banks

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the burden of holding our excess gold. I would like to add to that the effect on the psychology of the individual banker. If an individual banker finds that his legal reserve requirements have been reduced but he hasn't any more cash, he isn't likely to rush out and make more investments; so I don't think the effect of reducing reserve requirements is so very potent. On the other hand, if the actual supply of excess reserves is increased so that the banker, confronted with the same legal situation, finds that he has more cash, I believe the effect of those additional excess reserves would be tremendously potent.

So I would add to the virtue of delicacy claimed for the weapon in the hands of the Treasury the additional characteristic of potency.

Gaston:

I think the discussion is very interesting. Knowing very little about it, I am inclined to agree with these gentlemen over here on this side; that if the Federal Reserve Board asks for the advice of the Secretary of the Treasury, he ought to give it freely; that he doesn't need to stand back and be diffident. I think that would be unfair to the Federal Reserve Board.

And also, speaking about the question of law, the President of the Corn Exchange Bank is not required by law to give his opinion either; it isn't his function. But I think he'd be a dolt if he didn't speak his opinion freely if the Federal Reserve Board should ask his opinion on it. And I think the Secretary of the Treasury's position is even more - considerably more important.

Seltzer:

One final advantage of using some of the Treasury's funds to increase reserves if the time should come when you want them increased, rather than have the Reserve Board do it through open market purchases, is that the Treasury saves interest instead of the Reserve Board gaining some.

(Hearty laughter)

H.M.Jr:

At least I'm glad to find out where everybody stands anyway.

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Taylor: The point is that the Federal Reserve people know perfectly well that you have this Stabilization Fund power and at the proper time you can use it.

H.M.Jr: Now look, "gents," if you'll come back at a quarter to three, I think - I don't think there is any use in continuing at this time until we hear what Eccles has to say.

January 27, 1937

Secretary Morgenthau

Mr. Haas

Subject: Proposal to increase member bank reserve requirements

The Treasury's position with respect to this proposal should be the product of the following three considerations:

(1) Semi-official notices have been given over the period of the past few months that an increase in the required reserves will definitely be made. These notices have been accepted at face value by bankers and others and have created preparatory unsettlement and some rise in short-term interest rates. This unsettlement will not be ended and the air cleared until an increase in reserve requirements is officially announced. Any further protracted delay or announcement of change of policy would be construed as evidence of serious conflict of opinion or policy within the Administration. It would appear, therefore, that the Treasury is almost constrained to approve some increase in reserve requirements at this time.

(2) On the other hand, the maintenance of low interest rates is a primary aim of Treasury policy and one that should not be jeopardized by a drastic increase in reserve requirements. A 33-1/3 percent increase in the present requirements to the full statutory maximum would leave less than \$600 millions of excess reserves remaining, an amount which would permit a further expansion in member bank deposits of only about \$3 1/2 billions -- without the banks going into debt to the Federal Reserve banks.

The present level of business activity is substantially below the level needed to bring the volume of unemployment within manageable limits; the volume of commercial loans is some 40 percent below the 1928 level; and our construction industries which most need low interest rates have been the most laggard group during our recovery. In view of these considerations, the Treasury should very definitely oppose an increase of the order of 33-1/3 percent in member bank legal reserve requirements.



Secretary Morgenthau - 1/27/37 - 2

(3) An increase of  $16\frac{2}{3}$  percent at this time in the required reserves of member banks would be consistent with the Treasury's fundamental objectives, provided it were accompanied by adequate public notice of the Treasury's determination to employ its own monetary powers whenever occasion arises, in order to maintain conditions favorable to low and declining interest rates; and provided, further, that a suitable statement by the Board of Governors eliminated any fears that a further increase in reserve requirements might again be made within the near future.

A  $16\frac{2}{3}$  percent increase in reserve requirements would leave excess reserves of about \$1,360 millions, sufficient for a further expansion of about \$9.4 billions in member bank deposits. Such an increase would considerably improve the possibilities of credit control without drastic immediate effects upon interest rates; and would have a very settling effect upon those who fear uncontrolled inflation.

Fears respecting a reversal in the recent trend of interest rates, resulting from the Reserve Board's action could be and should be allayed by a statement that the Treasury is prepared to increase the volume of member bank reserves by the use of its Stabilization Fund and other monetary resources, if such action were needed to maintain conditions favorable for low interest rates.

Washington

Flood Memorandum No. 1

January 28, 1937.

While flood conditions warrant it, this memorandum will be distributed daily. Additional information as to flood relief activities of Treasury agencies may be obtained at Room 383, Treasury Department, National 6400, Extensions 2679, 3040 or 3041.

COAST GUARD

Resume of Coast Guard operations:

Evansville, Ind., is field headquarters. Here Capt. Leroy Reinburg has offices in the Vanderburgh county courthouse. About 225 Coast Guard boats of all types with crews aggregating about 1800 men are under Reinburg's direction, in the area from Parkersburg, W. Va. to Memphis, Tenn.

Four hundred and seven boats of all types have been dispatched from all sections including Great Lakes, Gulf and Atlantic Coast points as far distant as Boston. These include 23 seagoing Coast Guard craft, these to be assigned to Mississippi River duty; 65 Navy boats, nine life saving boats from the Light-house service and two from the Coast and Geodetic survey.

The flood area has been divided into eight districts. Seven are in charge of a commissioned officer directly responsible to Evansville headquarters. These districts and their commanding officers are:

Marietta, Ohio, Lt. Comdr. E.T. Jewell; Huntington, W. Va., Lt. Comdr. George McCabe; Portsmouth, Ohio, Lt. W.W. Bennett; Louisville, Lt. L.P. Jenyon; Cairo, Ill., Lt. Comdr. R.C. Jewell, enroute from Boston area, and Comdr. Henry Coyle, enroute to Memphis from Richmond, Va. The Cincinnati district is in charge of Boatswain W.E. Ireland. Lt. Comdr. I.B. Steele is enroute from Boston area to Cairo, Illinois.

The Coast Guard has 15 airplanes on flood duty. Eight had been using Evansville as a base, but because of rising waters may be using field as far north as Indianapolis. Two are at Memphis, Tenn.; two are enroute from Cape May,

N.J., one is enroute from Salem, Mass., one has returned to Washington, after flying serum to the Louisville area, and another is at Cape May, after a similar errand.

Two more planes at St. Petersburg, Fla., and another at Miami have been ordered to stand by for possible flood duty.

Boats in the flood area were reported as follows:

Cincinnati 10; Portsmouth 4; Huntington, W. Va. 30; Louisville, Ky. 18; Lawrenceburg, Ind. 5; Havelton, Ind. 2; Evansville, 76; Vincennes, Ind. 1; Cairo, Ill. 30; Memphis 13; Marietta 34; Vicksburg 4 and New Orleans 1.

The Coast Guard maintains its own communication service through the Coast Guard radio station at Ft. Hunt, Va., across the Potomac River from Washington. This station maintains communication with the entire flood area through a short wave channel. Communication is maintained through three Naval Reserve Air Stations at Evansville, Cincinnati and Memphis, respectively; five amateur radio stations at Evansville and 12 radio communication trucks by land, and by 30 portable radio sets and 40 floating radio sets installed in various floating units. The Coast Guard radio sets are especially equipped to withstand water and continue to operate even after immersed in water.

Chief developments Thursday were:

Although need for boats at Kenova, W. Va. was most acute, two lifeboats and crews were sent to Cattletsburg, Ky. where authorities reported flood conditions as "very serious".

Marietta, Ohio reports flood crest at that point has passed.

Several Coast Guard surf boats were sent from Mt. Vernon, Ill. this morning, with doctors and nurses, 100 miles down stream to meet a boat of the Army Engineer Corps, that started from Galconda, Ill., carrying 30 babies and 30 adults ill with pneumonia. Coast Guard boats will bring them to Mt. Vernon concentration camp.

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Capt. Reinburg sent several boats from Ashland to Greenup, Ky., where 650 people had fled their homes for higher ground.

First of 23 seagoing vessels ordered from Atlantic and Gulf bases, reported at Mississippi points. The 165 foot patrol boat and three 75 foot cutters arrived at Vicksburg, Miss., while the 125 foot cutter Dix, arrived at New Orleans.

Ten of 20 small boats at Cincinnati, were transferred to Louisville where conditions still are acute.

#### PROCUREMENT DIVISION

The Branch of Supply of the Procurement Division has authorized Procurement officers in all flood states to establish emergency headquarters at points best suited for cooperating with the Works Progress Administration and Red Cross for purchasing, receiving and distributing needed supplies, and to maintain 24 hour service. Procurement offices in Washington are securing information from manufacturers and distributors of relief supplies as to stocks available, shipping facilities, etc., and are relaying this information to the Procurement offices in the flood states, these offices then ordering needed supplies direct. In addition, a considerable number of mattresses, textiles, etc., have been transferred from depots outside the flood area to depots in the flood area.

Generally emergency clothing needed for refugees is being provided by WPA sewing projects in the flood area. The Procurement offices in Washington are now making arrangements for purchases of textiles to replenish the stocks of these sewing projects. Today's shipments to the flood area included 100,000 yards of comforter cloth and 100,000 yards of flannel.

Louisville headquarters of the Procurement Division were flooded and new headquarters were established today in the highland section of that city. Purchases of boots and chloride of lime were made for this area.

PUBLIC HEALTH SERVICE

Federal medical officers detailed in the Ohio Valley flood region, in their reports today to Dr. Thomas Parran, Surgeon General of the U.S. Public Health Service, stated that no serious epidemic has occurred, although colds from exposure are widely prevalent, and numerous cases of pneumonia in some flood centers among evacuated populations, are receiving attention of doctors and nurses.

Dr. Ferran's emergency program, in cooperation with other agencies, Federal, State and local, embraces these principal lines of work:

1 - The Surgeon General's office has become a clearing house of information as to biologic resources of the nation and of medical requirements in all flood areas. Complete inventory has been made of all available biologic supplies. These include typhoid vaccine, smallpox vaccine, smallpox vaccination needles, prophylactic doses of diphtheria anti-toxin, and tetanus anti-toxin. Careful check is being kept of all orders for these products from medical officers to avoid duplication, and to conserve the supply.

2 - The U.S. Public Health Service has coordinated its work with the American Red Cross, State Departments of Health, the Works Progress Administration and with other cooperating agencies.

3 - Twelve medical officers and ten sanitary engineers of the U.S. Public Health Service, have been transferred from their regular posts in various parts of the country, and are on duty in the flood areas. Their work is coordinated with the State authorities, Red Cross personnel and other agencies.

Dr. Ferran said today that all requirements for vaccines, serums and anti-toxins are being promptly met through shipments from all parts of the country. Some of the supplies are being sent by State Boards of Health and others are going direct into the flood areas from drug manufacturing houses. The heaviest calls for these supplies so far have come from Kentucky.

Medical officers reported to the Surgeon General that there will be need for additional forces of sanitary engineers in the near future, when the waters in the Ohio Valley recede, as serious problems of sanitation are confronted. Sanitary engineers now on duty are giving particular attention to the water supplies to prevent outbreaks of typhoid and other diseases.

Public Health Service medical officers are on special duty at Louisville, Cincinnati, Evansville, St. Louis, Memphis, Charleston, W. Va. Covington, Ashland, Paducah and Maysville, Ky. Sanitary engineers are on duty at Columbus, Charleston, Indianapolis, Cincinnati, Louisville, Jefferson City, Mo., Nashville and Little Rock.

Total shipments of biologic supplies from all sources have been: 688,276 doses of anti-typhoid vaccine, 222,191 doses of small pox vaccine, 52,140 doses of diphtheria anti-toxin, 66,570 doses of diphtheria toxoid, 6,851,870 units of influenza and pneumonia serum, 10,655 doses of tetanus anti-toxin and 400 packages of various preventive and therapeutic products.

#### ALCOHOL TAX UNIT

All Alcohol Tax agents in flood areas have been instructed to devote their services and use their automobiles in relief work in cooperation with the Coast Guard, Red Cross and other agencies. In Louisville, Alcohol Tax agents have served with the military police; in Evansville, Ind., they are serving as aides to Capt. Leroy Reinburg, Coast Guard Commander. Enforcement work has been suspended generally in the flood area.

#### BUREAU OF NARCOTICS

The Bureau of Narcotics has conducted a survey of supplies of codeine, required in the treatment of pneumonia and allied diseases. Supplies were found adequate. In some cases on account of the non-availability of records in flood areas it was necessary to expedite shipments through action of the Washington office.

U. S. COAST GUARD HEADQUARTERS  
28 January, 1937.

FLOOD REPORT  
(4:00 P. M.)

The Coast Guard Flood Relief Force this date has assigned to it a total of approximately 400 floating units, of which approximately 250 are in the flood area at the present time; 10 planes; 10 communication trucks; 25 local portable stations, which will shortly be augmented by 25 additional portable stations.

Seven (7) additional shipments of boats were reported this date, as follows:

From Buffalo to St. Louis, Mo., 9 36-foot life boats and 32 men.

From Chicago to Cairo, Illinois, 5 motor boats and 9 men.

From Milwaukee to St. Louis, 5 motor life boats, 20 men.

From Muskegon, Michigan, to St. Louis, 5 motor life boats and 16 men.

From Duluth, Minnesota to St. Louis, 1 life boat, 4 men.

From Norfolk, Virginia to St. Louis, 10 boats, 57 men.

From Galveston, Texas to Memphis, 6 boats and 35 men.

Advice received from Chicago Division at 1:32 p.m. indicated that all boat shipments for St. Louis are being rerouted to Cape Girardeau, Mo., on account of ice conditions at St. Louis.

Weather Bureau has predicted that the flood crest will pass Evansville this date. However, the Flood Relief Commander reported at 1:45 p.m. this date that the water was then receding at Evansville.

The probable flood crest at Memphis is predicted at 48 feet from 5 February to 7 February, barring further heavy rain fall.

The Surgeon General, U.S. Public Health Service, advised Governor Lehman of New York that it appeared enough doctors were mobilized for the Kentucky flood area.

The Maritime Commission advised it had 40 life boats, 2 motor boats and considerable equipment for use in the flood area by the Red Cross.

The U. S. Army has commenced taking charge of eastern Arkansas flood zone.

The W.P.A. announced it had already begun "mopping up process" in the wake of the Ohio floods.

Lt. Commander McCabe, in charge of Coast Guard operations at Huntington, West Virginia, reported indications were that Coast Guard work in that vicinity might be completed within 48 hours.

The Coast Guard units are giving special attention to the outlying small communities.

The American Red Cross reported contributions of \$2,831,361 in its drive for \$10,000,000.



G. B. GELLY  
Public Relations Officer

Copy to:

Assistant Secretary Gibbons  
Mr. Gaston  
Mr. Fussell  
Commandant, U.S.C.G.  
Mr. Myers, U.S.C.G.  
Chief Operations Officer, U.S.C.G.



28 January, 1937  
4 p.m.

#### COAST GUARD OPERATIONS IN FLOOD AREA

Twenty-eight boats and their crews from Boston Division arrived at Cairo yesterday.

Approximately 250 Coast Guard boats have been landed in flood zone and are in full operation.

Two commissioned officers left Washington yesterday by plane to take charge of operations at Memphis and Cairo, respectively.

The TRITON, WOODBURY, and three 75-foot patrol boats arrived at Vicksburg yesterday.

Coast Guard officer at Huntington reported conditions improving and need for Coast Guard forces in that region would probably cease in 48 hours. Conditions much improved at Cincinnati and part of forces being moved farther down river.

Coast Guard has established direct (from Fort Hunt, Va.) special emergency radio stations at Wheeling, Parkersburg, Cincinnati, Evansville and Memphis, with a secondary system from these key stations to emergency stations throughout the area. Approximately 25,000 words are handled every 24 hours from our Fort Hunt station to stations within the flood area.

Summary of Resources in Area or En route.

6 165-foot Patrol Boats  
 8 125-foot Patrol Boats  
 9 75-foot Patrol Boats  
 Total 23 major units

46 Motor lifeboats (radio equipped)  
 Approx. 284 Motor surfboats and other Coast Guard boats  
 56 Navy boats (under supervision of Coast Guard)  
 12 Lighthouse Service and Coast & Geodetic Survey boats  
 (under supervision of the Coast Guard)

Total 398

Approximately 2000 officers and men with Coast Guard  
 Relief Force

10 Planes  
 10 Radio Trucks  
 Approx. 50 Portable Radio Sets

General Water Level Condition.

Rising slowly at Evansville, crest of 53' expected tonight.  
 Slowly dropping in upper Ohio River. Stationary at Cairo, crest  
 60-61' expected about Sunday; slowly rising at Memphis with crest of  
 49-50' expected February 6. Rising slowly at Vicksburg, but still  
 1-1/2' below flood stage.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE January 28, 1937.

TO Secretary Morgenthau

FROM Miss Roche

Report from U. S. Public Health Service Officer at Louisville, Kentucky:

"Louisville apparently adequately supplied with medical supplies, food and clothing. Local physicians and nurses able to handle medical care. Situation still serious but feel worst is over. Steady improvement should follow."

Report from U. S. Public Health Service Officer at Cincinnati, Ohio:

"Have assisted harmonizing and making more effective organizations participating in Public Health and medical relief in Cincinnati. Results promising. Health conditions here excellent."

Report from U. S. Public Health Service Officer at Little Rock, Arkansas:

"No public water supplies in danger here yet. Problem almost entirely care of refugees from rural communities and all but one concentration camp located near public water supply."

Report from U. S. Public Health Service Officer at Memphis, Tennessee:

"Supplied biologics to Osceola and Helena, Arkansas, and Paducah, Kentucky. Cooperating local hospital situation. Could Service supply 500 hospital beds and mattresses?"

Report from U. S. Public Health Service Officer at Chicago, Illinois:

Detailed report of efforts to protect water supply in Illinois, near Cairo.

Report from U. S. Public Health Service Officer at Jefferson City, Missouri:

"No public water supplies out of commission--situation well under control."

Report from U. S. Public Health Service Officer at Ashland, Kentucky:

"Majority population immunized. Little disease except influenza and colds. Water supply good."

Report from U. S. Public Health Service Officer at Covington, Kentucky:

"Surrounding counties less than normal expectancy of contagious diseases. Refugee quarters all have medical care. No emergency foreseen."

J Roche

## GROUP MEETING

January 28, 1937  
9:30 A.M.

Present: Mrs Klotz  
Mr. Gibbons  
Mr. Bell  
Mr. Upham  
Mr. Haas  
Miss Roche  
Mr. Lochhead  
Mr. Gaston  
Mr. Oliphant  
Mr. Magill  
Mr. McReynolds

H.M.Jr: This is a bulletin - "Federal Reserve. 9:20. Mr. Bell said that the Federal Reserve Board is ready to apply the brakes still another notch on a threatening credit boom which Administration officials fear may lead to a runaway stock market, the United Press says."

Bell: Hurrah!

H.M.Jr: Why is Bell talking about this stuff, huh?

Bell: Everybody's talking about the Budget; I've got to have something to talk about. Still, Tugwell's gone, though.

H.M.Jr: They don't all know yet what happened yesterday either, do they? - - I think if Oliphant and McReynolds will stay behind I'll have a little time to go over things with Magill and see what's what.

I've got a few chores. I think you (Upham) might do this. It's a little out of your line. "Rixey Smith, secretary to Senator Glass, phoned that the Senator would like Mr. Morgenthau's attention called to Harris E. Willingham, Federal Alcohol Administration, whom he has recommended for respointment. Mr. Smith says the Senator wrote Mr. Morgenthau and thinks he also talked with him about the case." Well, he has neither written or talked to me this year. Now, find out - I don't think that Willingham's term is up. Better find out before you go. And will you also explain.... you know Rixey Smith? ....

Upham: Oh yes.

H.M.Jr: ...that if his term is up - explain to him what's

- 2 -

happened, that we never put in a man as Administrator of Federal Alcohol.

McReynolds: Never been appointed. He isn't on term appointment.

H.M.Jr: Well, get the thing straight from Mac. Get it straight from Mac.

Opnam: Surely.

H.M.Jr: and then tell - might as well give him the facts, that what's in the President's mind is, under the reorganization plan, the Federal Alcohol Control is going to be made into a part of the Treasury. Might just as well tell him, see, that we got a long memorandum from the President that you (Oliphant) should draw legislation to that effect.

Oliphant: That's right.

H.M.Jr: But you might just as well tell him. Mac, would you mind seeing Rixey today and let me know?

Opnam: Surely.

McReynolds: Do you want legislation put in, inasmuch as that can be done without separate legislation if the reorganization legislation passes?

H.M.Jr: No.

McReynolds: It means just sitting tight.

H.M.Jr: Just sitting tight, as long as the President doesn't make an appointment. (To Mrs Klota) You get the memorandum from the President so I can have it whenever I see him this morning. He wrote a memorandum - I think we had a photostat to Oliphant. I'll pick that up when I go.

McReynolds: When he gets his reorganization legislation he can do that under that, everything he wants to do.

H.M.Jr: I want to be extra careful to keep Senator Glass and myself...

Oliphant: I might add that Hester informs me there's quite a bit of agitation down on the Hill about that Federal

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Alcohol Administration - quite a storm gathering about it.

H.M.Jr: Well, when you (Upham) come back give me a little written memo and tell Mr. Oliphant too, will you?

Upham: Yes, sir.

H.M.Jr: But I want you personally, because you know him. Steve?

Gibbons: (Hands Secretary papers) In 1940 the Coast Guard will be 150 years old, and Waesche is proposing a sesqui-centennial stamp be made as a memorial.

H.M.Jr: When is it?

Gibbons: In 1940 - established in 1790.

H.M.Jr: I mean when does he want the stamp?

Gibbons: Well, he's just bringing it to your attention.

Bell: Your motto - "Always be prepared."

Mrs Klotz: They know how long it takes to get a stamp out.

H.M.Jr: You tell Waesche to stamp out the flood first.

Mrs Klotz: Screwy.

H.M.Jr: Is it all right?

Mrs Klotz: Not too bad.

Gibbons: Charlie Rand called up. The United States Line is out with their boats - motor boats - one thing and another - out for the flood.

I want to talk to you some time about Kingbury, and all that.

H.M.Jr: Better make a note for before I go (to Mrs Klotz). All right?

Gibbons: No rush, whenever you get a chance.

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H.M.Jr: All right.

Bell: I haven't anything.

H.M.Jr: Dan, would you be thinking about this financing thing? And George, could you have ready for me tomorrow a study showing - I mean I think I know what the answer is - figuring which is the cheapest kind of money for us to hire out just now, see? I mean if we've got to get some money in March or April.....

Haas: Just what....

H.M.Jr: Bills, notes, or....

Haas: Oh.

H.M.Jr: I mean is there any shift figuring the thing - I mean are bills still the cheapest or are bonds still the cheapest? What's the cheapest kind of money that I can hire out? Huh?

Haas: All right. There may be several alternatives and we can point out the advantages and disadvantages of each kind.

H.M.Jr: Would you do that? I'd like something tomorrow. I may have to make a decision before I go.

Haas: I'll do it.

H.M.Jr: And after you've got that you can talk it over with Bell - I mean just whether there is any advantage one way or the other.

Oliphant: Is Wayne sick?

H.M.Jr: No, he went to a nine o'clock meeting.  
But I meant in view of the trend - you heard the discussion.

Haas: I'll give you a short memorandum.

McReynolds: I've had some stuff on my desk, and would you talk with Taylor in regard to....

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- H.M.Jr: What I'd like to do is I'd like to channelize all the information both ways between the Federal Reserve Board and the Treasury through Upham.
- McReynolds: We have already given out a written order on that.
- H.M.Jr: Never had a chance to talk about it. (To Mrs Klotz) You give those orders to Mac and let him talk to Taylor. If it's all right with Taylor.....
- Mrs Klotz: It may be in there (desk drawer).
- H.M.Jr: (Looks in drawer - not there) I've just been holding it up.
- McReynolds: All right, I'll talk to Wayne.
- H.M.Jr: And show it to George. If either have objections - but show it to Taylor and Haas; but I simply feel - and Bell - because every once in a while I hear of something new that is going back and forth. I think we ought to channelize so that one person knows all the information that goes back and forth. I mean you (Bell) give them certain information.
- Bell: Yes, but it isn't nearly what I've been doing for 15 years. And there's certain information that goes back and forth daily.
- H.M.Jr: That's why I've held up the order. Let McReynolds talk to everybody who does send information back and forth between and see whether my suggestion is practical, huh? Will you do that, Mac?
- McReynolds: Yes, sir.
- H.M.Jr: And it isn't a rush order. If you have it cleared while I'm gone... Just so you don't get rusty while I'm gone.
- Now, somebody else.. Have you (Lochhead) sent anything over to Federal Reserve?
- Lochhead: The only thing we have for the Federal Reserve is just for the hour-to-hour rates, foreign exchange rates.



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H.M.Jr: Do you (Hans) have anything?

Hans: I do.

H.M.Jr: Well, Mac, why don't....

Hans: We meet once a week, you know.

H.M.Jr: Why don't you get everybody together and just find out what's going on back and forth between the Treasury and the Federal Reserve - take a census.

McReynolds: Yes, sir.

H.M.Jr: I really - I mean it's awful - every day you hear something new. Miss Roche?

Roche: I have a personnel matter that I have taken up with Mr. McReynolds that I'd like to speak to you about.

H.M.Jr: Better do it now.

Roche: All right, sir. It involves the Comptroller's office. It was brought to my attention by Walter White, secretary to Dr. Spingain's organization.

This young woman was certified one of three for a position of Junior Stenographer in the Comptroller's office. A New York resident asked the Bank Examiner to check on her, and he approved her. She came down. When she got down here, they discovered she was colored. She was sent to the Register's Office, since the Comptroller's office has no separate unit for colored people, and was given a lower grade work. Her salary has not as yet been reduced, but anyway her work is a very low grade of work and of course she is very unhappy. I went to see Mr. McReynolds, and he had some suggestions...

H.M.Jr: You've got a suggestion, Mac?

McReynolds: Well, my suggestion was that, as it's the Comptroller's job, let him do it. I understand they made this appointment from the papers. They had the woman's picture; they had their local man interview her. They didn't know she was colored. Then when she reported here they didn't know what to do with her. I said, "Well, you've hired her. Have to put her to work."

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Can't send her back; that's out of the question." I finally suggested that, as a temporary measure, they could detail her - put her on the roll as a stenographer, continue to pay her salary - but detail her to the Register's Office, just to give them a chance to find a solution.

H.M.Jr: Well, have you talked to the Comptroller personally?

McReynolds: I haven't.

H.M.Jr: Will you please, and let me know tomorrow morning.

Wacker: Because the job she has isn't a stenographic job, and it's an unfair situation.

H.M.Jr: Have you talked to the Comptroller about George's space?

McReynolds: Haven't talked to him. I wanted to clear with you this morning about that space. I would rather talk to him after you get out of town than before. I just wanted to save you a headache; because he'll get excited over it and want to see you, and I'd rather have you at Sea Island Beach so he can get over it before you get back.

Mrs Klutz: If you have to see him....

McReynolds: Won't have to see him. The thing ought to be done and the move made before you get back. Otherwise he'll be down here and be all excited about his space, because he gets excited easily. He's been two or three times excited with me about it.

H.M.Jr: I don't care. But I just make this bargain with you, that when I come back George is in the space. Otherwise I'd rather do it and face it myself. But if I have to face it when I come back....

McReynolds: I don't want you to face it, because you'll go home with a headache.

H.M.Jr: Oh no, you've got me wrong; these days I don't go home with any headache.

McReynolds: You don't go home with it, but you might get one.

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H.M.Jr: I might get a headache over this colored woman, but not over that space. You better do it today, because otherwise I'll just have it when I come back.

McReynolds: I went down to see him but he was out yesterday.

H.M.Jr: I'm not going to get any headache over anybody. I mean as far as I'm concerned I'm going to run the Treasury and put the people that I need in the proper space. If the Comptroller doesn't like it, he can get space in California as far as I'm concerned.

McReynolds: Well, I'll move him out if he doesn't move.

H.M.Jr: It's just too bad. It's about time he found out who was Secretary of the Treasury and who was administrative officer too. And you might just as well do it today.

McReynolds: All right, I'll do it today.

H.M.Jr: Otherwise, you can just bet ninety-nine to a hundred it will be on my desk when I get back. Let him get space over in the new Federal Reserve building.

McReynolds: I'll do it today all right.

Haas: Have you come to me?

McReynolds: There's another thing.

H.M.Jr: (To Haas) Yes, wait a minute.

McReynolds: Mrs. Ross....

H.M.Jr: That's different.

(Hearty laughter)

Bell: That is a headache.

McReynolds: Mrs. Ross has been trying to get a conference with Peoples and myself about the location of the new

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silver depository, and I have held it up, waiting to talk to you about it, because I had an idea that you'd have some definite limitations you'd want to put on the location. I don't think you want us - Peoples and Mrs. Ross and myself - to pick that location, and that's the only purpose of the meeting. I think we've got all the data.

H.M.Jr: This is a little game that, if anybody is smart, they'd keep out, because it's between the President of the United States and myself, and if anybody is smart...

McReynolds: I refused to hold a conference on it and select a location and start making a depository for silver, knowing that you and the President...

H.M.Jr: Now, the President of the United States wants to locate the silver depository next to him so as to keep the records of the Rogers Forest, which is the oldest forest that any records show, so we've got to put the silver depository there, so we can have the records put under the forest. That's absolutely true. It's been going on between the President and myself. Now, if Mrs. Ross wants to get in on it, she's welcome.

McReynolds: Well, I'll keep the memorandum in my basket, where it is now.

H.M.Jr: No, so far the President and I have had a grand time; but I didn't want to buy the forest, and we can put the silver somewhere else and let Wallace buy the forest. But tell her she's welcome to go and see the President. All right, Mac?

McReynolds: Well, she won't even come and see you about it. All she'll do is heckle me.

H.M.Jr: Well, if you had taken care of Mrs. Ross's interests, she wouldn't bother you so much.

(Hearty laughter)

All right, Georgie. I hope you appreciate what Mac's going through for you.

Haas: I do greatly. I have something on that question you asked me last night. (Shows Secretary chart) That is imports and this is production.

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H.M.Jr: Oh, swell. Well, that's grand. What he gave the President - the figures that we were importing - three times the world's production.

Haas: Taylor ask you about this letter?

H.M.Jr: Oh. That's one of the things that you turn over to Magill.

Haas: And another one, too, on this Milligan thing.

H.M.Jr: Who's that?

Haas: This man Milligan that came in to see you about this tax problem.

H.M.Jr: Talk to Magill about it. That's a tax study that George has been holding and I told him to talk to me every day until he got a decision. And the other thing, during the day will you (Haas) get a list of various tax studies which you have in the process and then when Magill's ready will you talk to him? And the other thing, Mac, will you get together these various studies which they have given me, like the miscellaneous tax study and the other tax studies which they have given me and I have never done anything with - particularly that miscellaneous one.

McReynolds: Well, probably George has that one - most of those.

Haas: Well, which one is that?

H.M.Jr: The one that Helvering made.

Haas: We asked him to make - oh, that's it, the one I have.

H.M.Jr: Anything else you've got?

Haas: That's all I had.

H.M.Jr: If you'd get together... What he wants to do first - is that right? - is to get all the tax studies which are in the shop. See?

Haas: Yes.

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Haas: I have one other tax question. This Congressman McCormick, who's on the Ways and Means Committee - this man Curtis, who was in to see you, has gone up and seen him, and evidently Curtis told him that we were making a study on sporting goods, and he called me up and asked me to make a favorable report, said he was writing you a letter.

H.M.Jr: Archie?

Lochhead: The Bank of France raised their discount rate from 2 to 4 percent this morning. Also, the rumor is pretty thick that that loan has gone through; nothing has come out officially. Francs have steadied a little bit on the news. But the important thing, they've been rumoring a raise in the discount rate and they just shot it right up; shows a definite move away from that easy money policy they tried to initiate at the time they devalued.

H.M.Jr: Anything else?

Lochhead: The other market is quiet - the sterling market.

H.M.Jr: Herbert.

Gaston: We have a conference at 10:30. Several questions about Mr. Magill and France - excess reserves - money.

H.M.Jr: Is it 10:30 press?

Gaston: 10:30. The press would perhaps appreciate it if the new Under Secretary were present.

H.M.Jr: I think he'd better wait for the actual confirmation. I think it would be a mistake.

Gaston: All right.

H.M.Jr: What?

Gaston: Perhaps so, yes.

H.M.Jr: I think so. I mean he's got to cook until tomorrow. We don't know even about tomorrow, but we hope Congress will get it through.

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McReynolds: Well, Robinson will move that it be immediately reported first thing tomorrow.

Oliphant: Well, Hester called me up about that. He said it would definitely be done; hoped it wouldn't be necessary to - because Robinson has to get all the Democrats to agree not to object and McNary has to get all the Republicans to agree not to object.

H.M.Jr: I thought it was just automatic.

McReynolds: No, there are three legislative days, and that wouldn't be until next Wednesday at the earliest.

Oliphant: The Senate has a good deal of feeling about that rule, because they adopted it after a good deal of embarrassment, and Hester doesn't want, unless you think it very important...

H.M.Jr: Well, it's just - tell them this: that I'm going away and I would consider it a big....

Oliphant: Then I think we can say it is important.

H.M.Jr: Oh, why, it is important and if Hester wants me to I'll call up Joe Robinson.

Oliphant: No, it won't be necessary for you to call up Joe Robinson.

H.M.Jr: Tell them that the President went away and Mr. Hull went away and I've been - I'm going away.

Oliphant: Well, just the fact that you are going away....

H.M.Jr: And why I'm going away is the whole time that the President and Mr. Hull were gone I've been here.

Oliphant: We can handle it.

H.M.Jr: And I would consider it a courtesy. But I want to explain why. Will you do that?

Oliphant: Yes.

Upham: They waived the rule yesterday for Mr. Edison.

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McReynolds: Not the same thing - the day it was submitted.

H.M.Jr: Well, the Senate isn't in session today?

McReynolds: No.

H.M.Jr: Isn't that funny? With that bill, with the deficiency bill pending, they didn't meet today. Why is that, Dan?

Bell: There's a hearing this afternoon at 2 o'clock in the Appropriations Committee on that bill.

H.M.Jr: Well then, also you can tell them that if not, why, Mr. Oliphant has to stay over and watch. He'll be confirmed.

Upham: Yes, he'll be confirmed.

McReynolds: It'll be done now.

Oliphant: Like Mac's kitchen.

H.M.Jr: This is a tough crowd around here.

Oliphant: Well, I do want to report that the room was initiated yesterday and it's in fine shape and we had a fine lunch, and everybody was here.

Gaston: You know, the "Kitchen Cabinet."

H.M.Jr: Well, I also got out of Mac's kitchen - I get surplus dishes, a couple of new sauces; so I'm all for it.

Oliphant: Some down in a cabinet that I inherited.

H.M.Jr: Well, we're not proud; we take them.

Lochhead: Help keep that rat down there; I've seen him down there.

Oliphant: We have a pet rat.

H.M.Jr: Why is it you (Bell) didn't raise the point to get the President to veto that feed loan thing? You're not going over?

Bell: No. I heard the campaign speeches in the West last



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year where he promised them 60 million; I felt very good getting it cut to 50, with the promise of Bill Myers to keep it below that in actual operation. Felt very good about it - and Senator Smith wanting it a hundred.

H.M.Jr: Well now, on this thing about Miss Durand, Mr. Knox....

Bell: Well, I think you better let it settle for a while, see what develops.

H.M.Jr: He talked two or three times to Jimmy Roosevelt.

Bell: The hint is there.

H.M.Jr: And I might say so far it's all right, but if there are any requests from the White House for information....

Bell: ....raise the point.

H.M.Jr: Because I think they just don't know how to get the information.

Bell: I think I'd just let it develop for a while.

Oliphant: I want to get it straight. Generally, if there is a request from the White House, clear everything through Mac.

H.M.Jr: Yes, isn't that the way we do?

Oliphant: Good.

H.M.Jr: Through Mac. Except that this is a particular thing. They did this all right. Jimmy Roosevelt's secretary, Miss Durand, called up Mrs. Klotz and asked for certain information. She asked me to whom it would go. It was budgetary and so it goes to Bell as Acting Director of the Budget, and not as Special Assistant. I mean that's - I mean if they'd known the business it wouldn't have come through my office.

Bell: It wasn't very effective and I have an idea....

H.M.Jr: Being budget information coming into my office, I was terribly embarrassed. All right.

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Bell: He may still go to Coast Guard.

H.M.Jr: Well, he shouldn't.

Bell: I still would let that develop.

Oliphant: If the request came to my shop for information, what I would do - I'd refer the request first to Mac, to see who is to answer; and then, if the answer is to come out of my shop, then this answer will go back to Mac. Clear it through him both incoming and outgoing.

Mrs Klotz: Yes, and then, you see - then we know.

H.M.Jr: Then if Mac will come in to see me occasionally, I'll know.

McReynolds: He still plays with that red light.

H.M.Jr: All right. Doesn't always stop you, though, Mac.

Oliphant: I have something. Between six and seven last night Senator King called me up and talked about people being disturbed about the imports of gold and that he had introduced a resolution for a Senate investigation, sending me a copy of the resolution. To take a look. Said he was very much interested to know what Dr. Sprague had to say, because he hoped the English wouldn't get the best of us.

H.M.Jr: Anybody got anything else? Then if Mac and Magill and Oliphant will stay....

January 28, 1937

The Secretary today asked Dr. Magill and Mr. Helvering to meet with him in his office today so he could outline Magill's duties to the Commissioner.

All questions of administrative policy for Internal Revenue to be submitted to Magill. Tax legislation, compromise agreements, closing agreements, also to Magill.

Legal questions should be submitted to Oliphant.

Personnel matters to Helvering, who in turn will take them up with the Secretary.

Tax legislation is handled by Kent and Kent will work with Magill. All other legislation is handled by Hester.

The Secretary said he would like to reserve the right to send for Irey when he is interested in some particular investigation. He said he also uses Irey on investigation of other than Internal Revenue matters.

HM, Jr. also told Dr. Magill and Commissioner Helvering that Bell feels that Internal Revenue gets too large an appropriation and that he cannot understand what they do with all the money that is appropriated for them. HM, Jr. said he felt Magill and Helvering ought to sell Bell on the Bureau. The Secretary said he feels that the Bureau is running its shop very well, but since Bell is the Budget Director, and will not always be the Budget Director, that they ought to eliminate that thought from the mind of the Budget Director.

## Memorandum of Conference in the Secretary's Office

at 10 a. m., Thursday, January 28, 1937.

Present: Secretary Morgenthau  
Mr. Magill  
Mr. Oliphant  
Mr. McReynolds

The Secretary pointed out that certain studies have been made and are in process relating to the administration of the Bureau of Internal Revenue with respect to the general tax program, to which he has been unable to give consideration. He directed that information relating to these studies be placed in Mr. Magill's hands promptly. Mr. Oliphant and Mr. McReynolds both assured him that all available material would be turned over to Mr. Magill at once. Mr. Oliphant stated that Mr. Kent would be his contact man with Mr. Magill on tax legislation and tax problems. The Secretary inquired about Mr. Hester's place in the legislative picture and Mr. Oliphant stated that all legislation except tax legislation went to Mr. Hester, but that tax legislation would be handled by Mr. Kent and that Mr. Kent will deal directly with Mr. Magill on that subject.

The Secretary stated that Mr. Magill would assume full responsibility for appearing before Congressional Committees on tax legislation and that Mr. Kent's position would be one of assisting Mr. Magill.

The Secretary stated that Mr. Shafroth would, of course, report directly to Mr. Oliphant and the contact between the legal staff and Mr. Magill's office would be handled through Mr. Oliphant or any of his staff designated by him; and that Mr. Helvering will report directly to Mr. Magill.



THE COMPTROLLER OF THE CURRENCY  
WASHINGTON

January 28, 1937.

Dear Henry:

Senator Wagner of New York stopped me as I was going through the Shoreham Hotel to my apartment and said, "Our committee is thinking of giving to your office the liquidation of all the Home Owners Loan Corporation loans. What do you think about it?"

This was the first time I had ever heard this mentioned and of course it took me completely by surprise. I told the Senator it was an interesting suggestion and of course I would be glad to discuss it with him. I do not know how far the matter has progressed or from what source the suggestion came, certainly not from anyone in this office.

This is also a matter of general policy and would have to be decided by you. I will keep you advised.

Cordially yours,

  
J. F. T. O'CONNOR  
Comptroller



Honorable Henry Morgenthau, Jr.  
Secretary of the Treasury  
Washington, D. C.

January 28, 1937

At the conclusion of the meeting in the Secretary's office today, at which were present Eccles and Goldenweiser from the Federal Reserve and representatives of the Treasury, the Secretary and Mr. Eccles went over to the White House to keep a four o'clock appointment.

The President asked the Secretary what he thought of Chairman Eccles' plan of increasing excess reserves. H.M., Jr. replied that he had not had a chance to study the plan and, therefore, could not make any recommendation. He said it was Mr. Eccles' responsibility.

January 28, 1937

Mr. Bell, Mr. Taylor, Mr. Lochhead, Mr. McReynolds and Mr. Magill met with the Secretary today.

Addressing the group, the Secretary said, "I am disturbed about the bond market next week, because I think the Federal Reserve Board will meet tomorrow. I am calling a meeting for Sunday and I have already talked to Burgess and he and Governor Harrison will both be here. I want to appoint a Committee of three to handle the bond market for me while I am gone next week -- Taylor, Bell and Lochhead; Taylor to be the Chairman of that Committee. I would like to have you meet three times a day, at about 9:30, 12:45 and 4:30. You can adjust the exact time to suit yourselves. I am going to tell the President that I am holding you three responsible.

"I think the worst is over on the French situation, but when the Federal Reserve makes an announcement, Monday morning, on excess reserves, there may be a little upset. I will be "mind-easy" if I know the three of you will handle the bond market for me. That relieves Magill of the entire responsibility."

Mr. Magill and Mr. McReynolds left the Secretary's office and the others remained to talk about financing. The Secretary said to the group, "At Cabinet the President said -- (and I want to make a note of this for the record) -- there will be no new taxes for anything, flood or no flood." Bell said "That answers the Attorney General's question." He had reference to the Attorney General's recommendation that an amendment be proposed to the railroad retirement program which is now set up in two different pieces of legislation. His recommendation would extend the taxing law to February 28, 1938.

Mr. Haas handed the Secretary a preliminary report on financing which the Secretary read and returned for revision.

The Secretary said, "I would like to pick up \$200,000,000 of bills next week. I do not think we should take a chance and let our balance run down too low. If, when I do my March financing the first week in March, the market is bad, I could postpone my March financing until April if I get the \$200,000,000 in bills now. What I am

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talking about is that I would like to pick up \$200,000,000 of bills to fall due in June. I want you fellows to think about it -- what effect it will have on the money market."

Mr. Taylor's response was, "I don't think that this is the time to go into the market on bills." Bell said, "I think that we ought to wait until you get back from your vacation to decide on offering bills."

The Secretary then read a memorandum prepared by Bell, covering the financing for the period February 1 to June 30. (It is attached hereto.) He said that Bell's memorandum was an excellent one and that we ought to wait until the Federal Reserve Board announcement on increasing their excess reserves has had its effect on the market, which probably would be by the time he, the Secretary, returns from his vacation.





## TREASURY DEPARTMENT

WASHINGTON

January 28, 1937.

### TREASURY FINANCING FOR THE PERIOD FEBRUARY 1 TO JUNE 30, 1937

There are at least three courses open to the Treasury to raise additional funds for the period ending June 30: (1) Raise no additional money other than through the sale of United States Savings bonds and permit our balances to run down. (2) Raise \$300,000,000 during the months of February and March by the issuance of Treasury bills at the rate of \$50,000,000 additional each week to mature on June 15; and on June 15 have an issue of Treasury notes or Treasury bonds in the amount of \$300,000,000. (3) Have an additional issue of Treasury notes or Treasury bonds in the amount of \$300,000,000 for cash on April 15 at the time and in connection with the refunding of the \$500,000,000 in Treasury notes maturing on that date.

(1) If we have no financing between now and June 30 for the purpose of raising additional cash other than the sale of United States Savings bonds, the Treasury balance on January 31 is estimated at \$913,000,000; on February 28, \$658,000,000; on March 31, \$358,000,000; on April 30, \$530,000,000; on May 31, \$288,000,000 (the low point); and on June 30, \$503,000,000. Under this plan we will pay off the \$300,000,000 of Treasury bills maturing on March 16-18 out of income taxes payable during that period. Our balances in this period would reach the low point of \$288,000,000 on May 31, and if we had extraordinary expenditures on account of flood conditions it might not be sufficient to carry through to June 15. In any case, it would be necessary to raise additional funds during the months of July and August through the issuance of Treasury bills to run to the next financing date on September 15.

(2) This plan would provide for raising \$300,000,000 through the issuance of Treasury bills during the months of February and March, which bills would mature on June 16, 17 and 18 and be redeemed out of income taxes payable at that time. This procedure would put back into the money market some of the funds taken out as a result of the income tax payments. At that time we should raise \$300,000,000 through Treasury notes or Treasury bonds to replenish the General Fund balance. On April 15 we

2.

would only refund the \$502,000,000 Treasury notes maturing at that time and raise no additional cash through this operation.

(3) This plan provides for no additional financing through Treasury bills but provides for the raising of \$300,000,000 additional cash on April 15 in connection with the refunding of \$500,000,000 Treasury notes maturing at that time. This plan has the advantage of providing only one financing during this five months' period -- that on April 15. It would not, however, provide any maturing Treasury bills in June in order to level off the funds being paid into the Treasury on account of income taxes.

All these plans are flexible enough so that they can be shifted from month to month. The one that seems to be most desirable from the standpoint of the Treasury is No. 3, under which there would only be one financing and that in April. (This could be shifted to March 15 if found desirable). From the standpoint of the money market, No. 2 might be more desirable, under which we raise \$300,000,000 in Treasury bills in the immediate future and pay these bills off in June from income tax receipts, and at the same time raise \$300,000,000 additional through the issuance of Treasury notes or bonds. The refunding of the \$500,000,000 in April without any additional cash would be simple and without any disturbance to the money market.

Of course, no definite decision need be made on this matter until your return from vacation. If the Federal Reserve Board takes action the first of February to increase reserve requirements, I should think by the time you return that action would have had most of its effect on the market. You then can decide whether it is desirable to issue Treasury bills to raise the \$300,000,000 required, or raise these funds in a different manner on a later date.

My recommendation is that there be no additional Treasury bill issues until you return, at which time you can review the situation.

*SWB*

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Confidential

I

ESTIMATE OF CASH POSITION  
JANUARY - JUNE 1937  
(In millions of dollars)

|                                  | January      | February     | March        | April        | May        | June         | Total        |
|----------------------------------|--------------|--------------|--------------|--------------|------------|--------------|--------------|
| Balances at beginning of periods | 1,233        | 913          | 658          | 858          | 533        | 288          | 1,233        |
| Receipts -                       |              |              |              |              |            |              |              |
| General Revenue                  | 270          | 275          | 1,175        | 290          | 300        | 900          | 3,210        |
| U. S. Savings Bonds              | 90           | 50           | 40           | 40           | 40         | 40           | 300          |
| Treasury Bills (extra)           | 50           | -            | -            | -            | -          | -            | 50           |
| Treasury Notes                   | -            | -            | -            | -            | -          | -            | -            |
| <b>Total</b>                     | <b>1,643</b> | <b>1,238</b> | <b>1,873</b> | <b>1,188</b> | <b>873</b> | <b>1,228</b> | <b>4,793</b> |
| Expenditures                     |              |              |              |              |            |              |              |
| General                          | 290          | 290          | 290          | 310          | 320        | 330          | 1,820        |
| Emergency                        | 285          | 200          | 200          | 200          | 190        | 160          | 1,255        |
| Interest on debt                 | 15           | 15           | 155          | 80           | 10         | 150          | 425          |
| Redemption of debt               | 30           | 40           | 325          | 20           | 20         | 20           | 455          |
| Special transactions             | 15           | 15           | 15           | 15           | 15         | 15           | 90           |
| Gold purchases                   | 95           | 30           | 30           | 30           | 30         | 30           | 245          |
| <b>Total</b>                     | <b>730</b>   | <b>580</b>   | <b>1,015</b> | <b>655</b>   | <b>585</b> | <b>715</b>   | <b>4,290</b> |
| Balances at end of periods       | 913          | 658          | 858          | 533          | 288        | 503          | 503          |
| Refunding operations -           |              |              |              |              |            |              |              |
| Treasury bills -                 |              |              |              |              |            |              |              |
| Regular                          | 200          | 200          | 250          | 200          | 200        | 250          | 1,300        |
| Special                          | -            | -            | 300          | -            | -          | -            | 300          |
| Treasury notes                   | -            | -            | -            | 502          | -          | -            | 502          |
|                                  | 200          | 200          | 550          | 702          | 200        | 250          | 2,102        |

January 27, 1937 *sub*

ESTIMATE OF CASH POSITION  
JANUARY - JUNE 1937  
(In millions of dollars)

II

|                                  | January      | February     | March        | April        | May          | June         | Total        |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Balances at beginning of periods | 1,233        | 963          | 908          | 1,158        | 833          | 588          | 1,233        |
| Receipts -                       |              |              |              |              |              |              |              |
| General Revenue                  | 270          | 275          | 1,175        | 290          | 300          | 900          | 3,210        |
| U. S. Savings Bonds              | 90           | 50           | 40           | 40           | 40           | 40           | 300          |
| Treasury Bills (extra)           | 100          | 200          | 50           | -            | -            | -            | 350          |
| Treasury Notes                   | -            | -            | -            | -            | -            | 300          | 300          |
| <b>Total</b>                     | <b>1,693</b> | <b>1,488</b> | <b>2,173</b> | <b>1,488</b> | <b>1,173</b> | <b>1,828</b> | <b>5,393</b> |
| Expenditures -                   |              |              |              |              |              |              |              |
| General                          | 290          | 280          | 290          | 310          | 320          | 330          | 1,820        |
| Emergency                        | 285          | 200          | 200          | 200          | 190          | 180          | 1,255        |
| Interest on debt                 | 15           | 15           | 155          | 80           | 10           | 150          | 425          |
| Redemption of debt               | 30           | 40           | 325          | 20           | 20           | 320          | 755          |
| Special transactions             | 15           | 15           | 15           | 15           | 15           | 15           | 90           |
| Gold purchases                   | 95           | 30           | 30           | 30           | 30           | 30           | 245          |
| <b>Total</b>                     | <b>730</b>   | <b>580</b>   | <b>1,015</b> | <b>655</b>   | <b>585</b>   | <b>1,025</b> | <b>4,590</b> |
| Balances at end of periods       | 963          | 908          | 1,158        | 833          | 588          | 803          | 803          |
| Refunding operations -           |              |              |              |              |              |              |              |
| Treasury bills -                 |              |              |              |              |              |              |              |
| Regular                          | 200          | 200          | 250          | 200          | 200          | 250          | 1,300        |
| Special                          | -            | -            | 300          | -            | -            | 300          | 600          |
| Treasury notes                   | -            | -            | -            | 502          | -            | -            | 502          |
| <b>Total</b>                     | <b>200</b>   | <b>200</b>   | <b>550</b>   | <b>702</b>   | <b>200</b>   | <b>550</b>   | <b>2,402</b> |

January 27, 1937.

DWB

Confidential

III

ESTIMATE OF CASH POSITIONJanuary-June, 1937

(In millions of dollars)

|                                  | <u>JANUARY</u> | <u>FEBRUARY</u> | <u>MARCH</u> | <u>APRIL</u> | <u>MAY</u> | <u>JUNE</u> | <u>TOTAL</u> |
|----------------------------------|----------------|-----------------|--------------|--------------|------------|-------------|--------------|
| Balances at beginning of periods | 1,233          | 913             | 658          | 858          | 833        | 588         | 1,233        |
| Receipts:--                      |                |                 |              |              |            |             |              |
| General revenue.....             | 270            | 275             | 1,175        | 290          | 300        | 900         | 3,210        |
| U. S. Savings Bonds.....         | 90             | 50              | 40           | 40           | 40         | 40          | 300          |
| Treasury Bills. (Extra) .....    | 50             | -               | -            | -            | -          | -           | 50           |
| Treasury Notes.....              | -              | -               | -            | 300          | -          | -           | 300          |
| TOTAL .....                      | 1,643          | 1,238           | 1,873        | 1,488        | 1,173      | 1,528       | 5,093        |
| Expenditures:--                  |                |                 |              |              |            |             |              |
| General.....                     | 290            | 280             | 290          | 310          | 320        | 330         | 1,820        |
| Emergency.....                   | 285            | 200             | 300          | 200          | 190        | 180         | 1,255        |
| Interest on debt.....            | 15             | 15              | 155          | 80           | 10         | 150         | 425          |
| Redemption of debt.....          | 30             | 40              | 325          | 20           | 20         | 20          | 455          |
| Special transactions.....        | 15             | 15              | 15           | 15           | 15         | 15          | 90           |
| Gold purchases.....              | 95             | 30              | 30           | 30           | 30         | 30          | 245          |
| TOTAL.....                       | 730            | 580             | 1,015        | 655          | 585        | 725         | 4,230        |
| Balances at end of periods.....  | 913            | 658             | 858          | 833          | 588        | 803         | 803          |
| Refunding operations:--          |                |                 |              |              |            |             |              |
| Treasury Bills:--                |                |                 |              |              |            |             |              |
| Regular.....                     | 200            | 200             | 250          | 200          | 200        | 250         | 1,300        |
| Special.....                     | -              | -               | 300          | -            | -          | -           | 300          |
| Treasury Notes.....              | -              | -               | -            | 502          | -          | -           | 502          |
| TOTAL.....                       | 200            | 200             | 550          | 702          | 200        | 250         | 2,102        |

January 27, 1937

scwB

DATE January 28, 1937.

TO Secretary Morgenthau  
FROM Mr. Haas *EA*  
Subject: Review of capital movements for the year 1936.

1. Net reported capital inflow.

|      |                 |
|------|-----------------|
| 1935 | \$1,411 million |
| 1936 | 1,194 million   |

2. Net security transactions account for 66 percent of total inflow in 1936.

(a) In 1935 security transactions represented 28 percent of the reported inflow, and transfers of short-term banking funds represented 68 percent.

(b) In 1936 the proportions were reversed; 66 percent of reported inflow consisted of security transactions, and 33 percent represented transfers of short-term banking funds.

(c) Movement of brokerage balances in both years was negligible.

3. The relative importance of the causal factors shifted in 1936.

The primary factors inducing foreigners to transfer their funds to this market which were predominant throughout the two-year period were:

(a) Repeated rumors of devaluation in the gold bloc countries.

This factor was particularly important in the spring of 1936, during the French election crisis, and again just before the devaluation in the gold bloc countries in September. It ceased in the fourth quarter of 1936 due to the tripartite pronouncement and depreciation of gold bloc currencies. Thus in the fourth quarter there was a net outflow of over \$100 million of short-term banking funds compared with a net inflow of \$470 million during the second and third quarters.

Secretary Morgenthau - 2 -

(b) Unsettled political condition in Europe accompanied by fears of an outbreak of another World War.

Although the Ethiopian crisis ceased to be of importance in 1936, the occupation of the Rhineland by the Germans at the end of March, the French election crisis in May and June, and the outbreak of the Spanish civil war in July, caused political conditions to remain unsatisfactory.

(c) Continued business recovery in this country.

The increasing importance of this factor is shown by the substantial increase in the purchases by foreigners of our domestic securities in 1936.

4. Volume of security transactions almost doubled in 1936.

|                       | (millions) |         |
|-----------------------|------------|---------|
|                       | 1935       | 1936    |
| Total transactions    | \$3,486    | \$6,356 |
| Foreign purchases of: |            |         |
| Domestic securities   | 1,303      | 2,684   |
| Foreign securities    | 661        | 890     |
| Foreign sales of:     |            |         |
| Domestic securities   | 986        | 2,083   |
| Foreign securities    | 536        | 699     |

Over 80 percent of the security transactions took place in the New York market.

Trading in our domestic securities accounted for three quarters of the total transactions. Buying and selling for English, Swiss and Dutch accounts made up 70 percent of the total volume, while transactions for French account amounted to only 7 percent of the total.

5. Geographical sources of capital show some shifts.

In both years the largest net inflow was reported from England; 39 percent of the inflow in 1935, and 23 percent in 1936. The former gold bloc as a whole (France, Switzerland, and Netherlands) supplied about one-third in both years (32 percent of the inflow in 1935 and 35 percent in 1936). There were, however, substantial changes among

Secretary Morgenthau - 3 -

the three gold bloc countries. The reported inflow from France which amounted to 15 percent of the total in 1935 declined to 8 percent in 1936; whereas the inflow from Switzerland rose from 9 percent to 17 percent of the total. Canada supplied 13 percent of the inflow in 1936, whereas in 1935 she supplied only a negligible amount. The net capital inflow from Germany and Italy remained small in both years, and the inflow from Latin America rose from 5 to 11 percent of the total in 1936. Inflows from Other Europe and the Far East declined in 1936.

These are reported figures. Since the residents of some European and non-European countries frequently operate through other countries, the proportions cannot be regarded as reflecting the real origins of the capital flows accurately.

6. Divergence between sources of gold imports and capital funds.

The sources of gold imports into this country do not correspond to the sources of capital primarily due to the importance of the London market as a financial center. Gold is shipped directly to the United States whereas a large percentage of capital funds are re-routed through the London market.

7. Net gold imports plus newly mined domestic gold exceeded increase in gold stocks by \$135 million.

During 1936 the gold holdings of the United States Treasury increased by \$1,135 million (as compared with \$1,885 million in 1935). Net gold imports plus newly mined domestic gold amounted to \$1,268 million. Part of the \$135 million excess of gold imports over the increase in Treasury holdings is accounted for by the increase of \$90 million in gold held under earmark at the New York Federal Reserve Bank, which in effect is equivalent to an export. The remainder must be due to gold withdrawn for industrial use.

8. Foreign gold production plus decrease in gold holdings of foreign central banks and governments exceeded net imports of gold into the United States by \$247 million.

|                                                                                       |            |       |
|---------------------------------------------------------------------------------------|------------|-------|
|                                                                                       | (millions) |       |
| Foreign gold production (incl. U.S.S.R)                                               | \$1,058    |       |
| Decrease in gold holdings of foreign banks<br>and governments $\frac{1}{2}$ - - - - - | 341        |       |
| Total available for monetary use - - - - -                                            |            | 1,399 |
| Net imports into the United States - - - -                                            | 1,117      |       |
| Estimated gold consumed in arts in foreign<br>countries - - - - -                     | 35         | 1,152 |
| Gold unaccounted for - - - - -                                                        |            | 247   |



Secretary Morgenthau - 4 -

Almost all of the \$247 million of gold plus a portion of the gold derived from private hoards was acquired by the British Equalization Account.

1/ It is estimated that gold production in the U.S.S.R. amounted to \$241 million in 1936. As there were no reported imports of gold from the U.S.S.R., it may be assumed that this amount was added to the U.S.S.R. gold holdings.

9. Net inflow of short-term banking funds dropped in 1936.

The net inflow of short-term banking funds amounted to \$395 million (a decline of \$569 million from the 1935 figure).

In contrasting the year's inward movement of banking balances with the inflow recorded in 1935 it is noteworthy that: (a) virtually no net movement of banking funds was reported for the year as a whole for England in 1936, as against an inflow of \$296 million in the previous year; and (b) the net inflow from the former gold bloc countries for the whole year was only \$72 million compared with \$301 million in 1935.

About one-third of the total inflow of banking funds reflected: (a) the funding or repayment of foreign credits previously extended by American banks, and (b) the accumulation of foreign balances here to provide funds for the redemption of called securities.

## International movements of capital and gold - 1935 and 1936

(In millions of dollars)

|                               | Net inflow of capital into the United States 1/ |      |                    |      |                       |      | Net gold imports into the United States |       | Increase or decrease (-) in gold stocks 2/ |       | Estimated gold production 2/ |        |                      |        |       |        |
|-------------------------------|-------------------------------------------------|------|--------------------|------|-----------------------|------|-----------------------------------------|-------|--------------------------------------------|-------|------------------------------|--------|----------------------|--------|-------|--------|
|                               | Short-term banking funds                        |      | Brokerage balances |      | Security transactions |      |                                         |       |                                            |       |                              |        | Net capital movement |        |       |        |
|                               | 1935                                            | 1936 | 1935               | 1936 | 1935                  | 1936 | 1935                                    | 1936  | 1935                                       | 1936  | 1935                         | 1936   |                      |        |       |        |
| England                       | 337                                             | 3    | -                  | 4    | 218                   | 266  | 555                                     | 273   | 316                                        | 173   | +                            | 64     | +                    | 401    | -     | -      |
| France                        | 178                                             | 29   | 2                  | 8    | 30                    | 53   | 210                                     | 90    | 934                                        | 574   | -                            | 1,050  | -                    | 1,201  | -     | -      |
| Germany                       | 29                                              | 40   | -                  | -1   | 8                     | 7    | 37                                      | 46    | -                                          | -     | +                            | 1      | -                    | 6      | -     | -      |
| Italy                         | 21                                              | 19   | -                  | -    | 3                     | 3    | 24                                      | 22    | -                                          | -     | -                            | 248    | -                    | -      | -     | -      |
| Netherlands                   | 55                                              | 7    | 1                  | -2   | 58                    | 110  | 114                                     | 115   | 227                                        | 71    | -                            | 135    | -                    | 50     | -     | -      |
| Switzerland                   | 74                                              | 38   | 3                  | 7    | 54                    | 160  | 130                                     | 205   | 1                                          | 7     | -                            | 170    | +                    | 175    | -     | -      |
| Other Europe                  | 70                                              | 32   | 1                  | -1   | 59                    | 67   | 130                                     | 98    | 19                                         | 15    | -                            | 48     | +                    | 59     | 214   | 267    |
| Canada                        | 41                                              | 82   | -4                 | -3   | -37                   | 72   | -                                       | 150   | 95                                         | 73    | +                            | 50     | -                    | 1      | 115   | 132    |
| Latin America                 | 53                                              | 121  | 1                  | -5   | 16                    | 15   | 70                                      | 131   | 43                                         | 71    | +                            | 47 3/  | +                    | 15 3/  | 48    | 56     |
| Far East                      | 96                                              | 23   | 3                  | -1   | 29                    | 32   | 128                                     | 55    | 100                                        | 108   | +                            | 7 4/   | +                    | 42 4/  | 62    | 69     |
| All other                     | 10                                              | 1    | -1                 | 1    | 4                     | 7    | 13                                      | 9     | 4                                          | 25    | +                            | 22     | -                    | 16     | 476   | 534 6/ |
| Total                         | 964                                             | 395  | 6                  | 7    | 442                   | 792  | 1,411                                   | 1,194 | 1,739                                      | 1,117 | -                            | 556 5/ | -                    | 582 5/ | 915   | 1,058  |
| United States                 |                                                 |      |                    |      |                       |      |                                         |       |                                            |       |                              | +1,887 |                      | +1,133 | 126   | 151    |
| Total including United States |                                                 |      |                    |      |                       |      |                                         |       |                                            |       |                              | +1,331 |                      | +551   | 1,045 | 1,209  |

Treasury Department, Division of Research and Statistics

January 12, 1937.

Notes: The changes in gold holdings listed herein do not include the operations of exchange stabilization funds which are not reported.

1/ Based on the consolidated weekly reports of the twelve Federal reserve banks up to December 16, 1936, and on the reports of the New York Federal Reserve Bank thereafter.

2/ Estimated for the year. U. S. S. R. not included in gold stock figure.

3/ Eleven countries; Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Mexico, Peru and Uruguay.

4/ China, Japan, British India. Increase in gold holdings occurred principally in Japan.

5/ Fifty-one countries excluding the United States.

6/ In South Africa approximately \$396 million in gold was produced.

FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE **January 28, 1937.**

TO **CONFIDENTIAL FILES**

SUBJECT: **TELEPHONE CONVERSATION WITH**

BY **L. W. Knoke**

**BANK OF ENGLAND.**

I called Mr. Bolton at 10:15 today. I told him that the various press notices, which had undoubtedly also found their way to London, to the effect that the recent conference in Washington of the Secretary of the Treasury and such men as Sprague and Stewart, had discussed currency or stabilization questions, were all made of whole cloth. Bolton seemed to appreciate this information because, as he said, they had been wondering about this conference when they saw names like Sprague and Stewart in the newspapers.

I referred to the gold clause case pending before the House of Lords and Bolton told me that a decision had been rendered a few hours ago to the effect that payment of the 5 1/2% United Kingdom dollar bonds called for February 1, 1937, might be affected in currency dollars.

We discussed briefly the foreign exchange market. Bolton stated that as regards the recent weakness of the Swiss franc and of the Argentine peso, the belief prevailed in the London market that it was due to German sales and that he thought this belief to be correct.

I mentioned the ticker report that details of the British loan had been completed and would be announced later in the day. Bolton replied that he had no information at all, that the matter was entirely in the hands of the British Treasury. If he knew something, he would be quite frank about it. He asked whether an attempt had been made to raise a credit in New York. I replied

FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE January 28, 1937.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Kneke

BANK OF ENGLAND.

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that I did not know but that if there had been, I did not think it would succeed, primarily because of the Johnson Act. He inquired whether such a credit would have to receive the approval of Congress. I replied that that was the case as long as present conditions prevailed. As regards the sentiment in Congress towards the Johnson Act, I had a notion that a repeal might not be so easy. I explained that not being in politics myself, I could of course only venture a guess; that this was a personal opinion based in part upon my recollection of the campaign carried on from time to time in the Hearst Press against credits to foreign governments that had not paid their outstanding debts.

LWK:KMC

LMS

PLAIN

London

Dated January 28, 1937

Rec'd 4 p. m.

Secretary of State,  
Washington.

33, January 28, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

STRICTLY CONFIDENTIAL.

At the meeting of the British Treasury today Sir Frederic Phillips and S. D. Waley expressed great concern about the French situation; their attitude had undergone a marked change since our last discussion reported in my No. 591, December 3, 2 p. m. They frankly admitted that they were worried and could not hazard a prophecy as to the outcome. While it was true that there had been some improvement in French economic conditions it had been overshadowed by the deterioration in the currency position. In any event such improvement was not now reacting on the exchanges and even in the case of Great Britain, which had taken all possible measures in 1931 to encourage the return of capital to London, it had been nine months before any effect of the economic improvement was felt in the exchange position. During the past two months the pressure on the

LMS 2-No. 33, January 28, 6 p. m., from London.

on the franc had been constant and funds had been coming to London in substantial quantities; in the last two weeks the movement had decidedly increased.

Speaking personally and confidentially, Phillips said that he had become discouraged so frequent and blatant were the mistakes of the French authorities. In the first place it had been a grave error to attempt to penalize capital which had left France in a perfectly legal manner before the devaluation. Secondly he referred to Auriol's too frequent public pronouncements and he particularly mentioned that Auriol at a recent interview had answered a question as to whether he meant that no further devaluation would take place within the present legal limits by denying that the rate would be changed at all. Phillips reiterated that the Chancellor of the Exchequer had given the French authorities permission to negotiate a credit on the London market: at the same time it had been made clear that the Treasury could not enter in any way into the matter of the terms of the credit: that that was a question that lay entirely between the French authorities and the British syndicate. Phillips said that having obtained the Treasurer's permission, the French had taken so long to effect their arrangements

LMS 3-No. 33, January 28, 6 p. m., from London.

arrangements with the bankers that some part of the psychological effect of obtaining such a credit was being dissipated.

Since there were rumors in the city about the possibility of action on the part of the French authorities last week and since these rumors have re-occurred this week, I asked whether the British had any reason to expect immediate developments. They said that the French had given them no indication that such could be expected: that unfortunately Rowe-Dutton, the British Financial Attache, had had to go on an official mission to Tangier and would not be back in Paris for about a month: but that they could characterize the French situation at the present time as "hopeless but not serious".

As I was about to leave Phillips said "I do not suppose that it would be possible for you or us to give any advice to the French? However, I do hope that if they should by any chance ask your advice you would be good enough to consult us before tendering it". I said that I felt sure we would act in strict accord with the letter and spirit of the tripartite arrangement.

Phillips added that it seemed to him highly desirable that the French should take steps to encourage confidence and the return of capital to their country: that it

was

LMS 4-No. 33, January 28, 6 p. m., from London.

was far better to move the rate within the legal devaluation limit now rather than wait for the forces to collect which might eventually force another devaluation beyond the present legal limit.

I understand from one of the British banking syndicate that the credit arrangements have been practically completed and it is entirely possible that an announcement to that effect can be made tonight. However, French bank rate raised to 4 per cent.

ATHERTON

HPD



LMS

GRAY

Paris

Dated January 28, 1937

Rec'd 4:07 p. m.

Secretary of State,  
Washington.

120, January 28, 5 p. m. (SECTION ONE)  
FOR TREASURY.

While the exchange market was less agitated today there was evident an undercurrent of uneasiness and uncertainty according to our market contact. The turnover in pounds and dollars was less substantial than yesterday: control was called upon to furnish fairly large amounts of sterling at 105.15. The dollar closed firm at 21.46.

The forward rate for the franc slightly improved. For the dollar the rate is  $26\frac{1}{2}$  centimes for one month and 60 centimes for three months. For the pound the rate for one month is 1.25 and for three months 2.75 francs.

The outstanding feature of the day was the announcement made this afternoon at the time of the publication of the Bank of France statement dated January 21 of the decision of the board to increase the rate of discount to 4%. The rate on securities was advanced to 5% and 30-day advances to 4%. No change is reported in the

gold

LMS 2-No. 120, January 28, 5 p. m., Sec. 1, from Paris.

gold reserves. There was an increase of 784,000,000 in the commercial portfolio which is normal at this period of the month. Advances to the Government under the ten billion franc authorization decreased 200,000,000 francs. This account therefore now stands at 7,100,000,000. The note circulation is down 940,000,000. Deposits up 1,225,000,000. The ratio of gold cover is 57.42 compared with 57.57%.

The security market was somewhat inactive and slightly lower. Rentes were generally down a few centimes. (END SECTION ONE)

BULLITT

CSB

LMS

GRAY

Paris

Dated January 28, 1937

Rec'd 3:50 p. m.

Secretary of State,  
Washington.

120, January 28, 5 p. m. (SECTION TWO)

The opinion expressed in certain London financial sheets that France must either conclude a foreign loan or proceed to further devaluation for the reason that the Treasury had exhausted its borrowing powers at the Bank of France and that furthermore ordinary French Treasury bonds no longer found takers, has disturbed opinion here, and resentment and annoyance at the suggestion is apparent in the French press. Considerable bitterness is shown with respect to "daily vivisection" of the franc abroad and special allusion is made in this regard to the countries which form part of the tripartite monetary arrangement. London papers are attacked for publishing information on the French exchange fund, and the suggestion made that the latter was in a bad way. On the other hand the *ECONOMIQUE ET FINANCIERE* stresses that while Auriol appears to count on the support of the tripartite arrangement in keeping the franc afloat he should not forget that the agreement embodies no undertaking relating to the maintenance of  
the

LMS 2-No. 120, January 28, 5 p. m., Sec. 2, from Paris.

the value of the different currencies concerned.

Supplementing the first part of Auriol's communique embodied in my telegram 114 of yesterday the full text as published in the press of last evening stressed that the deficit of the ordinary budget will be less this year and that improved receipts would amortize this deficit. He agreed that the special budget for national defense was high but that no one could contest the necessity thereof.  
(END SECTION TWO)

BULLITT

C3B

RB

GRAY

Paris

Dated January 28, 1937

Rec'd 3:55 p. m.

Secretary of State

Washington.

120, January 28, 5 p. m. (SECTION THREE).

He was convinced, he said, that the railway deficit would be lower if economic recovery continued and added that he would show the Parliamentary Finance Committee that the program established for the Treasury for the current year would permit the government to cover its requirements normally. The Government, he continued, would defeat the efforts of those who were attempting to bring about further devaluation of the franc and was determined to avoid any disturbance whatever in the established relations between currencies. No one, he insisted, had any interest in seeing the return to monetary disorder but that on the contrary stability was to the interest of all. As far as France was concerned everything possible would be done to this end and he was convinced that the other Governments signatory of the tripartite arrangement would do likewise. He concluded by stating that he possessed effective means of defeating

RB

-2-120, January 28, 5 p. m. from  
Paris (Section Three)

of defeating speculation and that he would apply them.

The financial press understands that negotiations for a credit in London have been concluded and that signatures will be exchanged today. The "CAPITAL" understands that the amount of the credit will substantially exceed the sum which has lately been put forward in the press and that the conditions will be similar to those attached to the credit granted by the London bankers in February last.  
(END OF MESSAGE)

BULLITT

CSB

Thursday, January 28, 1937

In the course of a conversation between Mr. Feis, of the State Department, and Secretary Morgenthau, Mr. Feis informed the Secretary that the State Department had received an inquiry from the Chase National Bank regarding a participation by the London Office of the Chase Bank in the loan which was being negotiated in the London market by either the French Government or the French railway companies.

The Secretary informed Mr. Feis of the policy arrived at the other day regarding a similar application and Mr. Feis agreed to get in touch with the Chase Bank of New York on Friday morning so that they would be familiar with the Washington feeling on the subject.

January 28, 1937

Mr. Bewley called on the Secretary today. Mr. Taylor and Mr. Lockhead were also present.

The following is stenographic record of the conversation:

Mr. Bewley: I brought you two messages from the Chancellor. One is about France and the other one is about Japan.

The one about France is of the more importance. He asked that this should be treated as specially secret. His view about France is that it is passing through a difficult transitional period, but fundamentally there are signs of its getting better underneath. The Yield of some of the taxes, savings bank figures, deposits and withdrawals, all point to some recovery, but pending that recovery the technical financial position, he says, is definitely difficult. Demands on the Treasury are exceptionally heavy in connection with the Budget deficit.

HM, Jr: Excuse me. This is the French Treasury?

Mr. Bewley: Yes. In connection with the Budget deficit, the requirements of their rearmament program and deficit on railways and Colonies and other organizations for whose finance the State is responsible. And as regards exchange, they certainly have lost gold heavily.

The Chancellor says that the main difficulty, as he sees it, they have failed to restore enough confidence among the people who have exported gold and to persuade them to bring it back.

The French Government are trying to raise a loan in London. They would prefer it not to be for the Government, but for the railroads. At the urgent request of the French Government, Mr. Chamberlain has privately informed the Bank of England that he will be glad if a suitable operation could be devised and it could succeed. On the other hand, the terms are entirely a matter of the lenders and the Chancellor can't foresee what that attitude will be; the amount necessarily issued on the market, but private people and not the Government will put up the money.



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HM, Jr: And not the Bank of England?

Mr. Bewley: Not the Bank of England; by such private lenders as can be found. The Chancellor says his anticipation is that the market would not be willing to make a long loan; that it might only want to lend to the French Government; it might not be willing to lend to the railways, and that it might require better security than has been given in the past. He can't foresee the details.

More than that, he says that he has taken this exceptional step -- it is exceptional because if people lose their money they will come back on the Chancellor and blame him for having "jacked the thing up", -- he has done it to assist France to maintain the tripartite agreement in the face of the present difficult situation. It would destroy the agreement if devaluation would be necessary or if the French Government should resort to exchange control. He hopes with this assistance -- if they get this assistance -- in view of the favorable underlying economic factors mentioned in the beginning of the telegram, he hopes their subsequent position to pass through all right.

He wished you to know these facts.

HM, Jr: I am going to be frank. The only thing which you have told me which I did not know is that he recommended this loan. Everything else I know.

Mr. Bewley: Yes.

HM, Jr: But to tell you the latest thing, this thing I am talking to you now about, the hourly thing, the hourly thing is getting worse. Tell Mr. Bewley what happened this afternoon.

Mr. Lochhead: The Bank of England said this afternoon that in their market there was heavy buying of dollars from the Continent and that in order to keep the rate steady it was necessary to supply about \$12,000,000 in dollars and to get the dollars they had to transfer \$12,000,000 gold to us on the books of the Bank of England.

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Mr. Bewley: That would be French gold probably?

Mr. Lochhead: That naturally would be a fundamental; in other words, it's just passing through England as a funnel.

Mr. Bewley: It is for France rather than the other Government?

HM, Jr: We don't know.

Mr. Lochhead: Except we know from cables that France has given up tremendous amounts of gold to England and this is a part.

HM, Jr: But that's a very large transaction.

Mr. Lochhead: They have not had to give up any gold to keep the rate steady for sometime.

Mr. Bewley: The Chancellor in his telegram says he knows they have lost a great amount of gold, but he says in another telegram they did not know the exact amount.

Mr. Lochhead: France has been losing, gold has been lost to England. We haven't been taking gold from France.

Mr. Bewley: But you have taken some from us?

Mr. Lochhead: This \$12,000,000 is the first we have had for sometime.

HM, Jr: And it has just happened this afternoon. The thing that is aggravating the situation is that the French now have been trying to get a railway loan, they call it, almost a week; that they have been going to London and they haven't got it yet and, of course, you know how those things are -- the longer they don't get it, the more worried people get.

Mr. Bewley: Yes.

HM, Jr: And they have been fooling around now, it is fully a week.

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Mr. Bewley: This is all the information that we have about it.

Mr. Taylor: That's always true with the French.

HM, Jr: I want to explain that we have known for about a week that they have been trying to get this loan actively and I guess lots of other people know it too. It isn't like when you are negotiating a tripartite agreement -- the thing is absolutely secret -- this is pretty general information. Right this afternoon, I think it is safe to say that as far as the French currency is concerned, it's the worst it has been since our agreement.

Mr. Loanhead: I should say for the last two days.

HM, Jr: And it's getting steadily worse.

Mr. Loanhead: You can tell by the strong artificial methods they can't hold it. Underneath the surface it is very uneasy.

HM, Jr: I hope they are going to be able to straighten themselves out, but it's no child's play.

Mr. Bewley: Oh, no; surely; that's true.

HM, Jr: All we can do is just let this agreement work. That's all. Just take today. If you people could not turn right around and sell it to us and get the dollars, the thing might have blown up today.

Mr. Bewley: Yes; quite.

HM, Jr: The fact that you can get dollars and cover in the same day -- all London is right now is a transfer station for the French gold.

Mr. Bewley: I can't imagine that the British Government would lend money directly to the French Government.

HM, Jr: I am not asking.

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Mr. Bewley: I am only saying my private opinion and I imagine the Chancellor can't do more than he has done in telling the Bank of England of his desire that it should succeed.

HM, Jr: Well, anyway, in answering will you tell the Chancellor I appreciate it very much and we will keep what he says absolutely confidential.

And you have our last minute situation now. You see how I feel. Of course, what I am saying to you -- the fact that I am admitting to you how worried I am I wish you would keep in strictest confidence, because I don't want to let anybody know I am worried.

Mr. Bewley: Of course. No.

HM, Jr: At my press conference they asked about the French discount rate. I said 'Purely internal'. What about French francs? And I gave the boys a little lecture on how careful they should be in writing their stories on my attitude on the French situation for fear it might aggravate it and, as far as I can tell, they kept that confidence. I said I don't want to be quoted and not to use 'high Treasury' or 'official sources', this, that or the other thing. But it's serious business. All I can do is hope for the best.

Now, how about -- were you going to say....

Mr. Bewley: The British lender has been rather stuck in Paris in the past and the British lender is rather slow. I am not surprised it takes a week, really.

HM, Jr: I don't want to comment on that. I have never loaned them any money, so I don't know.

Mr. Bewley: What he says about Japan is really very much what you said. The telegram is that the situation is (I sent them a telegram) substantially what I sent. This is a telegram from Japan. They said the situation was substantially as described, but that they did not think the Japanese Government would, in fact, allow the yen to depreciate. They think that they would make considerable

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sacrifices to support it and considerable prospects they would succeed if they could tide over the situation until May when the export season begins. They said they were obviously inactive months and no import or export permits had been issued since January 8th and the Japanese Treasury was clearly playing for time. And then he ends up by saying that the economic crisis is rather overshadowed by the political crisis and no use in making any further prophecies at the moment. He will telegraph again.

HM, Jr: When I talked to you before, it was before the political crisis.

Mr. Bewley: Yes.

HM, Jr: The information we got today was they were beginning to pay.

Mr. Lochhead: That the machinery was starting to pay a little better; starting to pay on items that are pending. No new permits.

HM, Jr: Old commitments. It's just beginning to work, but of course the political situation seems to be very serious.

Mr. Bewley: Seems to be very serious. Of course, yes.

HM, Jr: Well, you can't paint a very rosy picture about world economic conditions.

Mr. Bewley: No, not with those two countries.

HM, Jr: Got any good news?

Mr. Bewley: Might take a rosy view of the United States of America.

HM, Jr: I am terribly sorry to hear they have called you back.

Mr. Bewley: I am too. I am terribly sorry. I

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have enjoyed myself here and they say I am urgently needed in the Treasury and they are sending a good man to take my place. I hope you will like him. He comes from Newfoundland.

HM, Jr: I am slow in getting to know people.

Mr. Bewley: I will introduce him to you before I go.

HM, Jr: I hope we take to each other, but, frankly, it will take quite a while until I have the confidence that I have in you.

Mr. Bewley: That's extremely kind of you to say that. I am very sorry to go, too, because ....

HM, Jr: Do you have a tour of duty as we have in the Navy?

Mr. Bewley: Not exactly. There are only Financial Attaches in the four centers; here, China, Paris and Berlin, so it is very difficult to arrange anything different, but they try to move us around. Three or four years is the only desirable time to keep one in one place.

HM, Jr: Will the new man be here before you go?

Mr. Bewley: They will try to have him here. He is Trenton, the Finance Minister over in Newfoundland. When Newfoundland went bankrupt and turned into the Crown, he was the man who was sent out. There is really no Cabinet; he is more or less the financial dictator; more or less a small affair when they went bankrupt.

HM, Jr: 8,000,000 pounds, wasn't it, they went bankrupt?

Mr. Bewley: Only a very small thing.

HM, Jr: Well, I want to say again I appreciate the message. You need not worry about its being confidential. It isn't anything I want to spread around.

Mr. Bewley: Oh, no; of course; quite.

HM, Jr: Thank you for coming down.

January 28, 1937

The Secretary called the President at 5:15 today and said to him, "There are two things I want to tell you. Neville Chamberlain sent me a secret message that he has done a very unusual thing -- recommending to the private bankers in London that they make a loan to France. As far as he knows, he has never done it before. The situation got worse this afternoon and, for the first time, the British had to supply \$12,000,000 of dollars to the Continent. They were selling francs and buying dollars and under the Tripartite Agreement they pay for these dollars by selling us gold, so we got \$12,000,000 of gold from the British today. It is practically a panic over there and the longer they put off giving the French a loan, the worse it will get. I think it is of tremendous importance. If it was not for the Tripartite Agreement, the whole thing would blow up. The important thing is saving Blum."

The President, in substance, asked, "Could you not do what you did before; that is, get gold for any francs purchased from the Bank of France on a 24-hour basis instead of a 48 hour basis?" The Secretary's reply was, "Now that we have the Tripartite Agreement we do not need that because everything flows freely. But it is interesting that Chamberlain is practically ordering the English bankers to make this loan. In his message he said that they cannot afford to see the French 'blow up'."

"They are showing some sanity," the President remarked. The President also said, somewhere in the conversation, "It is very important to keep Blum in."

At the conclusion of his talk with the President, H.H., Jr. telephoned Secretary Hull and repeated to him what he had said to the President in the telephone conversation reported above.

January 28, 1937.  
4:22 p.m.

Dr:Parran: Yes Mr. Secretary.

H.M.Jr: I thought you'd like to come down and see me when I was having my teeth fixed.

P: I got your message just as I was rushing over to this 12:45 meeting.

H.M.Jr: Oh.

P: I heard that you were there but I assumed you wouldn't want to be bothered.....

H.M.Jr: Well -

P: .....when you were having that ordeal.

H.M.Jr: Well I was sorry to....

P: I would have stopped in though had I not been on the way over to Admiral Grayson's.

H.M.Jr: Well I feel better now that I've got the tooth filled.

P: Well I'm awfully glad.

H.M.Jr: But I felt pretty miserable before I went over there.

P: I'm awfully sorry.

H.M.Jr: But I'll be seeing you soon.

P: All right, sir. I shall be here right through tomorrow.

H.M.Jr: All right.

P: Harry Hopkins is suggesting that in a few days he and I start down this flooded area to see about the clean-up and make sure that our forces are functioning right.

H.M.Jr: Well Jimmy Roosevelt told me that there was such a party planned and he was going to go along.

P: Is that so?

H.M.Jr: Yes.



P: I hadn't heard any details but I'm standing by here working on plans now to get engineers from many states into this area because that's where the heavy load is going to fall on us.

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

Thank you, sir

January 28, 1937.  
4:35 p.m.

H.M.Jr: I'm going away Sunday night and that's why I'm calling you.

Fargess: Yes.

H.M.Jr: When you go home tonight I think you better bring a satchel with you to your office tomorrow - hello

B: All right, yes.

H.M.Jr: Because I may want a conference with you Saturday morning.....

B: Yes.

H.M.Jr: .....in order to plan what we're going to do while I'm gone.....

B: Yes.

H.M.Jr: .....and I don't want to do it over the telephone....

B: Yes.

H.M.Jr: .....in case of certain action, see?

B: Yes.

H.M.Jr: See what I mean?

B: I see, yes.

H.M.Jr: And then I mean I'd like to sit down with you Saturday morning and plan out how we'll handle the situation.....

B: Yes.

H.M.Jr: ....and also at the same time I want to discuss February 15th financing and April maturing notes.

B: I've got a wedding I'm supposed to be at Saturday morning - let's see -

H.M.Jr: You've got a wedding when?

B: Saturday morning - of my nephew.

H.M.Jr: Well I - I - I'll accommodate you - see you Sunday.

B: Well I hate to have you do that.

H.M.Jr: Well it don't make much difference. I don't do anything these days but work anyway.

B: It wouldn't work tomorrow, would it?

H.M.Jr: Pardon me?

B: Tomorrow wouldn't do, would it?

H.M.Jr: No, because I don't think we'll know yet.

B: (Laughs) I see, yes.

H.M.Jr: Frankly, with Cabinet in the afternoon I don't have time.

B: Well I'd - I'd better cut the wedding and come along.

H.M.Jr: I tell you what to do - have your toothbrush with you tomorrow anyway.

B: All right. Well I'm living in town now you know.....

H.M.Jr: Oh.

B: .....so that's easy.

H.M.Jr: Oh, I didn't know that.

B: Yes - yes. So I'm at your service.

H.M.Jr: All right. Well I just wanted to let you know and let - let - let's see what happens, huh?

B: O.K.

H.M.Jr: All right.

B: All right.

H.M.Jr: Thank you.

B: I'll be ready.

H.M.Jr: Thank you. Goodbye.

January 28, 1937.  
4:39 p.m.

Operator: Go ahead.

Eccles: Hello.

H.M.Jr: Hello Marriner.

E: We're going to meet on Saturday on that matter.

H.M.Jr: Yes.

E: One of the members wanted two days to do some checking and thinking and so I didn't want to press it.

H.M.Jr: Yes.

E: Told him I wanted it decided this week and so we would put it over till Saturday morning.

H.M.Jr: Ah-ha.

E: In the meantime we just had a - some informal discussion this morning.....

H.M.Jr: Yes.

E: ....and the gist of the discussion was this. The Board seemed to me to be unanimously in favor of - of making - what they like to do is make 25% now and 25% in the first of May.

H.M.Jr: 25% now? But they can't go 50%.

E: Yes - well I mean a third - half of it now and half in the - they can go  $33\frac{1}{3}$ .

H.M.Jr: Yes but they do - you mean do  $16\frac{1}{2}$  now.

E: That's right - that's right - there's  $16\frac{2}{3}$ s and  $16\frac{2}{3}$ s later but announce it now to eliminate the uncertainty.

H.M.Jr: Oh I couldn't (laughs) read your mind on that.

E: Well when I want that 50% I can say I was thinking we could go 100% and we've gone fifty, see.

H.M.Jr: I see.

- E: And I was thinking of the remaining fifty.
- H.M.Jr: Oh but you mean...
- E: What I mean is is that - that 16-2/3ds now and 16-2/3ds at - either the first of April but I'd think likely - say the first of May. Now this is the reason. That it occurs to me - in the first place it makes it that much more orderly, see?
- H.M.Jr: Yes.
- E: Ah - that 16-1/2 now can very readily be met and adjusted and we'd never know it, see?
- H.M.Jr: Yes.
- E: Then - then in the month of March you've got - your tax money will be coming in and you have financing, etc., and we would prefer to make the other twenty-five later on in the spring so that everybody is given plenty of time and plenty of notice.
- H.M.Jr: Yes.
- E: Now - ah - the - the - the reason that we think we should suggest to do it all now is that it - I mean announce it all, see?
- H.M.Jr: Yes.
- E: That it gets away from the uncertainty if we should say 16-2/3ds now.
- H.M.Jr: I see.
- E: And leave the other up in the air....
- H.M.Jr: Yes.
- E: .....then they'd say, "Well gosh when - why are you only doing that now and when are you going to do the other".
- H.M.Jr: I see.

- 3 -

E: And I think that - and - and we're all agreed - Goldenwieser and - and - that that is the conservative thing to do; it's the best timing chain and we haven't taken action - there's been no votes put but I mean I'm just giving you the benefit of all our formal discussions.

H.M.Jr: I see.

E: That would, in part, meet George Haas' suggestion, you see?

H.M.Jr: Yes.

E: But I just wanted to give that to you. You don't - do you see any object to that?

H.M.Jr: None and - and then if you do do this thing I think you and I ought to get together Sunday and plan how we're going to handle the thing while I'm gone.

E: All right.

H.M.Jr: See? See what I mean.

E: That's all right. When - you're going Sunday night, aren't you?

H.M.Jr: Yes, Sunday night at 6 o'clock.

E: And you're going to be gone for a couple of weeks?

H.M.Jr: One week.

E: One week.

H.M.Jr: From Sunday to Sunday.

E: All right. You mean handle the market?

H.M.Jr: Yes.

E: Yes.

H.M.Jr: We could get together Sunday.

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E: All right.

H.M.Jr: Right?

E: Well I'll call you - I'll tell you what I'll do. I'll - I'll call you Saturday after we - after the matter is - after we meet and.....

H.M.Jr: All right.

E: .....and - and the thing is decided.

H.M.Jr: Yes.

E: And unless something intervenes it's my belief that this is about the way it will go.

H.M.Jr: All right, Marriner.

E: Of course I can't tell till the Board all gets on record.

H.M.Jr: It sounds all right.

E: Yes, well I just wanted to report to you.

H.M.Jr: I'll bet you I know who's going to take two days too. I'll make just one guess.

E: (Laughter) All right, go ahead.

H.M.Jr: Chester Davis.

E: No.

H.M.Jr: No?

E: No.

H.M.Jr: All right, I'm wrong. I won't guess any more.

E: Well I'll tell you.

H.M.Jr: Yes.

E: McKee.

H.M.Jr: Really?

E: Yes.

H.M.Jr: That surprises me.

E: No, he's - he's the one - ah - he just wanted the time to do some thinking - he's - he's - well he looks at it more from a little country bank credit problem.

H.M.Jr: I see.

E: See? And his experience in the RFC has given him a certain aspect of it rather than the - the credit problem aspect.

H.M.Jr: Well thanks very much, Marriner and I'll hear from you Sunday.

E: That's - that's the inside just between you and me. (Laughs)

H.M.Jr: I understand.

EE All right.

H.M.Jr: I'll hear from you Saturday.

E: All right.

H.M.Jr: Thank you.

E: Goodbye.



Prepared by: Lawrence H. Seltzer, Assistant  
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DATE January 29, 1937

*See Feb 8*

TO Secretary Morgenthau  
FROM Mr. Haas *HA*  
Subject: Financing Possibilities (Preliminary)

### I. Cash Requirements

1. On the basis of Mr. Bell's estimates of the prospective changes in the Working Balance in the General Fund, it will be possible for the Treasury to coast along without raising new money until April 15, provided we are willing to allow the Working Balance to run as low as some \$650 millions early in March. Without new money, the month-end Working Balances are estimated as follows to the end of March:

|          |                 |
|----------|-----------------|
| January  | \$ 913 millions |
| February | 658 millions    |
| March    | 858 millions    |

2. Unless we do raise new money between now and the middle of April, the Working Balance at the end of each of the three last months of the fiscal year is estimated as follows:

|       |                 |
|-------|-----------------|
| April | \$ 533 millions |
| May   | 288 millions    |
| June  | 503 millions    |

3. If the market's response to the announcement of an increase in reserve requirements is not too unfavorable, \$200 millions could be raised by additional bill issues of \$50 millions each on February 17 and 24, and March 3 and 10, the first of these issues to be for 119 days, and the succeeding issues for 7 days fewer in length, progressively, so that the entire extra amount of \$200 millions would mature in the middle of June. Then, on either March 15 or April 15, \$300 millions of additional new money could be raised by a note or bond issue that covered also the \$502 millions note maturity of April 15. A distinct advantage of some concentration of bill issues in mid-June is that it would coincide with an income-tax payment date and would therefore reduce the strain on bank reserves incident to the latter.

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4. If this procedure were adopted, and the notes or bonds were sold on April 15, our month-end Cash Balances would be approximately as follows:

|          |                 |
|----------|-----------------|
| February | \$ 758 millions |
| March    | 1,058 millions  |
| April    | 1,033 millions  |
| May      | 788 millions    |
| June     | 803 millions    |

The additional \$500 millions of new money raised in this period would just compensate for the retirement during the period of \$500 millions of maturing bills -- \$300 millions in the middle of March and \$200 millions in the middle of June.

5. If the market's response to the Reserve Board's action is very unfavorable, the raising of new money could be deferred altogether until the middle of April, when \$500 millions could be raised in conjunction with the refunding of the April note maturity by an issue of notes or bonds. If this procedure were adopted, the month-end Cash Balances would be as follows:

|          |                 |
|----------|-----------------|
| February | \$ 658 millions |
| March    | 858 millions    |
| April    | 1,033 millions  |
| May      | 788 millions    |
| June     | 1,003 millions  |

This plan would involve a net increase of \$200 millions in outstanding debt issues at June 30, unless four of the regular June issues of \$50 millions each were repaid out of the Cash Balance and no replacement bills were offered, in which case the June 30 Balance would be \$303 millions.

## II. Alternative Methods of Financing

1. Increase of \$50 millions in weekly bill issues of each of the ten weeks beginning February 17: The first \$200 millions of these bills could be made to mature on June 16, 17, or/and 18, coinciding with the quarterly income-tax payment period. The first of these issues would be for 119 days and the succeeding issues would be progressively for 7 days fewer in length. The maturities of the remaining \$300 millions of bills could be split between the middle of September and the middle of December. Both of these periods are convenient for bill maturities because they coincide with income-tax payment dates. A note issue of \$817 millions matures on September 15; there is no existing note maturity in December.

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It is impossible to estimate at all accurately the rates at which our regular and additional bills would sell in view of the disturbance to the money markets that may be occasioned by Federal Reserve action on required reserves. It is reasonably certain, however, that the immediate absolute cost of additional money raised through bill issues would be less than the cost of raising the same funds through notes or bonds. Nevertheless, the raising of the entire \$500 millions of new money through bill issues would not necessarily be the cheapest method of finance from a longer-term viewpoint. Much will depend upon the relative market behavior of bills, notes, and bonds during the next several weeks, and possible changes in our estimates of receipts under the Social Security Act. Our previous experience has indicated, first, that additional bill issues raise the cost of our regular bill issues, and, second, that additional bill issues of shorter maturity than the regular bill issues do not sell on a proportionately reduced yield basis.

2. Issue of \$200 millions of additional bills in February and March, and the offering of a 5-year 1-3/8 percent note on either March 15 or April 15 to raise \$300 millions of new money and to refund the April note maturity of \$502 millions: This method would bring about a net reduction in the aggregate volume of outstanding bills, the \$200 millions of additional bill issues in February and March being more than offset by the retirement of \$300 millions of bill issues on March 16, 17, and 18.

While an open date exists for a 3 1/2-year note issue to mature on September 15, 1940, and while such a maturity may be utilized if market conditions become more unsettled, it does not appear at this time that a sufficient saving in cost can be effected by reducing the proposed maturity from 5 years to 3 1/2 years. The prices and yields of outstanding notes maturing on and after June 15, 1940 were as follows on January 28, 1937:

| Issue   | Maturity | Price     | Yield |
|---------|----------|-----------|-------|
| 1-1/2's | 6/15/40  | 101-5/32  | 1.150 |
| 1-1/2's | 12/15/40 | 101-5/32  | 1.194 |
| 1-1/2's | 3/15/41  | 101-5/32  | 1.212 |
| 1-3/8's | 6/15/41  | 100-27/32 | 1.206 |
| 1-1/4's | 12/15/41 | 100-8/32  | 1.197 |

The foregoing figures indicate that a note maturing March 15, 1942 should sell on virtually the same yield basis — about 1.20 — as the three last-issued outstanding notes. A 5-year 1-3/8 percent note would sell at a price of 100-27/32 if it sold on a 1.20 yield basis. Such a premium would be liberal.

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A great deal can be said for this method of financing. Five-year money at a cost of  $1\frac{3}{8}$  percent is cheap money; and the 5-year maturity is ample compensation, in view of existing uncertainties with respect to short-term money rates, for the somewhat higher cost of such a note issue over exclusive reliance upon bills. Whether the financing should take place on March 15 or April 15 should be determined primarily by the state of the market at the beginning of March, with a slight presumption in favor of March 15 because it represents a regular quarterly financing date. The April 15 financing would be just as suitable as the March 15 financing from the sole standpoint of the Working Balance.

3. Issue of \$200 millions of additional bills in February and March, and the offering of a 12-17 year  $2\frac{1}{2}$  percent bond on either March 15 or April 15 to raise \$300 millions of new money and to refund the April note maturity of \$502 millions: This possibility has the following advantages:

- (1) Like No. 2, it results in a net reduction rather than an increase in the volume of bill issues;
- (2) It provides for the refunding of the April notes into a medium-term bond;
- (3) It reduces rather than adds to the volume of our outstanding note issues;
- (4) The coupon rate of  $2\frac{1}{2}$  percent for 17-year money represents distinctly low-cost financing;
- (5) An improvement is made over our preceding  $2\frac{1}{2}$  percent bond issue by increasing the call period to 5 years; and
- (6) In the present market, the issue should command a liberal premium.

The most comparable outstanding issues are the following:

| Issue              | Price     | Yield to call date | Yield to maturity |
|--------------------|-----------|--------------------|-------------------|
| 2-1/2's of 1949-53 | 101-14/32 | 2.370              | 2.396             |
| 2-3/4's of 1951-54 | 103-12/32 | 2.470              | 2.509             |
| 3-1/8's of 1949-52 | 108-9/32  | 2.375              | 2.490             |

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The proposed issue would be three months longer in final maturity than the outstanding 2-1/2's, but would be callable nine months earlier. If the proposed issue were to sell on the same yield basis to call date as the outstanding 2-1/2's - 2.37 - it would sell at about 101-11/32.

At the other extreme, however, the proposed issue might sell on only a slightly better yield basis than the outstanding 2-3/4's of 1951-54 -- 2.47 - which mature three months later than the proposed issue and are callable two years and three months later than the proposed issue. If the proposed issue were to sell no better than the outstanding 2-3/4's of 1951-54, it would command a price of about 100-10/32.

It seems far more likely, however, that the proposed issue would sell nearer the outstanding 2-1/2's than the outstanding 2-3/4's, being far more comparable with the former. If the proposed issue were to sell on a basis approximately in between these two outstanding issues - on a basis of 2.42 percent -- it would command a price of approximately 100-27/32.

In the present market, therefore, it appears that the proposed 2-1/2 percent 12-17 year bond would command an amply safe premium.

4. If the Board of Governors of the Federal Reserve System should take the action outlined by Chairman Eccles on Wednesday, serious consideration should be given to permitting payment for the Treasury bills to be issued near the middle of March to be made by credit on War-loan account.

These additional bill offerings will be made at a time when bank reserves will be affected by both the new reserve requirements and the very large March income-tax payments. Unless the Federal Reserve banks were disposed to ease the temporary strain on the money markets incident to this three-fold pressure upon bank reserves, by open-market purchases, the Treasury would do well to accomplish much of the same result by permitting the March bill purchases to be paid by War-loan deposit credits. The March income-tax collections will be sufficiently heavy to permit us to refrain from making calls upon depository institutions during the two or three weeks bridging the middle of that month. The Treasury, during the early months of 1934, permitted subscriptions for Treasury bills to be paid in this fashion.

January 29, 1937

Governor Harrison called the Secretary today. (Transcript of their conversation is attached.)

The Secretary invited Governor Harrison, Dr. Burgess, Mr. Eccles and Dr. Goldenwesier to meet with the Secretary and his Treasury staff on Sunday morning at 11 o'clock.

January 29, 1937.  
11:31 a.m.

Operator: Governor Harrison

H.M.Jr: Hello

Harrison: Yes Henry.

H.M.Jr: Hello George.

H: Yes sir.

H.M.Jr: Ah - two things: I spoke to Burgess yesterday about having his toothbrush and washrag ready to come down here - hello

H: Yes.

H.M.Jr: And I will most likely ask him to be down here Sunday.

H: Yes.

H.M.Jr: Because I'm going away Sunday.

H: Yes.

H.M.Jr: And in case the Board should decide to take some action tomorrow.

H: Yes.

H.M.Jr: What I'm asking him to come down for is so that we could come to an agreement as to how we'll handle the market Monday.

H: Yes.

H.M.Jr: Now will that be agreeable to you to have him come down?

H: Oh sure, that's quite all right.

H.M.Jr: Well will you tell him that?

H: Ah - I'll tell him - it's on Sunday you want him there?

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H.M.Jr: Well I - let's leave it this way - that if he doesn't hear from me again I would suggest that he be at the Treasury 10 o'clock Sunday morning.

H: All right sir.

H.M.Jr: At my office and if I'm not here - I mean - well - he'll come to my office.

H: 10 o'clock Sunday morning unless he hears to the contrary.

H.M.Jr: I think that's the easiest.

H: First rate, and I may be down myself.

H.M.Jr: Oh will you?

H: I'm coming down - ah - ah - I'm going to a dinner at the White House Tuesday night.

H.M.Jr: Good.

H: Then I've got some other things to do on Monday so I'm going to go down sometime before - over the week-end.

H.M.Jr: Well if it's anything I wish you'd strain a point and be here because we're not only going to talk about that but I'm going to talk about my March financing.

H: All right, sir.

H.M.Jr: See?

H: All right, well I'll be there too then.

H.M.Jr: Well I'd very much like you too.

H: All right and if you would I'd like....

H.M.Jr: I wasn't going to ask you to come down specially but if it's a question of a half a day either way.

H: Well I'm going to be there anyway.



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H.M.Jr: Well then I'd very much like you to sit in.

H: All right, I'll be there unless I hear to the contrary.

H.M.Jr: And I'll - I'll tell Eccles and I'll ask him to be here too.

H: All right. First rate.

H.M.Jr: See?

H: Fine.

H.M.Jr: But let's see - now the other thing is this. I don't know how this is done but I'd like to ask you. You remember I talked to you about the informal conversation I had with the National City - at least I told Taylor to tell you.

H: Yes - yes.

H.M.Jr: Well now late yesterday and only by accident the State Department happened to tell me that they had had a similar conversation with the Chase.....

H: Yes.

H.M.Jr: And they'd more or less indicated to the Chase it was all right.

H: Ah-ha.

H.M.Jr: And I told them that they'd better correct it.....

H: Ah-ha.

H.M.Jr: .....and they said they would.

H: Ah-ha.

H.M.Jr: And I wondered if in previous things - isn't - isn't it all right to you to sort of informally ask them whether any National Bank with an office in London or Paris participated in this loan?

H: To ask others whether they have?

H.M.Jr: Is that the way it has been done in the past?

H: What's that?

H.M.Jr: Is that the way it has been done in the past?

H: Yes, I'll find out all right.

H.M.Jr: Supposing I - I'd like to know.

H: Well the City no doubt did not do it.

H.M.Jr: What?

H: I - I have no doubt that the City did not do it.

H.M.Jr: Well I'm sure the City didn't but I'd like to know about the Chase or any other bank.

H: Yes.

H.M.Jr: Just a minute Wayne wants to say something.

(Pause) Conversation aside between H.M.Jr.  
and Wayne Taylor.

H.M.Jr: Oh Wayne says that Sherman and Sterling have given an opinion that this is not in violation of the Johnson Act.

H: Ah-ha.

H.M.Jr: But - ah - notwithstanding that I'm just curious to know what our banks did - well let's put it this way - who were members of the Federal Reserve whether they didn't participate in it or not. You can do that without stirring up any trouble, can't you?

H: Well let me mull it over a little and I'll see if I can. I don't think you want to stir up any trouble about it.

H.M.Jr: No I don't - quite the contrary - but I would like to know.

H: Yes. I'll make some inquiries around here. Maybe some of my men know something about it.

H.M.Jr: All right.

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H: Suppose - the difficulty is going to be - supposing I find out and then they ask what do I think - ah - what position you are taking definitely - may I ask that?

H.M.Jr: Well the only position I took was that I was only asked very informally by the National City.....

H: Yes.

H.M.Jr: And I offered an opinion that we thought it was a violation of the spirit.....

H: Yes.

H.M.Jr: .....of the Johnson Act.

H: Yes.

H.M.Jr: And that we couldn't give any legal opinion.

H: Yes.

Harrison: Did you say otherwise there'd be no objection to our.....

H.M.Jr: Well I - I didn't say it - they didn't ask me and I - I wouldn't say yes or no.

H: Yes.

H.M.Jr: I gave no opinion.

H: I see.

H.M.Jr: No.

H: Well then if they've gotten a favorable opinion from their counsel they may go ahead.

H.M.Jr: Ah - George

H: Yes.

H.M.Jr: Ah - why not let the thing go over for a couple of days.

H: All right.

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H.M.Jr: And it may come to your voluntarily.

H: All right.

H.M.Jr: Because then the question is, "If they did what am I going to do about it?"

H: Yes.

H.M.Jr: And the answer is, "I'm not going to do....."

H: Yes, I - I think you'd put yourself in the box if I call up and find out anything about it right now.

H.M.Jr: I'd let it ride.

H: What?

H.M.Jr: If anything comes to you voluntarily you can give it to me Sunday.

H: All right, I'll do it that way. I think it's a little better.

H.M.Jr: O.K.

H: All right, goodbye.

## GROUP MEETING

January 29, 1937  
9:30 A.M.

Present: Mrs Klotz  
Mr. McReynolds  
Mr. Haas  
Mr. Taylor  
Mr. Gaston  
Mr. Gibbons  
Mr. Magill  
Mr. Oliphant  
Mr. Lochhead

H.M.Jr: Why doesn't Wait do this?

Oliphant: I imagine it's a question of sending a man over there who is thoroughly acquainted with all the evidence and so on.

Gibbons: All they want - one other way to do it would be to get the cable company in New York to back-track.

H.M.Jr: Before they get them to do that, why can't Wait just go there and get it?

Oliphant: As I say, it's an extensive case involving a lot of people and lot of evidence, and I think what you need on the thing, because it involves so many firms, is somebody who is thoroughly acquainted with the whole picture.

Gibbons: Well, one of Keith's men may make an investigation for the United States Attorney.

H.M.Jr: Have you taken this up with Gorman?

Gibbons: Yes, Gorman's been talked to, and took it up with Mr. Oliphant and he cleared up some things on it.

H.M.Jr: Well, it's a matter of orderly procedure. Whoever it is will report to Wait.

Gibbons: But I may just ask - Mr. Oliphant says it's a matter of expediency to do....

H.M.Jr: But the fellow would report to Wait, wouldn't he?

Oliphant: I am partly influenced by the fact that Lamar Hardy has talked to me about it and is attaching great

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importance to it, thinks it's one of the largest things they've had up there.

H.M.Jr: He's going to send an attorney over - Lamar Hardy?

Oliphant: A fellow named Murphy and a fellow named O'Keefe.

Gibbons: In other words, it'll probably cost \$1500. And Hardy has been cooperating with us and my personal feelings were that - with the grand jury bringing pressure on him - if he wanted to do it, why, go ahead and do it.

Oliphant: There's over a million dollars in duties.

Gibbons: Yes, we'll get something out of this. I mean we'll get - we've got over \$200,000 worth of diamonds now.

H.M.Jr: Well, did the original information come from Europe.

Gibbons: No. A man in Customs picked up this bag with a false bottom in it.

Oliphant: Well, that was...

H.M.Jr: Well, I still say, Mac, as a matter of orderly procedure - certainly, just sending out Wait in charge to Europe - I mean I think we want to do everything in an orderly manner and see what.... I think when these people come they should report to him.

Oliphant: Well, they've turned down another request from Lamar Hardy's office on the general theory that we have machinery already developed.

Gibbons: Did you talk, Wayne, to anybody in the State Department about it? It's all right with them, isn't it?

Taylor: Yes.

McReynolds: On that, he talked to me a number of times, and Steve spoke to me about it. I told him that it would be necessary to clear it through Wayne, of course, and we could take care of the contact with Wait.

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- Gibbons: In my judgment, probably it is something he ought to do, because he seems quite interested in it; Hardy wants to do it.
- Oliphant: I imagine they will get better and more complete information by tying up the people who are familiar with it at this end with their European boys.
- Gibbons: I imagine they'd have to send him a transcript of everything that's happened to date and Wait's people would have to study it over, lose about a couple weeks' time.
- McReynolds: Well, they've got this fellow over there and will probably be able to bring him back without any difficulty. He's ready to turn state's evidence on the whole crowd.
- H.M.Jr: Well, if I were in a hurry - I don't want to bother, but if I was handling it I'd send Wait up to Belgium to see this fellow and let you know tomorrow if the fellow will come back, if you really wanted to save time.
- Gibbons: Well, they've got information from the fellow - Hardy's office has - that he is willing to come back and turn state's evidence, and I don't know whether Hardy wants to dicker with Hardy's attorney or...
- H.M.Jr: Well, I'm not going to - I mean if I - I mean a man is there and you've got a responsible agent there. It's just an overnight trip. He could simply send a man up there and see him. That is, if he really wants to save time.
- Oliphant: Well, it isn't a question of saving time.
- H.M.Jr: What?
- Oliphant: It isn't a question of saving time. It has ramifications and it's a big thing over abroad. He wants to get that whole picture. It isn't a question of saving time. It is a question of developing a very complicated situation.

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- H.M.Jr: Well, it isn't - I mean if it was a question of saving time, we could get the people over there to interview them and bring them back. If it was that sort of thing, I'd call up on the telephone and I could get the thing if you'd want some information from these customs people at Havre. We could get it for you like that if that's what you wanted.
- Oliphant: Well, I assume that Hardy will direct a man to report to "ait and work under him.
- McReynolds: I haven't got anything.
- Upham: I talked to....
- H.M.Jr: Just tell the group what that is; just tell them about your talking to Glass's secretary.
- Upham: Well, some friend of Willingham's.....
- H.M.Jr: I think Glass's secretary has got his nerve.
- Upham: Well, he exercises pretty wide discretion. Some friend of Willingham's got in touch with Rixey Smith, who is Senator Glass's secretary, and told him he understood Secretary Morgenthau was on the point of making recommendations to the President for members of this new Alcohol Control Commission, and that it would probably be a good time to remind the Secretary that Senator Glass was interested in having Willingham on the Commission. And so he, without mentioning it - without bothering Senator Glass with it, phoned to Mr. Kieley and suggested that if this was about to be done, remember Willingham.
- H.M.Jr: Well, I - next time Mr. Rixey Smith calls up, Mr. Rixey Smith can go jump in the Potomac. I think it's impertinent. How old a man is Rixey Smith?
- Upham: Oh, he's probably around fifty. He's been with the Senator for years and years and he practically runs the office. He feels that the Senator...
- H.M.Jr: What friend of Willingham?
- Upham: I don't know. Willingham, I just suppose, .....
- H.M.Jr: Well, anyway, I'm tickled.



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Upham: He feels very good about it.

H.M.Jr: Oh, Rixey does?

Upham: We pleased him.

H.M.Jr: Well, that's all right.

Upham: A good many Senators' secretaries do that.

McReynolds: You'll find in the case of Senators' secretaries, in dealing with personnel matters, very often the Senator knows nothing about the recommendation made. But you will find also that in 90 percent of the cases the Senator will back up his secretary just as much as though he did know about it. That's their attitude.

Upham: They call up, they say, "This is Joe Robinson....."

McReynolds: Three I've heard about.

Upham: Where it wasn't the Senator?

H.M.Jr: Even backed up other persons' secretaries. Miss Roche too.

Roche: I didn't like it, sir.

H.M.Jr: To say nothing of backing up Assistant Secretary - I mean Assistant Secretaries' secretaries.

Roche: Terribly nice. Very much appreciated.

H.M.Jr: Get a good laugh yesterday?

Roche: I'll never get over not being there at exactly five minutes to...

H.M.Jr: Got anything?

Roche: I'd like to ask - probably I can get this from Mr. McReynolds - whether we can go beyond our appropriation and create a deficiency in Public Health by about \$40,000 for Control of Communicable Diseases. It's about used up.

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McReynolds: What was the allotment for Control of Communicable Diseases on the regular appropriation?

Roche: Well, it would create a deficiency.

H.M.Jr: Well, do you mind - will you give him a chance?

McReynolds: I'll check on it.

Roche: All right, sir.

H.M.Jr: If you and Dr. Parran will be here at 12:30 today for a 30-minute lunch....

Roche: Pleased to. Can speak for myself, sir.

H.M.Jr: For a 30-minute lunch. Under the system, you will invite Dr. Parran.

Roche: All right.

H.M.Jr: Let them eat fish.

Roche: Glass of milk.

H.M.Jr: George?

Haas: I'll have that memorandum that you asked for on the financing. I had one, but last night I got some other stuff and they're copying a page or two over again. Probably ready now.

H.M.Jr: Have you seen a memorandum that Bell has - a three-way memorandum on the possibilities of what we might do?

Haas: No. This is also a three-way. Maybe it's about the same thing. No, I haven't seen it.

H.M.Jr: Well, do you want - do you want to show it to Taylor and Bell before tomorrow?

Haas: (Nods yes)

H.M.Jr: Taylor, will you...

Haas: In other words, I'll give a copy of my memorandum to...

H.M.Jr: ....Taylor and Bell.

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Haas: Taylor and Bell.

H.M.Jr: You (Taylor) going to be here this week-end?

Taylor: Yes, sir.

H.M.Jr: You (Lochhead) going to be here this week-end?

Lochhead: Yes.

H.M.Jr: Don't go to Baltimore this week-end, will you please; I may want you to come down Sunday morning. I mean you can go to Baltimore as long as you're here Sunday. I mean I may want you here 10 o'clock Sunday morning.

Lochhead: I wasn't planning to go anyway.

H.M.Jr: You (Taylor) be here Sunday?

Taylor: (Nods yes)

H.M.Jr: George?

Haas: I'll be here.

Lochhead: I have nothing.

H.M.Jr: Well, those of you who may or may not know - France got her loan, supposedly.

Taylor: Announced today or will it be over the week-end?

Lochhead: Announced, although we haven't got the figures. I think it's 250 million pounds, probably three, six, nine months at three and a half percent against gold or exchange on deposit with the London banks.

Taylor: For the railroads or straight?

Lochhead: It will be for the railroads.

Mrs Klotz: Haas has a memorandum on what the Solicitor General is going to see you about.

H.M.Jr: What's the study, George?

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Haas: Oh, some time past, about a year ago, the President appointed you and the Attorney General and the Acting Director of the Budget to go into this question of state taxation of Federal-owned lands.

H.M.Jr: Would you (Oliphant) care to hear about it?

Oliphant: Well, I should think.... taxes?

Haas: This is a real tax question and there are some real legal questions.

Magill: State taxation? All right.

H.M.Jr: Would you (Oliphant)?

Oliphant: What time?

H.M.Jr: Ten o'clock.

Haas: May I bring in one of my men who's been working on that for some time with Bell's men?

H.M.Jr: But God, let's make this thing snappy, see?

Haas: I won't have anything to do with that.

H.M.Jr: I don't know a thing about it. But Bell had it on his conscience and begged me to get rid of it today.

Taylor: Do you want to talk about that King resolution any time today?

H.M.Jr: Better let me take it to Cabinet - ask the President what he wants to do about it.

Taylor: All right.

H.M.Jr: This is a resolution which Senator King has introduced about gold. I think you better give it to me.

Taylor: I'll give it to you right after this.

H.M.Jr: When you going over to see Judge Moore on narcotics?

Taylor: Tomorrow morning.

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H.M.Jr: I mentioned something about it last night. I saw Mr. Hull and said that you were going over today on something. He said he didn't know a thing about it.

Taylor: Ten o'clock tomorrow.

H.M.Jr: He said you people wouldn't even let me look at it, because you were afraid of what I was going to do.

Taylor: That's right.

H.M.Jr: I haven't seen it. Anything else, Wayne?

Taylor: Nothing.

H.M.Jr: Herbert?

Gaston: I have nothing.

Gibbons: (Nods no)

H.M.Jr: Steve?

Gibbons: No. I wanted to speak to you about that one matter before you get away.

H.M.Jr: Do it right after this meeting.

Oliphant: Nothing. Leaving at 2:55. Is that all right?

H.M.Jr: Oh yes. Sure, sure. You (Magill) want to see me about anything during the morning?

Magill: Well....

H.M.Jr: Well, we can get together. What?

Magill: All right.

January 29, 1937.  
9:30 a.m.

H.M.Jr: Hello

Joe  
Robinson: Yes Mr. Secretary.

H.M.Jr: How are you?

R: First rate.

H.M.Jr: I want to tell you I appreciate your getting Magill confirmed.

R: Yes.

H.M.Jr: And -

R: Well that was all right.

H.M.Jr: And is it going to be possible to notify the President to-day on that, do you think?

R: Why I think so. I can ask him - I'll ask it if you wish.

H.M.Jr: I tell you Joe. I'm going away Sunday for a week. You know while - while the President and Cordell were away I had to stay here.....

R: I see.

H.M.Jr: .....and I'm kind of tuckered out and I thought I'd - I've been planning to go away now for a month.

R: Yes.

H.M.Jr: Sunday night and get back the following Sunday.

R: All right I - I - I'll attend to that to-day, Henry.

H.M.Jr: Yes. I'd appreciate it.

R: That was Magill.

H.M.Jr: Yes, Roswell Magill.

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R: All right. Is that all?

H.M.Jr: That's all.

R: All right.

H.M.Jr: Thank you.

R: Goodbye.

H.M.Jr: Goodbye.

January 29, 1937  
10:05 A.M.

Present: Mr. Bell  
Mr. Haas  
Mr. Oliphant  
Mr. Magill  
Mr. Stanley Reed, Solicitor General  
Mr. Carl MacFarland, Sp. Asst. to the Attorney General  
Dr. John G. Herndon, Jr.  
Dr. Louis Shere  
Mr. Harry Blair, Assistant Attorney General

Bell: We have asked Procurement Division to get together a great deal of data showing where the property is located, and the amount and acreage; its value, assessed value, and the total assessed value of the property in the United States; the relation that it bears to the total, and the amount of taxes we would pay if we paid the local rates.

Now, all of that data isn't quite complete yet, but it will be within the next week or so. The matter before you this morning is the first draft of the report, up to the point where we have to arrive at some conclusion on what shall be the policy of the Federal Government with respect to allowing it to be taxed for holdings of real estate throughout the country.

Magill: May I ask a question there? Do you have the information as to the amount or percentage of this property in the local taxing area?

Bell: We have it down to two counties, haven't we, Dr. Herndon?

Herndon: We have the assessed value of every county in the United States, and the assessed value of the Federal property in every county in the United States.

Magill: That's what I meant, because those real property taxes normally go to the local subdivision.

H.M.Jr: Well, the question, as I understand Mr. Bell, is shall the Federal Government be willing to have itself taxed on Federally-owned property? Is that the question?

Herndon: No, not quite. The question arose in this way. Dr.



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Morgen, of the TVA, said that certain injustice was being done to certain local communities because of the large purchases of land by the Federal Government within counties, taking from the county the right to tax large areas and throwing an unreasonable burden on the taxpayers that are left.

(Messrs. Reed and Blair come in)

- Reed: Good morning, gentlemen. Sorry to be late, but some confusion about the time. I thought it was 11.
- H.M.Jr: I think, Bell, you better state your case again for...
- Bell: I think you (Reed) are familiar... He's had this report.
- Reed: Yes, I'm familiar with it.
- Herndon: Well, because of that Tennessee Valley situation Dr. Morgen thought that it might be that a similar sort of thing existed in other places and that therefore a study should be made of the amount of land that the Government owns and what the taxes on the land would be if it were subject to taxation; not with the idea that the Government would permit the taxation of all of its land, but that some compensation ought to be made for the withdrawal of private land from tax revenue within the county.
- H.M.Jr: Of private land?
- Herndon: Yes, through withdrawal of land previously privately owned. Threw the taxes on the rest of the county by reason of governmental purchases.
- Bell: In the Tennessee Valley area they have practically taken whole counties, in certain cases.
- H.M.Jr: Well, do you give any recommendation?
- Bell: Do we?
- H.M.Jr: Yes.
- Bell: No, sir. That's the purpose of this meeting, is to - what the conclusion shall be. Now, there are several

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courses that we probably could take. One is to let each individual case come up and decide it on its merits.

Reed: Has the bond issue problem been submitted to the Secretary?

Herndon: That is not within the scope of our terms of reference. There were three questions presented; but this one was to be limited solely to the study of the valuation of the land, the acreage of the land, and the taxes that would be due.

Reed: You see, in many of these counties where we have taken a large part of the property, there are bond issues outstanding which throw on the remaining landowners the entire duty to pay that bond issue. That makes an additional problem.

H.M.Jr: Outstanding bond issue.

Oliphant: I'd like to ask, before you...

H.M.Jr: It's a complicated subject. I haven't read the report.

Oliphant: I'd like to ask about whether or not Mr. Haas has been over it, thinks that the facts are all before us on which the - on the basis of which a conclusion could be arrived at.

Herndon: I think I can answer that question. The facts are before us as to the particular thing that we are attempting to do in this particular report. The facts are not before us with regard to bond issues and related matters, which were also taken up at the National Emergency Council meeting, but are not supposed to be included in this report.

Haas: My mind is running this way on it. There has been assembled through the Procurement Division a vast amount of data which I think should be analyzed somewhat more thoroughly to serve as a basis for conclusions. And I would just throw out this suggestion - I'm just thinking out loud - that one way of handling it - probably make progress as rapidly that way as any other - would be to appoint a committee of experts

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from the various departments concerned and then get some outside tax expert to serve as chairman of that committee; then come back and make definite alternative suggestions, with the advantages and disadvantages of going either way. But I think the problem is such a large one that I doubt if in a week - the Secretary probably could sit here a long time before he'd come to something where you'd want to definitely make up your mind.

Herndon: It's interesting that that is almost exactly, word for word, the statement Dr. Morgan made to me as what he hoped our conclusion would be. He initiated this study. He hoped that would be what we arrived at as our conclusion.

Also, it may be told that in the Department of Agriculture a study is being made with regard to particular communities and the detailed problems that arise because of these Federal purchases.

Bell: As it relates to forests.

Herndon: As it relates to forests. And all the different things that the Department of Agriculture is doing, but not with regard to the other matters.

Reed: Then you have the additional problem of the Resettlement Administration, where they have taken certain properties.

Herndon: Not exactly, sir, for the reason that we have a specific law on that subject.

Reed: Well, it ties into this, just as the payments that are being made on forest lands tie into it.

Herndon: No, because in the Resettlement Administration Act it was provided that there should be negotiations entered into with the local communities and that the Federal Government should pay a sum of money not in excess of what the value of the services is.

Oliphant: But it does tie in because you might decide that that solution was the one you'd want to adopt generally.

Reed: You've got to examine the operation of that. You've

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got to know what is the effect of what they've been doing.

Bell: You have several like that, some a little different - the R.F.C. and the Home Owners Loans and others that are acquiring property through foreclosure may be - well now, the act setting up those organizations provides that on those properties acquired they may be taxed. And then you have the housing organization. It is somewhat similar to the Resettlement. An act went through last year providing for the...

Oliphant: Farm Credit too.

Bell: Farm Credit has a similar problem. Well, that might be one solution, to say that the Government will pay some lump sum of money somewhat equivalent to taxes where the property is not used exclusively for Federal purposes.

Reed: Then we have an additional question of whether it should be broad enough to cover personal property. In the R.F.C. you've got large quantities of bank stock held by the R.F.C. And there has been litigation, and the Supreme Court taxed preferred stock held by the R.F.C. on the ground of the interpretation of the statute, but the constitutional question as to whether or not it should be taxed hasn't been settled.

H.M.Jr: George, what....

Reed: I was just going to add that Congress, after the Supreme Court's decision, amended the act and withdrew it from taxation, and that's the second phase of it.

H.M.Jr: What's your suggestion again, George?

Haas: My suggestion was this, Mr. Secretary: that the various departments in the Government concerned with that matter - that each of them have experts that have been working on it; that a sub-committee be appointed including experts of the various departments concerned, but, as the chairman, to bring all the departments together, to have an outside tax expert come in to serve as chairman; and give that

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person the responsibility of working up a report and making definite alternative recommendations. If they come to one single one, O.K. There's been a lot of groundwork done, material accumulated, so I think a committee of that sort could make rather rapid progress.

H.M. Jr: Well then, I would see the Director of the Budget on it, whether he thinks that that would be all right; then if you could get some other expert to follow up what's been done...

Bell: Well, something like that might be done. The only thing I'm afraid of in getting your experts from your departments and your outside people is that they are all for giving these states Federal money. It increases their prestige there and they get more property through that means. And first thing you know, we are just paying every state in the Union a lot of money. We are already giving them a lot of money through agricultural extensions, good roads, and I think that some of it ought to be offset. Now, they will never suggest that on a committee of that kind. That's my only objection to a departmental committee.

Reed: I think there is a lot to what Dan says. We have taken the position in Justice that legally it isn't possible to tax any property of the Government under any circumstances. Now, we are afraid of that position, but we have taken the extreme position. And in the TVA case the question arose as to whether or not Government-owned electric lines would not be subject to state taxation and we got the answer to that; said it wasn't in that. But there was a three-quarters statement about whether the same rule would apply - whether a state could tax proprietary property of the Federal Government. We say it wouldn't; that this being a government of delegated powers, everything is governmental, while in the state everything is not a governmental delegated power. But that is going to be a major legal problem.

Oliphant: That is, they can't tax Federal property in the absence of Congressional consent.

Reed: That's right.

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- H.M.Jr: But Congress could give consent?
- Reed: Congress could set up an administrative board to make payments, as they have done in Resettlement.
- H.M.Jr: Well, Dan - I mean I get enough of this that it frightens me.
- Bell: Well, it's a big problem.
- Reed: It is one of the big problems of the Treasury.
- H.M.Jr: One of the whole Government.
- Reed: Well, I was thinking of fiscal...
- Bell: It is very definitely fiscal policies involved, starting off on a venture of this kind.
- H.M.Jr: Well, I - you see - take Monday and Tuesday; I set aside two whole days to study just one phase of our international monetary thing. I mean for two days we had twenty people here; we did nothing but that. I don't even know if two days would do for this thing.
- Bell: No. Oh no.
- H.M.Jr: I mean for me - to educate me. As far as I'm concerned - I don't know how Mr. Reed feels - I'll just have to say - I'm going away Sunday night for a week and when I come back we'll go into this thing, but I don't want to be rushed. I don't know how you feel, Dan.
- Bell: Well, I don't think it's an urgent problem. I wanted to have this preliminary meeting so we could continue to study while you are away. Dr. Herndon's time is up. His leave has expired and he's got to go back to teaching, and I wanted to get some sort of...
- H.M.Jr: Where do you teach?
- Herndon: Haverford College.
- H.M.Jr: Haverford?
- Herndon: Yes.

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- Bell: Let me give you some of the problem....
- H.M.Jr: You've given me enough, Dan.
- Bell: I mean just the figures. There are 1,903,000,000 acres in the United States, and we own 372,000,000 of them.
- Herndon: We own almost exactly 20 percent, a little in excess of 20 percent when our complete figures are in. That is equal to the entire area of all the land east of the Mississippi except for the states of Florida, Georgia, Alabama, and Mississippi; includes everything in all of New England over to Wisconsin and down through Tennessee and South Carolina and all the intervening area. That is the amount of the Federally-owned land if it were contiguous.
- Haas: In terms of value it is much smaller.
- H.M.Jr: And you haven't got all the outstanding contracts, which amount to \$35,000,000 or more, which Resettlement claim they have got under contract.
- Herndon: But that doesn't include any of the lands that have been taken into account by Presidential Executive Order since June 30, 1936, and I know of one Executive Order for seven million acres, for example.
- Oliphant: In terms of value, how does it compare with the total land value?
- Herndon: Four billion is the total of the Federal and 115 billion for the whole country.
- Bell: 115 billion, and the assessed valuation of the United States holdings is two billion eight, or 2.45 percent. The market value of the Federal real estate is four billion dollars.
- H.M.Jr: If we don't own all the marginal land, we soon will.
- Bell: If we keep going. It is interesting to show here that we own 82 percent of the acreage of the State of Nevada.

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Herndon: We own 100 percent of three different counties.

Bell: 66 percent of the State of Arizona, 44 percent of the State of Utah.

(Mr. MacFarland comes in)

Bell: Hello.

Reed: Mr. MacFarland, Mr. Secretary.

Bell: Their records concerning our ownership are in a mess. And I think, if for no other reason, this is a good thing that we have done here, just to compile some of the records. They are not yet complete. I think that's the place they should be, and I think that's one of the recommendations that should be made; that there be a constant inventory of the Federal ownership of property, and that should be lodged in the Procurement Division.

Herndon: Here is one of the interesting things in the report. After the War of 1812 some land was given to some soldiers and the land was located in Arkansas. The man to whom the land was given sold the land to someone else, and then he in turn to someone else, the third man acquiring in all 2,200 acres located in eight different counties. You may remember that we then had a Federal direct tax on land. The man who owned it was a man by the name of John McFadon. He failed to pay his taxes. He didn't have anything but the land, and he deeded over to the Federal Government title to all his property in settlement of his taxes; said it would take everything that he had in settlement of his entire death claim. The District Attorney was notified to set up in the different county offices of the State of Arkansas where the land was located a notice that this land belonged to the Federal Government. That was not done by him, however, except in two cases; even in those two it was overlooked, and in all eight counties taxes continued to be assessed against the land for a period of about ten or twelve years.

Around about 1849 or thereabouts, the State of Arkansas got tired of having no taxes paid by McFadon on his land, and sold the land for taxes.



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The Federal Government made no protest against it whatever. Someone bought it in at tax sale, and the family that bought it in has had title to it, of its particular type, ever since then, and has sold it to other people, and they have been occupying it and have been paying taxes on it now for almost one hundred years. Technically it belongs to the Government of the United States. We have located about 150 to 200 such pieces of property about which we previously knew nothing.

- H.M.Jr: Well, all you're going to do would be - when we discover things like that which have been out of our hands - about all you can do is pass a law giving those people a decent title. I mean they're entitled to that. Not being a lawyer.... I mean if a fellow's occupied it for a hundred years, paid taxes on it, about all you can do is get an act through Congress giving him a clear title.
- Herndon: The Government has very important....
- Reed: Limitation doesn't run against the Government, though.
- H.M.Jr: Pay taxes on it for a hundred years, he must have some...
- Herndon: Well, the most important of all this is in the city of Chicago, where the property has become of very substantial value.
- Bell: The other question raised by this is, in view of all these vast holdings, shouldn't some authority be given to Procurement Division to look into the sale of some of these properties, putting them back into taxation, private owners?
- H.M.Jr: Well, the stuff that we've got - 30, 35 million dollars - that I'm pressing Peoples to sell - Post Offices and things, Court Houses, alone amount to 30, 35 million dollars. They own the most valuable block in Newark, most valuable block in San Francisco, running to three or four million dollars in San Francisco.

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- Bell: That's just Treasury holdings. Must have a lot of other pieces of ground.
- H.M.Jr: Well, when he last made a summary, it was between 30 and 35 million dollars that we can sell.
- Blair: There are several thousand tracts of land in cities throughout the United States the title to which was acquired by forfeiture during the Prohibition era. There is no money available to get abstracts or to get any facts about those titles. That might be very valuable.
- H.M.Jr: Well, gentlemen, I allowed a half hour. It looks to me as though you (Herndon) have done a swell job. But I want to say - I don't know how the Attorney General's office feels, but I've just got to have time on this. Have you accomplished....
- Bell: I want to get some sense of this meeting as to what kind of conclusion we are going to draw, so we can at least in the Budget Bureau draw up something for the next meeting. I'd be glad to talk with George and Mr. Reed and try to draw up something for the next meeting.
- H.M.Jr: \*hen let's have it.... Magill could get some recommendations from Dr. Herndon before he goes.
- Bell: Dr. Herndon will be available to come down, I believe, week-ends.
- Herndon: Oh, I can come at any time. Philadelphia is not very far away.
- Reed: I think it is obvious you've got to go farther than the matter submitted to Dr. Herndon. It's got to cover the whole tax problem in general.
- H.M.Jr: Can't Mr. Reed designate somebody that you can contact?
- Herndon: We've been having Mr. Golden Bell on the committee.
- H.M.Jr: Well, let's get a recommendation and in about a couple weeks meet again.

Friday  
January 29, 1937  
11:30 a.m.

HMJr: Admiral?

Admiral  
Waesche: Yes, sir

HMJr: Morgenthau -

W: Yes, sir - good morning, sir.

HMJr: This letter which some - you wrote asking the Navy to let you have five scouting planes, see?

W: Yes, sir

HMJr: Which Taylor signed - If you don't mind my saying it, it's a very stupid letter to do - or send, because yesterday in Cabinet the Secretary Swanson brought it up and said the Secretary of the Treasury says he'll take five planes for two cutters. And the President jumped on me and he's darn near got those two cutters. Now, I've had to call up Swanson - and Swanson says that Morgenthau wrote that letter and says he'll take five planes for two cutters.

W: But, oh, they - of course the two cutters never entered anybody's head.

HMJr: I know, but why - what do you want those five planes for?

W: Well, the idea was that we've had the crash of these amphibians. The Navy, we understood, informed that from the Navy - that those planes that they were not going to use - and they were right along - they're practically as hull planes, you see, the same that we are having built, except an older model -

HMJr: Yes, but why didn't you tell me about it? Then it comes up in Cabinet and the President said, "Well, that sounds like a good swap." And he turns to me and says, "All right, give them the two cutters."

W: Well, I probably should have put - I - I felt that you would sign the letter, that was the reason that I didn't take it up with you ahead of time and of course when it came back signed by Mr. Taylor, why I was very much surprised too. I should have -

HMJr: Well, I wasn't -

W: - had it brought to your attention.

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- HMJr: I wasn't prepared. And I said, "I don't know anything about it." And Swanson insisted that I signed it and wrote it. And he said right there, "We'll give you the five planes for the two cutters".
- W: Yes, we - we wouldn't take twenty planes for two cutters.
- HMJr: Well, it would be - it's silly, but I mean, you - on this - I mean, if Coast Guard isn't careful you're going to lose those two cutters. And I can't defend Coast Guard in Cabinet if I don't know what's going on.
- W: I can readily understand that. And I can - I can see the error now, the mistake that I made was thinking that you would sign the letter when it went over there.
- HMJr: Well -
- W: And I'll guard against that in the future.
- HMJr: Will you, Waesche? - Because -
- W: Yes, sir, I will.
- HMJr: Because I am doing my best to keep them from taking two of your darn old cutters and if I'm going to do it I've got to know what's going on.
- W: Yes, sir - yes, sir, I know it.
- HMJr: And you see, Swanson was wrong, he thought I'd signed it and he left the impression with the President that this was part of a deal that we've been talking about for a year. Now, I've just called up Leahy and explained it to him and he understands.
- W: Yes, well I'm going to have - I'll have a talk with Leahy too. I've been meeting with him every day. I'll see him today anyway.
- HMJr: Well -
- W: Will it be all right for me to mention it to him?
- HMJr: Oh yes. I told Leahy that this was a kidding match between Standley and myself.

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W: I see.

HMJr: And that he's been kidding me for two years to get some cutters for some planes and that was a little joke that we had between us.

W: Yes

HMJr: So he said he understood it.

W: I see.

HMJr: And - then he very nicely said, "Well, if we can spare these planes we'll let you have them."

W: Yes

HMJr: But I wanted to tell you that it left me in a very embarrassing position, because I didn't know about it and Swanson didn't quite tell the truth - he left the impression first, that I'd signed the letter and second, that I'd said I'd take the darn things.

W: Yes

HMJr: - in exchange for two cutters. But, I - but, that's that.

W: All right, sir. Well, now, I'll see that nothing like that occurs again.

HMJr: No, because otherwise you may lose your two cutters.

W: Yes - they're worth more planes than the Navy has to us right now.

HMJr: That's right.

W: I see.

HMJr: And the other way - anyway, let me give you a little advice - if I may -

W: Yes, sir, I'll be glad to.

HMJr: Don't write any letters to Navy until you've come to an agreement -

W: - beforehand with you - or with the Navy, yes?

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HMJr: Yes

W: I understand.

HMJr: Get a gentlemen's agreement and then put the thing  
in writing - the confirmation.

W: Yes

HMJr: Get it?

W: Yes, sir

HMJr: O. K.

W: All right.

HMJr: Thank you.

W: Goodbye.

January 29, 1937.  
11:31 a.m.

Operator: Governor Harrison

H.M.Jr: Hello

Harrison: Yes Henry.

H.M.Jr: Hello George.

H: Yes sir.

H.M.Jr: Ah - two things: I spoke to Burgess yesterday about having his toothbrush and washrag ready to come down here - hello

H: Yes.

H.M.Jr: And I will most likely ask him to be down here Sunday.

H: Yes.

H.M.Jr: Because I'm going away Sunday.

H: Yes.

H.M.Jr: And in case the Board should decide to take some action tomorrow.

H: Yes.

H.M.Jr: What I'm asking him to come down for is so that we could come to an agreement as to how we'll handle the market Monday.

H: Yes.

H.M.Jr: Now will that be agreeable to you to have him come down?

H: Oh sure, that's quite all right.

H.M.Jr: Well will you tell him that?

H: Ah - I'll tell him - it's on Sunday you want him there?

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H.M.Jr: Well I - let's leave it this way - that if he doesn't hear from me again I would suggest that he be at the Treasury 10 o'clock Sunday morning.

H: All right sir.

H.M.Jr: At my office and if I'm not here - I mean - well - he'll come to my office.

H: 10 o'clock Sunday morning unless he hears to the contrary.

H.M.Jr: I think that's the easiest.

H: First rate, and I may be down myself.

H.M.Jr: Oh will you?

H: I'm coming down - ah - ah - I'm going to a dinner at the White House Tuesday night.

H.M.Jr: Good.

H: Then I've got some other things to do on Monday so I'm going to go down sometime before - over the week-end.

H.M.Jr: Well if it's anything I wish you'd strain a point and be here because we're not only going to talk about that but I'm going to talk about my March financing.

H: All right, sir.

H.M.Jr: See?

H: All right, well I'll be there too then.

H.M.Jr: Well I'd very much like you too.

H: All right and if you would I'd like .....

H.M.Jr: I wasn't going to ask you to come down specially but if it's a question of a half a day either way.

H: Well I'm going to be there anyway.



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H.M.Jr: Well then I'd very much like you to sit in.

H: All right, I'll be there unless I hear to the contrary.

H.M.Jr: And I'll - I'll tell Eccles and I'll ask him to be here too.

H: All right. First rate.

H.M.Jr: See?

H: Fine.

H.M.Jr: But let's see - now the other thing is this. I don't know how this is done but I'd like to ask you. You remember I talked to you about the informal conversation I had with the National City - at least I told Taylor to tell you.

H: Yes - yes.

H.M.Jr: Well now late yesterday and only by accident the State Department happened to tell me that they had had a similar conversation with the Chase.....

H: Yes.

H.M.Jr: And they'd more or less indicated to the Chase it was all right.

H: Ah-ha.

H.M.Jr: And I told them that they'd better correct it.....

H: Ah-ha.

H.M.Jr: .....and they said they would.

H: Ah-ha.

H.M.Jr: And I wondered if in previous things - isn't - isn't it all right to you to sort of informally ask them whether any National Bank with an office in London or Paris participated in this loan?

H: To ask others whether they have?

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H.M.Jr: Is that the way it has been done in the past?

H: What's that?

H.M.Jr: Is that the way it has been done in the past?

H: Yes, I'll find out all right.

H.M.Jr: Supposing I - I'd like to know.

H: Well the City no doubt did not do it.

H.M.Jr: What?

H: I - I have no doubt that the City did not do it.

H.M.Jr: Well I'm sure the City didn't but I'd like to know about the Chase or any other bank.

H: Yes.

H.M.Jr: Just a minute, Wayne wants to say something.

(Pause) Conversation aside between H.M.Jr.  
and Wayne Taylor.

H.M.Jr: Oh Wayne says that Sherman and Sterling have given an opinion that this is not in violation of the Johnson Act.

H: Ah-ha.

H.M.Jr: But - ah - notwithstanding that I'm just curious to know what our banks did - well let's put it this way - who were members of the Federal Reserve whether they didn't participate in it or not. You can do that without stirring up any trouble, can't you?

H: Well let me mull it over a little and I'll see if I can. I don't think you want to stir up any trouble about it.

H.M.Jr: No I don't - quite the contrary - but I would like to know.

H: Yes. I'll make some inquiries around here. Maybe some of my men know something about it.

H.M.Jr: All right.

- H: Suppose - the difficulty is going to be - supposing I find out and then they ask what do I think - ah - what position you are taking definitely - may I ask that?
- H.M.Jr: Well the only position I took was that I was only asked very informally by the National City.....
- H: Yes.
- H.M.Jr: And I offered an opinion that we thought it was a violation of the spirit.....
- H: Yes.
- H.M.Jr: .....of the Johnson Act.
- H: Yes.
- H.M.Jr: And that we couldn't give any legal opinion.
- H: Yes.
- Harrison: Did you say otherwise there'd be no objection to our.....
- H.M.Jr: Well I - I didn't say it - they didn't ask me and I - I wouldn't say yes or no.
- H: Yes.
- H.M.Jr: I gave no opinion.
- H: I see.
- H.M.Jr: No.
- H: Well then if they've gotten a favorable opinion from their counsel they may go ahead.
- H.M.Jr: Ah - George
- H: Yes.
- H.M.Jr: Ah - why not let the thing go over for a couple of days.
- H: All right.

- 6 -

H.M.Jr: And it may come to you voluntarily.

H: All right.

H.M.Jr: Because then the question is, "If they did what am I going to do about it?"

H: Yes.

H.M.Jr: And the answer is, "I'm not going to do....."

H: Yes, I - I think you'd put yourself in the box if I call up and find out anything about it right now.

H.M.Jr: I'd let it ride.

H: What?

H.M.Jr: If anything comes to you voluntarily you can give it to me Sunday.

H: All right, I'll do it that way. I think it's a little better.

H.M.Jr: O.K.

H: All right, goodbye.

January 29, 1937.  
11:40 a.m.

Operator: Go ahead.

Hello

H.M.Jr: Hello - Marriner.

Eccles: Yes sir.

H.M.Jr: On account of my going away Sunday night.....

E: Yes.

H.M.Jr: .....I'd like to have a little meeting in my office Sunday morning and - ah - and two things - whether we want to do - raise any new money thru bills while I'm gone - the week I'm gone, see?

E: Ah-ha.

H.M.Jr: Hello

E: Yes

H.M.Jr: Or keep it on fifty million or raise it and also how the Federal Reserve and the Treasury will handle the market, see?

E: Yes.

H.M.Jr: And - ah - could you come over Sunday morning to the Treasury?

E: Yes sir, be glad to.

H.M.Jr: And then I talked to George Harrison and he's going to be here anyway.

E: Yes.

H.M.Jr: So I'd like to have....

E: Will Burgess be down?

H.M.Jr: Yes he'll come down.

E: Yes.

- 2 -

H.M.Jr: Now I took the liberty of talking to him about fiscal agent but he - he can't come down, see,

E: Well I think that he ought to be down.

H.M.Jr: Well I - I think that if we get together. I think if you're here at the Treasury by eleven.

E: All right.

H.M.Jr: Ah - at my office it would be.....

E: Do you have - and Burgess and Harrison will be there?

H.M.Jr: That's right.

E: I was just wondering - should I bring anyone else.

H.M.Jr: Bring anybody you want.

E: Yes, well then I'll think it over - see whether I want to bring Goldenweiser or Peyser.

H.M.Jr: Well I think Goldenweiser would be fine.

E: Yes, well all right I'll - I'll - I'll.....

H.M.Jr: That's up to you.

E: Well I....

H.M.Jr: But let's meet here at eleven.

E: Eleven o'clock on Sunday morning.

H.M.Jr: Right.

E: All right, I'll be glad to do that.

H.M.Jr: Thank you.

E: All right.

January 29, 1937.  
11:42 a.m.

H.M.Jr: Hello

Admiral  
Wuesche: Good morning, Mr. Secretary.

H.V.Jr: I've got good news for you Admiral.

W: Yes.

H.M.Jr: Hall Roosevelt, the President's brother-in-law,  
just called me up that the President this morning  
woke up and thought he wanted to find out how many  
boys the Coast Guard could take over from CCC - hello

W: Yes sir.

H.M.Jr: So I told them that you were ready and had been  
ready to take about 5,000.....

W: Yes sir.

H.M.Jr: .....and the other thing - he's now gotten into  
your plan on Merchant Marine. I don't know where  
Hall Roosevelt comes in on it but anyway the  
President is going to send for you and what I want  
to tell you is if he does while I'm gone just go to  
it, see?

W: I see.

H.M.Jr: And - but I'm tickled too death he's at last got  
interested.

W: All right, sir, so am I. That's very good news.

H.M.Jr: All right.

W: Thanks.

January 29, 1937.  
4:20 p.m.

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H.M.Jr: Harold Miller?  
M: Yes.  
H.M.Jr: Henry Morgenthau, Jr.  
M: Yes, Mr. Morgenthau.  
H.M.Jr: Now the President spoke to me about your being over - that you wanted to take up the tax speeches with the President.  
M: Yes.  
H.M.Jr: Well now whenever you people are ready - ah - Dr. Magill will be glad to sit down with whoever it is.  
M: Yes.  
H.M.Jr: Who is it going to be?  
M: Well I'll have to see. I'll let you know just as soon as I can Mr. Secretary.  
H.M.Jr: Well as I understand it you want to discuss the tax features.  
M: That's what the Secretary - the President recommended.  
H.M.Jr: All right.  
M: He said, "You better get your experts to discuss this thing and see what the merits are".  
H.M.Jr: Well Mr. Magill you know is our new Under Secretary and he's handling all kinds of matters and he's here when you're ready.  
M: Yes, well then I'll take it up not later than Monday, Mr. Secretary.  
H.M.Jr: Well that suits - that's soon enough.  
M: That's soon enough.  
H.M.Jr: Sure.  
M: All right, thank you for calling.  
H.M.Jr: Thank you.  
M: Goodbye.



Friday  
January 29, 1937  
5:20 p.m.

Rep.

Louis

Ludlow: Mr. Secretary?

HMJr: Yes

L: This is Congressman Ludlow, Mr. Secretary.

HMJr: Yes, Mr. Ludlow

L: I wanted to ask you about this one thing. Yesterday, at the request of flood sufferers out in our distressed section out there, I introduced a bill to make - to allow donors to the relief fund to be relieved from -

HMJr: What?

L: - income taxation - they wouldn't have to pay income tax on the donations to this particular disaster.

HMJr: Yes

L: I talked to Mr. Doughton today about it, there's quite a strong sentiment for it up here. And he very properly suggested that I talk to you about how it would affect the revenues and about what you thought about it.

HMJr: Well, Mr. Ludlow, I couldn't give a snap judgment like that over the telephone, it would be impossible.

L: Yes

HMJr: I mean there's too much at stake, I mean the whole revenue - the seven billion dollar revenue -

L: Well, I - well, I wondered - the only reason in calling you was if it could be done at all it ought to be done at once. I wondered -

HMJr: Well -

L: I wondered if you could do me the favor to look into it so that I could call you again tomorrow sometime?

HMJr: Well, now - no, I can't do that, Mr. Ludlow, I mean - now I've just - the Senate has just confirmed Mr. Magill as Under Secretary and he is going to handle

-2-

tax matters.

L: Yes

HMJr: And if you'll send the bill down here we'll be very glad to analyze it. But, the - this whole question, I mean, would have to go up before Mr. Doughton's committee and we'd have to have a hearing and everything else. I mean, I want to do all I can to cooperate in this terrific disaster, but when it comes to introducing new tax legislation - -

L: It just affects, Mr. Secretary, this one disaster, you understand?

HMJr: I know.

L: Donations - and only donations to the Red Cross. It would relieve them from income taxation.

HMJr: Well, I - Mr. Doughton will have to call a hearing if he - -

L: Well, he intended to do that if you thought anything of it. Of course if you think it would impair the revenues too much why then he wouldn't - -

HMJr: Well, I don't know, I mean, I haven't had time - I have -

L: Suppose I send you the bill, Mr. Secretary?

HMJr: Would you do that?

L: Yes

HMJr: All right, thank you very much.

L: I'll be glad to do it.

HMJr: Thank you very much.

L: All right.

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 29, 1937, 5 p.m.

NO.: 128 FOR TREASURY.

The Exchange market has been very active today, the pound being dealt in at 105.06 to 105.12 the present rate. The dollar opened at 21.45 and is now firm at 21.46 1/4 with London selling dollars according to our market contact. Forward rates continue firm, the dollar 31 centimes for one month and 46 centimes for three months. The pound is 95 centimes for one month and 2.60 francs for three months. Day to day money today is around 4%.

The security market today was generally better with rentes 20 to 30 centimes up.

STRICTLY CONFIDENTIAL. We have been reliably informed, regarding the improvement in the franc against sterling last evening and today, that the unofficial sources are offering sterling freely and striving to discourage speculation, as well as to make as favorable an impression as is possible with the British credit which is practically concluded, we understand. We have reason to believe, though, that there is a continuation of the flight of French capital from the country at a rate which is causing the Government some uneasiness.

Our best information at noon on the progress of credit from London was that 70 percent of a total of about fifty million

million

- 2 -

million pounds had been covered and that during the day the balance will probably be arranged for. The Treasury has promised us that they will later on in the day give us definite information in this regard.

In strict confidence we have been informed that the bank statement of the situation at January 27, which is to be published next week, will probably show that there has been a substantial loss of the gold reserve of the Bank because of the necessity to transfer some to the exchange fund.

Denying that the French Government intends to utilize the margin of devaluation provided in the monetary law and to move up the parity of the franc in comparison with the pound from ~~112~~ to 112, an apparently inspired statement published in the press of today concludes as follows:

"during the last few days the forward rates on the exchange market have reflected a certain tension. However, it is believed

that

MEMO - 3 - #126, January 29, 5 p.m. from Paris

that the loans being negotiated at the moment in London, Amsterdam and Stockholm by the French railways (eight billion altogether of which five on the London market) will shortly be concluded and that by strengthening the exchange fund and by the increase in the funds of the Treasury which will result, speculation will be halted."

With respect to the above reference to a possible loan in Amsterdam we understand from our Bourse contact that rumors were circulating this afternoon on the Bourse that a credit for 200,000,000 guilders has been concluded in Amsterdam in the name of the French Railways.

A certain amount of speculation is evident in the financial press with respect to the improvement in the franc against sterling on the one hand and on the other hand the firmness of the dollar rate against the franc. While the improvement in the French currency has been interpreted as indicating that the London loan had been concluded and that spot sterling was already coming on the market some observers thought that some alteration in the sterling - dollar rate was indicated and in this respect it is suggested by the JOURNÉE INDUSTRIELLE that Runciman had perhaps obtained the agreement of the Treasury to a modification of the dollar pounds parity and that commercial compensations were probably

envisaged

MEMO - 4 - #126, January 29, 5 p.m. from Paris

envisaged to make up for the disadvantage that would result for the commerce of the United States.

The London FINANCIAL NEWS comments with some pessimism on the French financial situation and refers to the "half hearted" denial of Auriol that the Government had any intention to devalue further. This paper has the impression that next week's statement of the Bank of France will indicate a transfer of gold from the bank's gold reserves to the stabilization fund.

Following the increase in the interest rates of the Bank of France yesterday a decree published in the Journal Official today increases the interest rate of 75 to 105 days ordinary Treasury bonds from 1 7/8% to 3 7/8%. (END SECTION ONE)

BULLITT

CSB

SMB

GRAY

Paris

Dated January 29, 1937

Rec'd 6:50 p.m.

Secretary of State,  
Washington.

126, January 29, 5 p.m. SECTION TWO

The first annual general meeting of shareholders of the Bank of France was held yesterday under the chairmanship of Governor Labeyrie and according to press accounts the session was stormy, many of those present jeering and hooting the Governor while he read the report of operations of the bank during 1936. This especially seemed to be the case when he referred to the continued reluctance of Frenchmen to invest money in their own country and when he emphasized the resulting financial difficulties for the Government. Some of the shareholders showed strong disagreement when he referred to recent signs of improvement in business conditions here.

The following brief survey is provided of the essential features of the report:

Monetary alignment: Referring to the new money order regime instituted by the law of October 1, 1936,

the

ans 2 - No. 126, January 29, 5 p.m. from Paris. Section 2.

the report points out that the stability of Franco-British exchange was one of the beneficial results of the collaboration instigating different exchange stabilization funds, following the common declaration of the Governments of Great Britain and the United States and France on September 25, 1936, and later adhered to by Belgium, Switzerland, and the Netherlands.

The spirit of cooperation among these nations had, during the past few months, made it possible to maintain, notwithstanding large movements of capital, a monetary stability similar to that obtained through the normal mechanism of the gold standard. The General Council was grateful to the British and American authorities for their assistance.

Revaluation of gold holdings: The profit resulting from devaluation slightly exceeded 17,000,000,000 francs. This amount had been used to amortize loans of the bank to the state and 10,000,000,000 had been turned over to the stabilization fund.

The fund had not maintained all of its resources in gold. During the last quarter of 1936, the bank had been led to buy gold from the fund and to sell gold to it. These operations involved effective transfers.

The



ans 5 - No. 126, January 29 from Paris. Section Two

The report reviews the development of the commercial portfolio, advances made to the wheat agency, to the popular banks, and to assistance furnished in connection with operation of the export credit law, and stressed the intention of the bank to maintain the low discount rate as long as the monetary situation permitted it to do so. Furthermore, with the collaboration of the large banks, it would attempt to establish a better organization of credit.

Reviewing operations in support of the Treasury, the report recalls the provisional advance of 10,000,000,000 francs authorized by law of June 23, 1936, and that at December 24, last, the Treasury had drawn 3,800,000,000 francs on this account. Furthermore, Article Thirteen of the bank law of June 24, 1936, laid down that all bills and notes of the floating debits issued by the public treasury, redeemable in three months would be admitted without limit to rediscount by the bank, except for the profit of the public treasury.

The economic situation had shown signs of improvement since the autumn; wholesale prices had risen 39.08 percent during 1936 and retail prices 22.50 percent; railway earnings had improved and unemployment had decreased.

HOWEVER,

4 - No. 126, January 29 from Paris. Section Two.

However, the unfavorable balance of foreign trade had increased from 5,478,000,000 francs to 9,944,000,000. One of the essential conditions of recovery was the reestablishment of budgetary balance and the restoration of credit. The solution of the financial problem as well as the amelioration of the general business situation would be greatly facilitated if investors would fulfil their duty.

The report concludes that actually an enormous mass of capital was lacking in France. It had either been sent abroad or remained hoarded in France. Its return to circulation would not only have the advantage of accelerating the rhythm of the circulation of wealth and increasing trade but would also create an abundance on the money market, which, in facilitating the reduction of interest on long term loans, would afford precious assistance to the entire economic situation.

END OF SECTION TWO

BULLITT

ams

emb

## PARTIAL PARAPHRASE.

SECTION THREE. No. 186 from Paris, January 29.

We are informed by the Ministry of Finance that the French railways have just concluded with a group of British banks, headed by Lazard Brothers, and Morgan, Grenfell and Company, and Rothschild and Sons, a credit operation of forty million pounds for ten months at a rate of interest of three and one half percent per annum.

STRICTLY CONFIDENTIAL.

Rueff of the Ministry of Finance has advised us that the security for the credit is similar to that accorded for last February's credit. We have also been informed that there is no foundation for the rumor circulated of a credit arrangement at Amsterdam.

January 29, midnight.

END OF MESSAGE.

BULLITT.

EA:LWW

This telegram is not chargeable to Treasury.

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PARAPHRASE OF TELEGRAM SENT.

TO: American Embassy, Paris, France

DATE: January 29, 1937, 6 p.m.

No.: 49

The following is for your confidential information.

The Department was contacted by two New York banking institutions with regard to participation in the sterling loan to the French railways. They were at first informed that the Department perceived no ground of objection from the point of view of public policy except for the possible bearings of the Johnson Act on such participation. One of the banks (which was considering participation by its branch in London) said that its lawyers held that the transaction was compatible with the Johnson Act. An official of the Office of the Attorney General was consulted by the State Department, who said it was contrary to their usual practice to give advance decisions on such matters, but that he was not prepared to say that the matter was not within the field of the Act mentioned. The Department learned later on that another New York financial institution had been informed by the Treasury that it considered the transaction contrary to the spirit of this Act. Then the State Department informed the bankers with whom it had been in communication of the opinions which the other Government Departments had expressed.

Please transmit the above information to London -  
confidentially.

HULL.

EA:LWW



## TREASURY DEPARTMENT

WASHINGTON

1-29-37

OFFICE OF  
COMMISSIONER OF INTERNAL REVENUEADDRESS ONLY TO  
COMMISSIONER OF INTERNAL REVENUE  
WASHINGTON, D. C.

## MEMORANDUM FOR:

The Secretary of the Treasury.

In re: Wirt G. Bowman,  
Estate of Magdalena J. Bowman,  
Nogales, Arizona.

These cases deal with individual income tax liabilities of Mr. Wirt G. Bowman and his wife, Magdalena J. Bowman (deceased), for the calendar years 1926 and 1927. Schedules showing the reported and agreed net income, the reported and agreed liability, and the resulting deficiencies determined by the Bureau are as follows:

Wirt G. Bowman

| Year | Net Income Reported | Net Income Corrected | Under-Statement | Tax Paid   | Tax Corrected | Deficiencies* |
|------|---------------------|----------------------|-----------------|------------|---------------|---------------|
| 1926 | \$24,160.64         | \$ 83,849.15         | \$59,688.51     | \$1,347.34 | \$12,174.27   | \$10,826.93   |
| 1927 | 44,703.44           | 106,853.49           | 62,150.05       | 4,155.82   | 17,755.44     | 13,599.62     |
|      |                     |                      |                 |            |               | \$24,426.55   |

Estate of Magdalena J. Bowman

|      |             |              |             |            |             |             |
|------|-------------|--------------|-------------|------------|-------------|-------------|
| 1926 | \$24,160.64 | \$ 83,849.15 | \$59,688.52 | \$1,347.34 | \$12,189.27 | \$10,841.93 |
| 1927 | 44,703.44   | 106,853.48   | 62,150.04   | 4,155.82   | 17,755.44   | 13,599.62   |
|      |             |              |             |            |             | \$24,441.55 |

\* Statutory interest on the deficiencies must of course be added. Each of these matters has been definitely concluded as to liability to the tax:

(1) In the case of the Estate of Magdalena J. Bowman, by the timely acceptance of an offer in compromise, approved by the Acting Secretary on October 31, 1935. The taxpayer was notified of the acceptance by Bureau letter dated November 23, 1935. Mr. Bowman, the executor of his deceased wife's estate, sought to withdraw the offer by telegram and letter dated December 5, 1935, but this attempt was ineffective since the acceptance occurred prior to notice of withdrawal. The wife's offer was in the sum of \$35,439.86 (inclusive of interest computed to August 15, 1934).

MEMORANDUM FOR  
The Secretary of the Treasury.

(2) In the case of Wirt G. Bowman, by a Final Order by the Board of Tax Appeals dated December 30, 1936, entered on the basis of an agreed stipulation of the parties. The assessment on the basis of the Board's Final Order was made January 15, 1937, as follows:

| <u>Year</u> | <u>Tax</u>  | <u>Interest</u> | <u>Total Tax<br/>and Interest</u> |
|-------------|-------------|-----------------|-----------------------------------|
| 1926        | \$10,826.93 | \$5,101.12      | \$15,928.05                       |
| 1927        | 13,599.62   | 7,207.80        | 20,807.42                         |
|             | \$24,426.55 | \$12,308.92     | \$36,735.47                       |

In my office and in my presence revised offers in compromise dated August 15, 1935, were signed by Mr. Bowman, one for himself and the other as executor of the estate of his deceased wife, offering to pay the full asserted taxes plus interest in lieu of all liability for income taxes, penalties and interest for the years 1926 and 1927. At that time no mention was made of an alleged loan of \$150,000 from ex-President Calles of Mexico to Mr. Bowman. At that time he seemed entirely satisfied with the proposed disposition of the case. The offer of the deceased wife was approved by the Acting Secretary on October 31, 1935. Furthermore, on November 14, 1935, Mr. Bowman signed and submitted a supplemental statement increasing his then pending offer by a further sum of \$3,053.32 in lieu of evasion penalties. In this supplemental statement he does make reference to the alleged loan to him of \$150,000 from Mr. Calles. However, on December 5, 1935, he sent notice of withdrawal of the offer, which was effective since the offer had not then been approved. A statutory 90-day letter was thereupon issued; a petition filed with the Board; and the matter stipulated by the parties in December, 1936, for the full tax and interest, as above explained.

In the supplemental statement signed by Mr. Bowman on November 14, 1935, above mentioned, he makes reference to an alleged loan to him of \$150,000 from ex-President Calles of Mexico. In the absence of records, Mr. Bowman's liability (as well as that of his wife) was computed by reference to an increase in net worth. Mr. Bowman claimed that the item of \$150,000 taken into assets, represented a loan, and should be offset by a corresponding liability. Since these matters have been conclusively determined as above stated, the explanation of this item at this time is merely academic. Mr. Calles admits that the alleged loan was made without a request upon Mr. Bowman's part; that he (Calles) was aware that Bowman "was in urgent need of the money." Mr. Bowman has denied that he was in urgent need of the money. There is no note or other evidence of indebtedness; no interest was provided for; Mr. Calles admits "Perhaps I shall never have need of demanding payment." Indeed, no payment of principal or interest has been made to date. I hope I am not cynical; but, I was unable then or now to perceive under the admitted facts anything approaching the creation

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MEMORANDUM FOR  
The Secretary of the Treasury.

of a loan or the relationship of debtor and creditor respecting this item of \$150,000. Every employee of the Bureau handling the cases reached the same conclusion. The issue is merely one involving a mixed conclusion of fact and law. No person, domestic or foreign, can fairly take offense at our unwillingness to recognize the creation of a "loan" under such conditions.

During the prior considerations of the case the question of collectibility was not raised by the taxpayer. The offers in compromise were submitted on a basis of the entire tax and statutory interest being paid upon notice of acceptance, and the stipulation before the Board was on the same basis. At the time of the field investigation there was no indication that either taxpayer was not able to pay the taxes and interest agreed upon; in fact, there was every indication that they had ample assets to meet the payments.

Any claim which Mr. Bowman may now be making based on inability to pay would, of course, be subjected to the usual field investigation in such matters.

*J. H. ...*  
Commissioner.

Attached:  
Compromise offer  
and Statement.

*File*

January 29, 1937

The subject matter of the attached memorandum came up at the Cabinet meeting today and the President said to go ahead with it in the manner recommended in the memorandum.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

FROM Herman Oliphant

I have just been advised that the Attorney General will take up at Cabinet meeting the following point:

The railroad retirement program is set up in two different pieces of legislation. One of them levies a tax on both employers and employees. This tax expires, under present law, on February 28, 1937. The other law authorizes the payment of benefits to railroad workers on retirement, and there is no time limit for these payments.

The result of this is that, as things now stand, the Treasury will be obligated to make payments of benefits after February 28, but there will be no corresponding tax revenue. We took up with Justice, because they are handling litigation brought by the railroads to enjoin the collection of the tax, the question of amending the law so that we will continue to collect taxes.

I understand that the Attorney General is prepared to recommend at Cabinet meeting that an amendment be proposed to the taxing law extending the period for which taxes will be payable for one year, that is to February 28, 1938.

It is my view that this will sufficiently take care of the situation for the present, and if you agree and the matter is approved at Cabinet meeting, I will immediately start work on ~~the~~ the legislation.

*Herman Oliphant*

*Go ahead  
HJC*

29 January, 1937  
4 p. m.

COAST GUARD OPERATIONS IN FLOOD AREA

Coast Guard boats are being gradually moved down the river with the improvement in conditions in the upper section of the Ohio.

The situation in the vicinity of Calhoun, Kentucky has been cleared up by the Coast Guard, more than 1000 people having been assigned.

Heavy motor lifeboats are now beginning to arrive in the vicinity of Memphis.

-----

The resources under control of the Coast Guard engaged in flood relief total 23 seagoing units, approximately 400 boats, 10 planes, 10 radio trucks, 50 portable radio sets, and a personnel of approximately 2000 officers and men.

-----

General Water Level Condition

Has reached peak at Evansville - 53.4'; slowly rising at Cairo - 58.4', and at Memphis, 44.6'. Crest 50' expected at Memphis, February 6.

30 January, 1937

COAST GUARD OPERATIONS IN THE FLOOD AREA

At the request of the Red Cross, the Coast Guard is establishing and will operate a temporary radio station in the Red Cross Headquarters at St. Louis, Missouri. This station will be joined with the Coast Guard communication system which has been organized throughout the flood area, embracing approximately 52 Coast Guard, Army, Naval Reserve, and amateur temporary radio stations. A total of approximately 145 Coast Guard radio equipped units are tied up with this system. Rapid communication between our Washington Station (Fort Hunt, Va.) and all important points throughout the flood area is available.

Coast Guard forces, including motor lifeboats, sea-going vessels, and aircraft, are being concentrated and augmented in the Mississippi Valley (Vicksburg-Memphis-Cairo) sector, and are operating in collaboration with Lieut. Col. B. H. Gillett, Corps of Engineers, Memphis, who has been designated as Coordinator of rescue work.

The Commander, Coast Guard Relief Force, reports situation well in hand in cities in upper Ohio Valley, and is now giving particular attention to outlying districts.

The resources under control of the Coast Guard engaged in flood relief total 25 sea-going units, approximately 400 boats, 10 planes, 10 radio trucks, 50 portable radio sets, and a personnel of approximately 2000 officers and men.

General Water Level Condition

The Ohio River is falling all the way to Evansville where there is a crest of 53.6'; Cairo 58.8' slowly rising; Memphis 44.9' slowly rising (15 feet above flood stage); Vicksburg 43.4', less than a foot above flood stage and slowly rising.

January 30, 1937.

Excerpt from report from Deputy Commissioner of Internal Revenue, Stewart Berkshire, dated January 30, 1937, entitled, "STATEMENT FOR THE SECRETARY, FOR THE 2-WEEK PERIOD ENDED JANUARY 30":

1. Employees of the Alcohol Tax Unit are cooperating to the fullest extent with the Red Cross and other relief agencies in the flood area, assisting in whatever capacities they can to aid the victims. The Supervisors at Kansas City, Chicago, Cleveland and Louisville report that their forces have been placed at the disposal of the Red Cross. Boats and cars used in enforcement work have also been made available. In the Arkansas flood area, our men were able to rescue some 200 persons who had taken refuge on top of houses. The New Post Office Building at Louisville, headquarters for District 7, is under water and temporary offices have been set up in the home of the Acting District Supervisor. Plant operations in the stricken section are virtually at a standstill. Many distillery premises are being used for relief stations, and plants still able to operate are manufacturing distilled water for hospitals and sanitation groups. One warehouse at Louisville has collapsed. We have had requests from distillers for authority to dump materials in process of manufacture when high water forced suspension of activity. Conditions in Lawrenceburg, Indiana, home of some of the larger plants, are very bad. The force of storekeeper-gaugers there has been organized on a 24-hour basis to protect the interests of the government at all times. Gaugers assigned to the Krogman Distillery at Tell City, Indiana, where the water is 9 feet deep on the distillery and warehouse floors, are spending their time on land a mile distant and making frequent trips to the plant by boat. The confusion and destruction within affected plants after the water recedes will place an extremely heavy burden upon the supervisory personnel for many weeks to come.

X-8905

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers  
of Sunday, January 31, 1937

January 30, 1937

The Board of Governors of the Federal Reserve System today increased reserve requirements for member banks by 33-1/3 percent, as follows: On demand deposits, at banks in central reserve cities, from 19-1/2 to 26 percent; at banks in reserve cities, from 15 to 20 percent; and at "country" banks, from 10-1/2 to 14 percent; on time deposits, at all banks, from 4-1/2 to 6 percent. For the purpose of affording member banks ample time for orderly adjustment to the changed requirements, one half of the increase will become effective as of the opening of business on March 1, 1937, and the remaining half will become effective as of the opening of business on May 1.

The following table shows what the reserve requirements are at present, what they will be from March 1 through April 30, and what they will be commencing May 1:

Reserve Requirements.  
(percent of deposits)

| Class of bank        | Demand Deposits              |                                |                       | Time Deposits                |                                |                       |
|----------------------|------------------------------|--------------------------------|-----------------------|------------------------------|--------------------------------|-----------------------|
|                      | Present<br>Require-<br>ments | March 1<br>through<br>April 30 | May 1<br>and<br>after | Present<br>Require-<br>ments | March 1<br>through<br>April 30 | May 1<br>and<br>after |
| Central reserve city | 19-1/2                       | 22-3/4                         | 26                    | 4-1/2                        | 5-1/4                          | 6                     |
| Reserve city         | 15                           | 17-1/2                         | 20                    | 4-1/2                        | 5-1/4                          | 6                     |
| "Country"            | 10-1/2                       | 12-1/4                         | 14                    | 4-1/2                        | 5-1/4                          | 6                     |

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This action completes the use of the Board's power under the law to raise reserve requirements to not more than twice the amount prescribed for member banks in section 19 of the Federal Reserve Act.

The section of the law which authorizes the Board to change reserve requirements for member banks states that when this power is used it shall be "in order to prevent injurious credit expansion or contraction." The significance of this language is that it places responsibility on the Board to use its power to change reserve requirements not only to counteract an injurious credit expansion or contraction after it has developed, but also to anticipate and prevent such an expansion or contraction.

By its present action the Board eliminates as a basis of possible credit expansion an estimated \$1,500,000,000 of excess reserves which are superfluous for the present or prospective needs of commerce, industry, and agriculture and which, in the Board's judgment, would result in an injurious credit expansion if permitted to become the basis of a multiple expansion of bank credit. The Board estimates that, after the full increase has gone into effect, member banks will have excess reserves of approximately \$500,000,000, an amount ample to finance further recovery and to maintain easy money conditions. At the same time the Federal Reserve System will be placed in a position where such reduction or expansion of member bank reserves as may be deemed in the public interest may be effected through open-market operations, a more flexible instrument, better adapted for keeping the reserve position of member banks currently in close adjustment to credit needs.

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As the Board stated on July 15, 1936, in its announcement of the previous increase of reserve requirements, excess reserves then held by member banks had resulted almost entirely from the inflow of gold from abroad rather than from the System's credit policy. Since that time the country's gold stock has been further increased by a large inflow of gold, amounting to \$600,000,000. Between the time of the banking holiday in 1933 and December 24, 1936, when the United States Treasury put into effect its program for preventing acquisitions of gold from adding to the country's banking reserves, the gold inflow aggregated approximately \$4,000,000,000. This inflow of gold had the effect of adding an equal amount to the reserves of member banks as well as to their deposits. The total amount of deposits in banks and the Postal Savings System, plus currency outside of banks, is now \$2,000,000,000 larger than in the summer of 1929.

The present volume of deposits, if utilized at a rate of turnover comparable to pre-depression levels, is sufficient to sustain a vastly greater rate of business activity than exists today. In order to sustain and expand recovery, the country's commerce, industry, and agriculture, therefore, require a more complete and productive utilization of existing deposits rather than further additions to the amount now available.

The excess reserves of about \$1,500,000,000 eliminated as a base of further credit expansion by this action could support an increase in the supply of money, in the form of bank credit, which beyond any doubt would constitute an injurious credit expansion.

The present is an opportune time for action because, as was the case when the Board announced its prior action last July, excess reserves are widely distributed among member banks, and balances with correspondent banks are twice



X-9805

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as large as they have generally been in the past. All but a small number of member banks have more than sufficient excess reserves and surplus balances with other banks to meet a  $33\frac{1}{3}$  percent increase in reserve requirements. As of January 13, the Board's survey indicates that only 197 of the 6,367 member banks lacked sufficient funds to meet such an increase in reserve requirements by utilizing their present excess balances with the reserve banks and not more than one-half of their balances with correspondent banks. On this basis these 197 banks, in order to meet the full requirements, would have needed an additional \$123,000,000, of which \$110,000,000 would have been needed by banks in central reserve cities, \$11,000,000 by banks in other reserve cities and only \$2,300,000 by country banks.

Another reason for action at this time is that, as stated by the Board last July, "it is far better to sterilize a part of these superfluous reserves while they are still unused than to permit a credit structure to be erected upon them and then to withdraw the foundation of the structure."

The available methods of absorbing excess reserves have been under consideration. It has been decided that under present circumstances changes in reserve requirements should precede reduction in reserves through open-market operations, because changes in requirements affect all banks, regardless of their reserve position, and consequently should be made while reserves are widely distributed.

This action increases reserve requirements to the full extent authorized by law. It is not the present intention of the Board to request from Congress additional authority to absorb excess reserves by means of raising reserve requirements.

-5-

It is the Board's expectation that, with approximately \$500,000,000 of excess reserves remaining with the banks, credit conditions will continue to be easy. At the same time the Reserve System will be in a position to take promptly such action as may be desirable to ease or tighten credit conditions through open-market and rate policy.

In announcing the previous increase in reserve requirements, the Board said:

"The prevailing level of long-time interest rates, which has been an important factor in the revival of the capital market, has been due principally to the large accumulations of idle funds in the hands of individual and institutional investors. The supply of investment funds is in excess of the demand. The increase in reserve requirements of member banks will not diminish the volume of deposits held by these banks for their customers and will, therefore, not diminish the volume of funds available for investment. The maintenance of an adequate supply of funds at favorable rates for capital purposes, including mortgages, is an important factor in bringing about and sustaining a lasting recovery."

The same considerations apply with equal force at the present time. The Board's action does not reduce the large volume of existing funds available for investment by depositors, and should not, therefore, occasion an advance in long-term interest rates or a restrictive policy on the part of institutional and other investors in meeting the needs for sound business, industrial and agricultural credit.

In view of all these considerations, the Board believes that the action taken at this time will operate to prevent an injurious credit expansion and at the same time give assurance for continued progress toward full recovery.

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 30, 1937, 3 p.m.

NO.: 133 FOR TREASURY.

Considerable business decernment transacted on unofficial market this morning and a certain nervousness was evident. The exchange fund was supplying sterling at around 105.07 after opening at 105.05. Dollars were firm as 21.46. While the pressure on the franc has apparently eased somewhat, the effect of the British credit so far seems to me less marked than might have been expected.

I refer to my telegram of last evening announcing the conclusion of a credit in the name of the French railways. With regard to this credit, Rueff said that of course the proceeds of the operation would be appropriated by the Treasury in partial reimbursement of the amount owed the Treasury by the railways. The general impression was that the present arrangements would largely benefit the exchange fund.

AGENCE ECONOMIQUE ET FINANCIERE publishes the  
following

RB

-2-#133, January 30, 3 p. m. from  
Paris

following statement made by the Minister of Finance to its representative last night following the signature of the credit arrangement:

"The loan has just been concluded by the railways. It is the first step of a plan established by the Treasury. The Treasury and the budget of the state have in reality to have recourse to the money market which is not as a matter of fact very well provided. However, a number of municipalities and collective ties such as the City of Paris, Morocco, Algeria, et cetera, as certain services such as the postal administration draw on the funds of the state. I have asked these collective ties to reimburse the Treasury what they owe and furthermore to provide for their own needs. I have also requested the railways to unify their loan operations abroad instead of borrowing separately as they have done so far. My preoccupation during the first part of the year is to relieve the money market at a moment when calls are being made upon it by industry in preparation for a resumption of business. Furthermore, I desire to call a halt to advances from the bank. I shall explain all this to the parliamentary commission.

I am delighted that the loan has been concluded. While it will ease the situation of the Treasury, it will permit

us

RB

-S-4133, January 30, 3 p. m. from  
Paris

us to put up a resistance to those who, under the influence of inexcusable rumors which are malicious and inexact, have borne down on the franc.

I hope that those who have confidence in the recovery of our country and who desire with us that financial security should accompany material security will aid us in our task."

The interest rate of two year national defense bonuses has been increased from 3 per cent to 4.50 per cent dating from today.

While most financial papers profess to see grounds for satisfaction and encouragement in the satisfactory conclusion of the credit operation, LE TEMPS contends that the explanation of the Government's financial difficulties lies in the failure of the administration to restore confidence and that unless the administration profits by the respite afforded by the British credit to remove the causes which have forced it to borrow abroad only a few months after devaluation, it will again be faced with the same problem in the near future.

BULLITT

SMS

U

GRAY

London

Dated January 30, 1937

Rec'd 10:50 a.m.

Secretary of State

Washington

40, January 30, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

I understand from one of the organizers of the British Banking Syndicate that they experience considerable difficulty in marketing the paper; for example, one of the big joint stock banks clearly unwilling to participate at all. It is for this reason that the amount of the credit was reduced to pounds 40,000,000.

The following excerpt from today's Financial Times may be of interest in this connection: "There has not been the same keenness to absorb this credit as there was with its prototype of 1936. It has not been so much the security--that is accepted as sound enough and should be--but they doubt whether (a) it will be possible to secure financial rehabilitation under existing conditions, and (b) the fear that even this effort will not survive more than a few weeks. It was stated that the first installment may be paid over on Monday to the amount of pounds 10,000,000 and that weekly installments of similar amounts will be transferred on 8th, 15th and 22nd February."

WVC:KLP

ATHERTON

Saturday  
January 30, 1937  
11:20 a.m.

HMJr: Hello  
Treas.  
Operator: Go ahead.

HMJr: Hello  
Claude  
Swanson: Hello, Henry, how are you?

HMJr: I'm all right, how are you?

S: I found that you didn't write that letter.

HMJr: Say, Claude, could you tell me something about  
what that letter was you were referring to - ?

S: Yes, it was written by -

HMJr: What?

S: It was written by your assistant - Assistant  
Secretary.

HMJr: I don't hear you.

S: It was written by your Assistant Secretary, you  
didn't write it.

HMJr: I didn't write it?

S: No

HMJr: Written by an Assistant Secretary? - You don't  
know when he wrote it?

S: No - he wanted - he

HMJr: What's that?

S: No - he wanted five of our planes.

HMJr: Well, could you have somebody let me know who wrote  
it and when it was written?

S: I was just ready to a minute ago, I'll have Leahy  
to tell you.

HMJr: What's that?

S: I'll tell Admiral Leahy to tell you.

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HMJr: Thank you.

S: If you'll wait just a minute, I'll get him.

HMJr: Thank you, Claude, thank you.

(Short Pause) - (Clicking sound)

HMJr: Hello?

S: Hello, Mr. Secretary, hold your line just a second, please, sir.

HMJr: All right.

(Short Pause)

S: (Clicks the receiver hook) - Navy? - hello - hello, Navy? - Hold - just a minute, please. (Spoken to messenger, probably: Go down and get Admiral Leahy to talk write away, will you?)

Messenger: All right, if you'll wait up here a minute I'll get him.

S: I'll get him. I'll talk to him, Mr. Secretary - I'll handle it. You can hang up. I'll get it in just a moment.

HMJr: All right.

S: I tried to get you on the extension but our Central don't answer. Admiral Leahy we're getting right away.

HMJr: Well, we'll - Coast Guard will be glad to lend you a good telegraph operator if you want one.

S: Oh, we'll have it now right in just a moment. Just a minute - -

HMJr: All right, thank you. (Laughs)

S: I don't see why in the world that Central wouldn't answer up there.

HMJr: Who are you going to put on, Leahy?

S: Yes, sir.

HMJr: Why don't I hang up and you can call me right back?



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S: All right, I'll get him to do that then. What's your branch number, Mr. Secretary?

HMJr: Well, call me on District 2626.

S: All right, 2626?

HMJr: District -

S: All right, sir, District 2626, all right, - you hang up.

HMJr: Hangs up.  
Treas.  
Operator: Admiral Leahy calling you.

HMJr: Thank you.

T.O.: Go ahead.

HMJr: Hello -  
Admiral  
Leahy: This is Admiral Leahy speaking.

HMJr: This is the Secretary of the Treasury.

L: Good morning, Mr. Secretary.

HMJr: Good morning - Do you know what it's about?

L: No, sir

HMJr: (Laughs) All right. - Yesterday, at Cabinet, Secretary Swanson was under the impression that I had written him a letter asking him for five aeroplanes and he rather facetiously suggested that he take two of our new cutters in payment. Well, I protested vehemently that I had not written any such letter and in talking to him this morning he said some Assistant Secretary of the Treasury wrote such a letter. Do you know anything about it?

L: Yes, it was written by Mr. Taylor, Acting Secretary of the Treasury.

HMJr: Do you know the date of it?

L: Why, I can get it - could you hold the line about two minutes?

HMJr: No, no - we'll find it, Admiral. What did he ask for?

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- L: He asked that we transfer or loan to the Coast Guard, I think it was six patrol planes -
- HMJr: Yes
- L: Because they were buying some patrol planes and they couldn't get delivery and they needed them for the work of the Coast Guard.
- HMJr: Oh -
- L: And this - the idea about the ship transfer was that Admiral Standley, before he left, -
- HMJr: Yes
- L: - told us that he had had a conversation with you and that there were some of the cutters -
- HMJr: Yes
- L: - that you were not going to use -
- HMJr: Yes
- L: - on account of lack of personnel or something and that you were prepared to turn them over to the Navy Department but that you would like to have some patrol planes. That's the word that Admiral Standley left here in a memorandum to me.
- HMJr: Well, let me explain to you, Admiral, that - this thing has been going on in a joking manner between Standley and myself for about two years, see?
- L: Yes
- HMJr: And he's been wanting - he's - every time he'd see me - "When am I going to get those two cutters?" - see?
- L: I see.
- HMJr: And then I'd say, "Well, when you give me some good planes."
- L: I see.
- HMJr: And this has been going on back and forth and then, to give you the background, the time when a request came through to hurry up and send some ships to Spain, somebody got the impression that when these - our new

cutter were built - that we didn't have the personnel to man them to send one to Spain. Remember, we first sent the Cayuga and then sent one of the new ones.

L: Yes

HMJr: And that was erroneous, as you know, because we sent them promptly and they did very good work over there.

L: Yes

HMJr: And this whole thing has been a sort of a kidding thing between Standley and myself.

L: Yes, sir

HMJr: And, we have the cutters, we can man them, we have great use for them. And, as I say, every time Standley would see me he'd tease me and say, "Now, when can I have those two cutters?" And he almost got them once. But, that's the whole thing.

L: Yes, sir. Well, I tell you, Mr. Secretary, I'll have Aeronautics look up and see if we have any patrol planes that can be spared and if we can we'll try to find them for the Coast Guard.

HMJr: Well, I guess that ans- - what this is is we're getting some new planes for our cutters and I guess what they wanted was a loan of these planes, wasn't it, that we were to replace them subsequently?

L: They asked either for a loan or for a transfer to the Coast Guard.

HMJr: That's what it was, but it said nothing about swapping for cutters in the letter?

L: Nothing whatever, no sir.

HMJr: All right. Because, if it did I'd fire the man who wrote the letter.

L: (Laughs) All right.

HMJr: All right, well, thank you. That's what it is. And this has been a sort of a kidding thing between Standley and I say, he almost kidded me out of them once, with the President.

L: Yes, sir, well, I'll tell the Secretary so he won't be mixed up in it again.

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- HMJr: Well, he knows, I think, because yesterday, I mean the President teased me about it and said if Swanson could trade me two cutters for five planes he was a good Secretary of the Navy and -
- L: (Laughs)
- HMJr: - and I'd admit I was a rotten Secretary of the Treasury.
- L: Yes - it sounds as though he was trying to drive him pretty hard bargain -
- HMJr: I think a little hard.
- L: (Laughs)
- HMJr: But, what we want to do is - and I want to say this while I have you, that in the last year we've felt here that we've gotten along splendidly with the Navy and I want to do everything we can to cooperate.
- L: Well, that's fine. And you can depend upon us for full cooperation with your Department.
- HMJr: Thank you, Admiral, thank you.
- L: All right, goodbye.

Sunday, January 31, 1937  
11:00 A.M.

Present: Mrs Klotz  
Mr. Bell  
Mr. Upham  
Mr. Haas  
Mr. Taylor  
Mr. Lochhead  
Mr. W. R. Burgess  
Mr. George Harrison  
Mr. Eccles  
Dr. Goldenweiser

H.M.Jr: Why not let's go ahead? Let's start with the latest figures. This has two purposes. First, we'll give you the most recent figures on our money needs and the question of whether we want to do anything immediately or in March. We want to take a look at that, and then after that we'll talk about how we'll handle the market together. So let's get started on our own stuff.

Bell: If we don't do any new financing whatever - that is, I mean raise any new money to make your financing operation, our balances will run down to 913 million at the end of January, 658 million at the end of February....

H.M.Jr: Just a minute. End of February, 650?

Bell: 658.

H.M.Jr: 658, yes.

Bell: 858 at the end of March.

H.M.Jr: End of March, how much?

Bell: 858 million.

H.M.Jr: Yes

Bell: 533 million at the end of April.

H.M.Jr: Just a minute, I'm writing. End of April...

Bell: 533 million then. 288 million at the end of May, and go out of June with about 500 million dollars.

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Burgess: That's without raising any new money in June.

Bell: Yes, and that provides for paying off the 300 million in bills maturing on March 16 to 18. That would indicate that we'd need a minimum of 300 million dollars additional money. If we did raise 300 million additional money, that would raise those balances by that sum. So that the low point in that period would be the end of May, 288 million if you do not finance, and 588 million if you do raise 300 million dollars additional money.

Burgess: Are those pretty liberal estimates on expenditures, relief, etc.?

(Eccles comes in)

Eccles: Good morning.

H.M.Jr: Are you bringing anybody?

Eccles: Goldenweiser was coming. He said he'd be here. Isn't he here yet?

H.M.Jr: (Looking under desk) I don't see him.

Eccles: He may be over at the office. I don't suppose I was to meet him over there.

H.M.Jr: (On phone) If Dr. Goldenweiser is over at the Federal Reserve Board, ask him to come over here, please. Thank you.

Just roughly, do that again for Eccles, will you please?

Bell: If we do not have any....

H.M.Jr: Want to get this - I mean run over this thing.

Bell: ...new major financing in the next five months, our balances will run down to 913 million on January 31, 658 million at the end of February, 358 million at the end of March, 533 million at the end of April, 288 million at the end of May, and about 500 million dollars at the end of June. That would indicate that

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we'd need at least 300 million dollars of new money, and if we get those 300 million those balances will be increased by that amount.

(Goldenweiser comes in)

In answering your question, Dr. Burgess, I think the emergency expenditures are rather liberal, and yet they contemplate some reduction in the W.P.A. expenditures, as Harry Hopkins has indicated to Congress, but not going quite as far as he has indicated.

H.M.Jr: (On phone) Hello. Well, he just came in. Thank you.

Golden.: I apologize, but I found it took longer to park than I expected.

H.M.Jr: Well, I'm sorry about that.

Bell: The expenditures include about 30 million dollars a month for gold. That may be small.

H.M.Jr: 30 million a month for gold?

Bell: Yes, sir.

H.M.Jr: Well, you're way low on that.

Bell: Well, it dropped off a little.

H.M.Jr: Not the last week, have they?

Lochhead: Well, private imports have been dropping off a little bit. But of course you did get a jump; there was about five or six million miscellaneous stuff came in one day last week privately. As you say, it may be....

Bell: As an average.

Lochhead: It is something that is pretty hard to figure on. Certainly will need at least 30 million.

Harrison: That strikes me as being low. Isn't it true that our imports of capital, both for security account and balance, have been running around 25 or 30 million a week, and our last report was 30 millions

- 4 -

of dollars for one week.

Bell: Well, of course you're getting about 100 million dollars in January of gold, but I didn't think that would keep up.

H.M.Jr: I think you've got to figure on a hundred million a month.

Bell: Do you really?

H.M.Jr: That's what I figure.

Harrison: Until there is a little more change in the picture, I should think that would be a wise amount to figure on. Wouldn't you, Marriner?

Eccles: Well, that 100 million in January covered the movement of some of the gold that had already been purchased by the Fund, and was really a purchase from the Fund, and you couldn't consider it a normal movement.

H.M.Jr: Well, only about 20 of it.

Eccles: Well, about 80 would be the normal movement. I don't think 30 is enough. Of course, 100 - that would be safe.

Lochhead: The week before last, the engagements dropped off rather sharply. Then they started against last week picking up.

H.M.Jr: Well, we did 12 million one day there for the Bank.

Lochhead: Outside of the private engagements. It picked up because Switzerland and India both came in last week.

Harrison: It may well be that the recent action of the Board of Governors may slow up the movement for a security account. I would hope so.

H.M.Jr: Well, you mean in this figure of 658 throughout March...

Bell: 858



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H.M.Jr: ...you are only figuring on 30 million of gold?

Bell: 30 million every month as an average of gold.

H.M.Jr: This is the way I've sort of divided the thing. We're going to do the money first that the Treasury needs, Marriner, and then after that we'll take up how we'll handle the market. If that is agreeable to you.

Eccles: All right.

H.M.Jr: On account of my going away tonight. The first question is should we do anything between now and March? We have talked about it. Should we, for instance, sell any more bills for June, and - the talk we had Friday was that - people here felt that we oughtn't to do anything next week, waiting to see what effect this move had; not do anything until I got back a week from Monday and then take another look at it. Now, is that wise or isn't it wise? I mean ought we announce next Wednesday that we're going to start selling bills maturing the 15th of June or should we wait a week and do nothing?

In view of our picture that Bell figures we'd go out of March - what will we have about the 14th of March, Dan?

Bell: We'll have about 675 million, a little more than you go in March with.

H.M.Jr: About how much?

Bell: 675, and you go in with 653.

Eccles: That's the end of March?

Bell: No, the middle.

Eccles: That's before taxes.

Harrison: And before paying bills.

Bell: That includes some taxes, whatever comes in between the first and 15th.

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- Eccles: Those bills are what dates?
- Bell: The 16th, 17th, and 18th.
- H.M.Jr: Well, Burgess, supposing we announced Wednesday or Thursday we are going to sell another bill. Do you think it would be wise or unwise?
- Burgess: I'd give the market at least a week to settle down. I think that's wise. See where you're at. There would be some shift in rates, I think.
- Eccles: You've got plenty of balance so a week isn't going to make much difference, is it?
- H.M.Jr: No, I thought that you people might want to say, "Well, you'll announce that you'll sell bills to offset gold sterilization," and I didn't know whether you people might say, "Well, we'd like you to go ahead with that program."
- Eccles: Well, if you - it's a question of selling bills just for that purpose... I mean if you - What would you do? How much would you sell - 50 million?
- H.M.Jr: (Nods yes)
- Burgess: You wouldn't earmark them for that purpose anyway.
- H.M.Jr: No.
- Eccles: Well, personally I don't think it makes much difference, Randolph. I think that the fact that 25 percent is being effective at the end of the month and the other is 90 days off - I don't think it is going to make very much difference immediately on your market.
- Burgess: Well, I did think it would make some the first week. I think the second week you'd be perfectly safe.
- Bell: 17th. Wait for the 17th.
- Burgess: Yes, I'd give the market a chance to take it for a week.
- Eccles: I'd say, as far as Reserve is concerned, whether you

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sold bills next week to sterilize gold or the following week wouldn't make much difference.

- H.M.Jr: Well, I wanted to be sure of that. I didn't know. Thought maybe you had some program in mind.
- Eccles: No, it wouldn't.
- H.M.Jr: You don't care?
- Eccles: No.
- H.M.Jr: Well, we don't care here.
- Eccles: The general way it would suit your own arrangement best.
- H.M.Jr: Well, unless the Treasury people that I talked to have changed, we all were in agreement we ought to do nothing other than just stand by for a few days. Have you changed, Wayne?
- Taylor: No, feel so even more strongly than I did.
- H.M.Jr: George?
- Haas: I feel the same.
- Lochhead: (Nods yes)
- Bell: I feel the same way.
- Burgess: I think the market wouldn't know just how to bid just for a few days, so it's better to wait a week.
- Harrison: You might establish a wholly artificial rate by pushing it this week.
- H.M.Jr: That's what our boys said.
- Eccles: You wouldn't likely get the lowest rate this week.
- Burgess: Well, you might get a lower rate next week than this.
- Eccles: That's what I said. You'd pay more this week than you would next.
- H.M.Jr: Wayne?

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- Taylor: I'd also want to stay out for two weeks if it comes down to this.
- H.M.Jr: Well, if we do that, then I'd like to stay out until after the 15th of March, because otherwise we're going to find ourselves started and we're not going to be able... If we're going to sell bills, we'd at least want to sell 200 millions.
- Bell: It wouldn't make much difference. I think 200 would be better than 100.
- Burgess: I would think you ought to have more bills maturing in June than you had in March. That is, this new program will be effective May first completely, and then we begin to work with the market with much narrower margins, where you have to figure a little more closely. So you really need in June a larger volume of maturity to take up your income taxes. 300 million in March will only take up, say, a third of your income taxes; I don't know just what it will be. But I think it would be better when you come to June to have four or five hundred million maturity. Then....
- H.M.Jr: How you going to do it?
- Burgess: You can do it with Treasury bills of four hundred million. You can do that in two months' issues, can't you?
- H.M.Jr: Yes, but you wouldn't want me to start the first, let's say, the middle of February and then have this bill business running through March, in case we're going to do financing in between the first and 15th of March, would you?
- Burgess: I don't think that makes very much difference. Don't think so.
- Bell: You don't need that much. Without any financing whatever, we only begin with 225 million in June; we only take 225 million out of the market.
- Burgess: But you take - the week of the 15th you're taking 500 million out of the market, aren't you?
- Bell: Well, it levels off pretty well. We've got 150 million

- 9 -

dollars worth of interest to be paid during that first ten days there.

Burgess: Yes.

Eccles: But you'd be getting in....

Bell: 200 would be all right, 300 would be fine. We only gain a little over 200 million dollars in the month of March; we've got 300 million maturing.

Burgess: Well, that's for the whole month. You've got a lot of expenditures during the month. If you take that single week, you're going to take a lot of money out of the market. And I think we've got to be able to figure this more closely than we have heretofore.

Eccles: Wouldn't make any difference when you had very large excess reserves, but when you get down to two, three, four, five hundred million and you take it out of the market on the tax dates, if it is only for a few days - and unless you have maturities to put it back in, you create thereby a tight market for maybe a week.

H.M.Jr: But you might as well get it out of your head; we won't sell four or five hundred million dollars worth of bills into the 15th of June. I mean the program just doesn't call for it.

Harrison: It may mean we have to go into the market a little in June.

Bell: I think that's right. I think you're going to have to do that right along.

H.M.Jr: I mean you might just as well get that... Between two and three hundred million....

Bell: Three hundred million is what I....

Burgess: I don't think 300 is bad.

H.M.Jr: Well, when you were talking four or five hundred - it's just out of the picture.

Burgess: You mean you don't need that much money?

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- H.M.Jr: No.
- Burgess: Well, you do if you have a hundred million in gold a month.
- Harrison: Mr. Secretary, you said a moment ago that, other things being equal, perhaps you might go until March without issuing any new bills.
- H.M.Jr: Yes.
- Harrison: Would that be consistent with your announcement to sterilize imports of gold?
- H.M.Jr: No, it wouldn't, and that is why I wanted this meeting. No, it wouldn't. It would not. It is also inconsistent with the policy that I want to keep a working balance of a billion dollars.
- Bell: That's right.
- H.M.Jr: I mean normally I'd go right ahead and start now. I would have started a week or ten days ago. We had it all figured out that we were going to do this thing right through, get two or three hundred million and get it out of the way by the first of March, and not have it interfere. But we've sort of been sitting back and waiting for the Federal Reserve Board. And now that we've waited this long, there is the question of the advisability of doing anything next week. And then some other authorities would want this hundred million dollars a week running through the first and 15th of March. Burgess has said so often you can't watch more than two balls in the air at the same time.
- Burgess: Well, if in March you are simply refunding your April notes, it is such a small operation that I think you could carry on your bills anyway. But if you have a financing in March, with a billion and a half or billion of new cash, as we have sometimes had, it would be a problem, where you have to give it leeway. But if you are not raising any new money....
- H.M.Jr: Well, we don't know. We haven't said. We don't know. I mean we might want to pick up two or three hundred million dollars of money in March.
- Burgess: Well, even so, I don't think that is...

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- Bell: You've got to pick up some money either March, April, or June.
- H.M.Jr: In addition to the bills?
- Bell: Yes, the bills mature in this year, so you've got to pick up money to replace your General Fund balance, paying off the bills.
- Eccles: What do you figure on your bills falling due in March? Are you going to pay those and not issue bills to offset?
- Bell: Going to pay off the 300 million out of the Internal Revenue receipts, and the bills that we issue in the next month we contemplated having mature in June, pay those off out of the Revenue receipts. But we've got to replace some of that money.
- Eccles: But you wouldn't issue - you'd have 300 million that you'd pay out of Internal Revenue receipts, and you wouldn't issue 300 million of bills between now and that time?
- Bell: Might not.
- Eccles: If you could, it would be...
- Bell: That's what we contemplated doing.
- Eccles: Yes.
- Bell: But...
- H.M.Jr: You fellows upset our program to the extent that we have sat back and done nothing, and I'm letting my balances run down and I'm not going to do what I said I'd do about offsetting sterilization of gold.
- Bell: I think you have done that up to date, Mr. Secretary. You have had 150 million dollars issued of Treasury bills and you have only sterilized 125 million of incoming gold. Now, as I recall your announcement, you said you'd issue Treasury obligations. Well, even United States Savings Bonds are Public Debt obligations and can be used for that purpose.

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Taylor: It was particularly brought out that you weren't going to do it in exact amounts anyway.

H.M.Jr: How many Treasury bonds....

Taylor: Savings Bonds, little over 90 million. Haven't got the last two days on that yet.

H.M.Jr: Well, that's triple what you did before. It was running about 30 million.

Taylor: It will run off now. But there will be some carry-over.

H.M.Jr: Well, I - go ahead, Murriner.

Eccles: I was going to ask you do you figure refunding your March notes - I mean your April notes - in March?

H.M.Jr: No.

Eccles: You don't.

H.M.Jr: No.

Bell: That depends largely on what you do with your bills or how we...

H.M.Jr: All we can decide today is will we do anything next week, and does anybody here think we ought to sell an extra 50 million dollars worth of bills next week? All right, then that's - then we won't. Then when I get back a week from Monday we can talk about are we going to sell bills, and then we can again talk about the March financing and the April. See? And I think what we ought to do - we ought to make plans now.... I keep getting confused; did I say I was going to New York Tuesday night?

Mrs Klotz: You said Monday night or Tuesday.

H.M.Jr: I think it would be better Tuesday night. Couldn't we meet here Tuesday morning and have another talk?

Burgess: What Tuesday is that?

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



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Burgess: I was planning to spend the week in Bermuda from the sixth to the 15th. That doesn't necessarily...

H.M.Jr: Harrison, could you be here?

Harrison: I'll be here.

H.M.Jr: Could you be here?

Harrison: Yes, I'll be here.

Eccles: All right with me; I expect to be here.

H.M.Jr: Well, why not say - put down 11 o'clock Tuesday.

Harrison: You say you're going up to New York?

H.M.Jr: I've got to go up and testify at a forgery trial at New York on Wednesday. This man forged my name to that Red Cross contract - \$250,000 contract - forged my name. I mean they can't convict him unless I go, and I feel that it's important enough so I'll go up, just long enough to testify and come right back. Well then, don't you think we could do it again Tuesday?

Eccles: Tuesday would be a good day for me. I have a regular meeting Tuesday, but it wouldn't be necessary for me to be there. Board has a regular routine meeting Tuesday morning. But that's - Tuesday would be all right. We can put that up to another time if there is anything special; otherwise, go ahead without me, which they often do.

H.M.Jr: Yes. No other Board member being here, we'll take your word for it.

Eccles: (Points to Goldenweiser)

H.M.Jr: I think we want to be awfully sure how we do this thing. Huh?

Eccles: Well, it's a - this is a....

H.M.Jr: You know, I'm surprised that Burgess is so slow on the trigger. I thought he'd say, "Why don't you hold

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your meeting in Bermuda?"

Burgess: Well, I'll be glad to make the suggestion, at the expense of the Treasury.

Eccles: That's something like it.

Burgess: At the expense of the Treasury, of course.

H.M.Jr: Well, at the expense of the Federal Reserve Board of Washington.

Harrison: I think the rest of us were slow on the trigger.

Haas: We all need a week down there, don't we?

Bell: You could postpone the meeting of the Board then, couldn't you?

Eccles: Wouldn't be a bit of trouble.

Harrison: They may have to go to Bermuda by next Tuesday.

Eccles: Now I can see why George has been on the side he has. He thought possibly he'd get rid of the Board. I thought he really had an interest which - a public interest in this thing; but apparently it is something else.

Harrison: I don't admit that those two are inconsistent.

(Hearty laughter)

Eccles: That just depends on your point of view. It depends on whether you live in New York or somewhere else.

Burgess: Get himself out of the country too.

Eccles: That's right, depends on where you live.

Harrison: I hope this all doesn't go into the permanent record.

H.M.Jr: George, anything you got? What you've got now, is it good for next Tuesday? I mean in view of what - we're not going to do anything, you want to say...

Haas: No. Just in case, I made these charts up, if anybody wants to take them along.

H.M.Jr: No, I think we'll let it ride. Don't you think so?

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Haas: I think so.

H.M.Jr: Now, so you gentlemen will understand, the set-up that we have here in the Treasury during my absence is this: questions of Government bonds, foreign exchange, I've informally appointed a committee of three, of which Taylor is the chairman, Lochhead and Bell; and they're going to meet three times a day, 9:30, 12:30, and 4:30, while I'm gone, and they'll be responsible as far as the Treasury goes for Government bond market and the foreign exchange market. I thought that your people would like to know that in New York.

Harrison: May I ask again who the three are?

H.M.Jr: Taylor, Bell and Lochhead.

Harrison: Taylor, Bell and Lochhead.

H.M.Jr: They meet three times a day in Taylor's office and they'll be responsible for the Government - for the Treasury's end on Government bonds and foreign exchange. The reason I explain that is because Magill will have nothing to do with that end of it when I'm gone. We'll run it in that manner. So anything that Burgess wants or Knoke wants, or the Federal Reserve Board - if you'll handle it through that committee for me... they'll be the ones to contact while I'm gone. I think it will work all right.

Now, Dr. Burgess, the floor is yours as to what you are going to do to hold up the hand of the Federal Reserve Board beginning Monday.

Burgess: Well, in the first place, I don't...

H.M.Jr: In what capacity are you speaking now?

Burgess: Observer of the market. As an observer of the market.

H.M.Jr: I'd say as co-agent.

Burgess: Yes.

H.M.Jr: How's that?

Burgess: Yes, just so. I don't think in the first place there's

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going to be very much disturbance this week. I think that this program makes it so clear that there's plenty of time to adjust that I think the adjustment will be gradual - what there is. I suspect the market may be somewhat weak. I would suggest we'd follow just the same procedure that we have been following, Mr. Secretary, of having bids in the market, of keeping it orderly; if it gets sliding very rapidly, to increase the size of the bids so that you have some resistance; that our function is to maintain an orderly market rather than to try to peg it.

And I think we should buy jointly. Now, whether we should do fifty-fifty on each issue or whether you should indicate some issues you'd rather have - that's a detail I think...

- H.M.Jr: Well, I want to raise the question about notes. How do you people - how does the Board feel - the System feel about that?
- Eccles: You mean increasing their holdings of notes?
- H.M.Jr: Yes.
- Eccles: Well, of course we haven't changed the volume in the portfolio at all. It's been a question of shifting. But we have given Burgess sufficient power that he can do shifting from notes to bonds and bonds to notes, or...
- Burgess: Bills to notes, notes to bonds.
- Eccles: He's got a leeway there. Depends on what the market situation is. It isn't a question of what we'd prefer in the portfolio.
- H.M.Jr: I don't know that I made myself clear. I think I know what Burgess has in mind as far as we are concerned, from our accounts, from purely the investment standpoint; we are only interested in bonds.
- Burgess: Yes.
- H.M.Jr: See? Now, if you say to us you'd like us to go fifty-fifty on the notes, we'll do it. But from a straight investment standpoint, from our trust funds, we are not interested in notes.

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- Burgess: Why couldn't we take the day's total... Suppose we bought ten million of obligations in a day. Suppose two of them were notes and suppose eight of them were bonds. Suppose we took five million of the total; that's half the total. But we would take all the notes and three million of the bonds, you taking five million bonds.
- H.M.Jr: Well, that would be, from our standpoint, more than satisfactory.
- Lochhead: Don't you think that it might more likely - that you will find two million bonds and eight million notes, rather than the other way?
- Burgess: Well, I think that it might - we might find they were about equal, notes and bonds.
- Eccles: Notes have discounted quite a bit. They've been going off for a month.
- Lochhead: Yes, they have for a whole month. They've been working. But I still feel that just the same pressure will be there - the pressure in the preliminary stages will be on your notes rather than...
- Taylor: But the bonds want to act all right. Don't you think so?
- Lochhead: I was just mentioning it would probably be the other way around. Fifty percent would not be in bonds. It would possibly be more notes than bonds, and then the Treasury would have to take some notes also.
- Burgess: You can divide your whole scale of operations. Here's the notes and the intermediates and the long terms. You can divide it in the middle and give you the longer bonds and come down to a dividing line, wherever it falls, to make half each way. We'd be taking notes, shorter bonds, keep going up just as long as necessary in order to get our half.
- H.M.Jr: Well, don't let's get it too complicated.
- Burgess: Yes
- H.M.Jr: Don't let's get it too complicated. Why not stick to your first formula on the ten million? If you take

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all the notes as part of your half.... If at the end of the first day it doesn't look workable, the boys can get me on the telephone in thirty seconds.

I'd say - now this is what happens the first day - I mean I have a direct wire - "We have talked to Burgess and this doesn't look fair; we've got to make an adjustment." But if it works out all right, I think it is much simpler. Otherwise, you're going to have a lot of mathematics.

Burgess: We can work it pretty easily. We know what you want. You want the longest bonds and the highest yields. We can divide the purchases fifty-fifty for the total day's purchases and give you just as fully what you want as possible; you may have to come into intermediate bonds some, but we can give you the longer things and we can tend to take the shorter things.

Taylor: What accounts would we buy the notes for if we did buy them?

Bell: Buy them for Postal Savings. But should you get rid of them in a short time...

Eccles: ...you'd lose money on that, and it wouldn't be an investment. Better for us - even if we have to take more than half of the total, I would think that if it is a weak note market and you get far more notes than bonds, we ought to take care of the notes.

Bell: I think so.

Harrison: I feel so very strongly.

Taylor: We'd have a devil of a time explaining to anybody what we wanted with notes.

H.M.Jr: Well, I feel that way, but I wanted that suggestion to come from you fellows.

Eccles: Well, I think the Treasury is investing funds and they are not buying; if they went into the note market, they'd be wanting to get out of the note market and then you'd have the problem again as to how you're going to get out.

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- H.M.Jr: I was hoping that you people would make that suggestion, and I'm tickled to death you did. So it's all right and then I would suggest that you take care of the notes. And why don't - why wouldn't this be - why don't we try it this way, so as not to get it too complicated; why not for this coming week - why don't you take care of the notes and let us take care of the bonds? Why isn't that the easiest thing?
- Eccles: That's all right.
- H.M.Jr: What?
- Eccles: That's all right.
- H.M.Jr: And that can be changed any day. What do you (Harrison) think of that?
- Harrison: I think that's infinitely better than any arrangement which presupposes that the Treasury is buying as a part of stabilizing the market. You are buying for investment and I think the record is a lot clearer if this program makes it certain that your purchases are for investment and not as a part of controlling the market.
- H.M.Jr: Well, there is even - there is more significance in that. I think as time goes on you people certainly look ahead for three, six months - will have to do more on the notes as a credit operation.
- Eccles: Well, particularly in the bills.
- H.M.Jr: I'd say in the bills also.
- Eccles: Oh yes.
- H.M.Jr: So there is all the more reason to establish this precedent that you fellows will operate in the notes and bills and we'll do it in the bonds. Now, if from our motives from the Treasury standpoint can be easily explained and sustained: we need bonds for investment; we don't need notes and bills.
- Eccles: Then you arrange your investments so as to stabilize the market as much as possible.

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- H.M.Jr: From every standpoint I think it would be much better. Certainly you can always change it every day. Now, I don't know who is guessing right, whether there is going to be more - whether you'll have to buy more bills or more notes or more bonds. But certainly, going into the thing tomorrow, if we do buy the bonds and you fellows do the rest, I think from every standpoint it is the consistent thing to do.
- Harrison: It is the only logical arrangement, I think, this week.
- Eccles: Over a period you'll buy more notes, I think; over the period of a month or so. You get days - you may get a period when you buy more bonds; but it would seem to me that certainly for the coming week this sort of an arrangement ought to be satisfactory. It ought to be the best arrangement. Then if we are going to meet again next Tuesday, why, we can discuss and see whether or not we want to continue with that arrangement of us taking all the bills, the Treasury take all the bonds - I mean all the notes and the Treasury the bonds.
- H.M.Jr: Well, the whole point is, frankly, since the 15th of November, which is two and a half months, I've worked harder than I have - my responsibilities have never been greater; I'd like to go away feeling that this thing is set and I don't have to worry about it, and that's why I asked you gentlemen to come down on Sunday. And if the thing is unfair for either side, it can be changed any night. But I think it is - like I said before, I'd rather, if possible, have the thing stick for a week. But if it is unfair, it can be snifted any night. Huh?
- Taylor: Unless something very unusual happens, that ought to be good for a week.
- H.M.Jr: I mean you'll have time to look around from day to day and so and so, but I think it is certainly desirable to say, "Let's do it that way for a week and look around and see where we are."
- Harrison: Can't be anything very unexpected, very unusual, or very drastic; if it should happen during the course



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of the week, we could get in touch with the Secretary even before next Tuesday, on the telephone.

Bell: Do you contemplate increasing your portfolio? Or is this a shift?

Eccles: Yes, it is largely a shift. If we need to, we've got authority to increase the portfolio to six hundred million. But I - then we've got enough contemplated, and if the 50 percent reserve requirement had been made effective by the end of February, the first of March, all of it, we would have had a question of increasing the portfolio substantially during March. But with the postponement of that 25 percent, there will be excess reserves of a billion and a quarter, billion three hundred million, in any case, so you will have sufficient excess reserves, I think, so that I doubt if we'll have to increase our portfolio for that. Of course, you may get a market situation where you can't make shifts of enough to cover entirely. Do you think we will, Randolph?

Burgess: I don't think - I think we can cover it with shifts.

Harrison: Of course, our shifts would not be from bonds to notes if we are supporting the note market, if at the same time the bonds are weak, because then we would be worsening a bad situation; we would have to shift from bills to notes and not from bonds to notes.

Bell: Do you get the full effect when you shift?

Burgess: Oh yes. You see, for the short bills there is always a market. We've got maturities of bills running along twelve, fifteen million a week. We can first buy against our maturities and then there is a very good market always for the shorter bills maturing within the next couple of months.

Bell: In long shifts, do you put in or take out any more money from the market?

Burgess: No.

Bell: How can you get the full effect of it, then?

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- Eccles: The market isn't weak because of a shortage of funds in the market. You'll have a billion, two or three hundred million of excess funds in the market until the other 25 percent increased reserves goes into effect; you'll have an abundance of funds in the market.
- Harrison: We may have to do what you want, Mr. Bell, after the second increase takes place in May.
- Eccles: I think that's different.
- Harrison: But I think with this first increase, as the Chairman points out, you still have such a large excess of funds in the market that the shift ought to be adequate.
- Bell: Well, it is true, taking the market as a whole, there is plenty of funds; but the weakness of the market is caused by adjustments largely and the people that are going to make the adjustments haven't got the funds. Isn't that right?
- Eccles: Well...
- Burgess: Yes, but there are other people available.
- Eccles: You won't have any trouble on your adjustment until after your adjustment in May, first of May. Then at that time we may have to increase our portfolio temporarily. But I don't think it will come until you get to that point. I think you'll be able to see that for a period of several years all the support has been given through switches, and I think that...
- Bell: Yes, I realize that.
- Eccles: ...and I think it is possible to continue that as long as you have a billion or more excess reserves. When the other 25 percent goes into effect and the excess reserves drop down to four, five hundred million, then I think you may have to - it may be difficult to support the market through merely shifts.
- Bell: I raised that question because I just wondered how far we can go in our operations. Our funds are limited; that is, the funds available. We haven't

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got these special securities that we can redeem.  
If you want to do that....

H.M.Jr: Well, we've got that....

Bell: I should say we couldn't rake up more than 40 million dollars.

Burgess: But if you cancel some of those notes, you break up....

Bell: I say unless you want to go into some of those notes.

H.M.Jr: Well, I give you people here authority to spend up to 100 million dollars cancelling that Postal Savings note.

Bell: All right.

H.M.Jr: I give you authority up to 100 million dollars. No reason why Postal.... What?

Bell: That's all right.

H.M.Jr: Wayne, you've got authority up to 100 million cancelling as much as necessary of that two percent note of Postal Savings. So you're all right. What? That gives you enough to keep the wolf away.

Bell: I shouldn't think we need that much, but we certainly will have to have a part of it.

Taylor: I'm certain we won't need that, because I'm thinking the long term market, the bond market, is the one that wants to act all right anyhow.

H.M.Jr: I don't think you're going to get very many bonds. I don't think you're going to get many.

Bell: I should think that this action has largely been discounted and when it comes in the form that it is coming I think they'll be pleased rather than shocked. Don't you (Burgess)?

Burgess: Yes, I think the adjustments will be slow and minor.

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- Harrison: I think it may prove to be a great relief. You conceivably might find bonds strong. You may find that it won't be wise for the Treasury to buy bonds at all and that the shift will be from bonds in our account to notes. My earlier statement that the shifts should be from bills to notes was predicated on the assumption that both notes and bonds are weak. But if by some strange circumstance the bonds are strong and the notes are weak, then perhaps the wise thing would be to have the Treasury out entirely.
- H.M.Jr: And sell Treasury the bonds?
- Harrison: No, I say have Treasury out entirely and have us supply the bonds to the market and take notes in our account.
- H.M.Jr: But you wouldn't sell us any of our bonds?
- Burgess: If legally possible. You could trust us, but...
- Taylor: The only answer to that is by looking at the yields.
- Eccles: You can buy bonds from us, but we can't buy bonds directly from the Treasury.
- Burgess: No, we can't sell them bonds - purchase or sell.
- Harrison: That's the reason, frankly, Mr. Secretary, that I like this arrangement; that is, that we take notes and you bonds. I don't think Burgess ever ought to be in the market for bonds for both our accounts, the distribution to be determined at the end of the day. I think it ought to be determined in advance, just to avoid the possibility of any conflict of interest on the record.
- H.M.Jr: Well, there can't be any conflict.
- Golden.: Randolph, haven't the bonds been advancing pretty rapidly in the last...
- Burgess: Very. The New York banks in the past week have made a lot of adjustments.
- Eccles: New York is the only point where there is any deficiency at all.

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- H.M.Jr: How have they adjusted themselves? What have they done?
- Burgess: They've been selling a few Governments and calling a few loans and working up their reserves here and there. Of course, they've been helped by the flow of funds; that is, the natural increase in New York reserves brought it up from a little over seven hundred to eight hundred million.
- Eccles: The New York banks as a whole have adequate reserves to meet the 50 percent, but there was a deficiency of a hundred million in the case of those that were deficient; but there was an excess of more than a hundred with the rest of them. So it is merely a question of - it's been a question of shifting, and it hasn't depressed the market, because those with excess, of course, have merely been taking on the notes and bills of those who were short.
- Harrison: A lot of this adjustment, too, Mr. Secretary, will take place in the call loans. Now, these New York banks as a whole have over seven hundred millions of call loans and, as the Chairman points out, there being an excess of reserves in the hands of a number of banks in New York, they would probably be glad to take over those call loans from those banks that need to build up their reserve position. That would be particularly true if, as is likely, they increase the call loan rate tomorrow, which I wouldn't be surprised if they did.
- H.M.Jr: From what to what?
- Harrison: One to one and a half.
- H.M.Jr: What is it now?
- Harrison: One. And I don't think that would be bad, Mr. Chairman; I don't know how you feel about it.
- Eccles: No, that wouldn't hurt my feelings a bit.
- H.M.Jr: To whom do they lend the call loans?
- Burgess: Brokers.
- Harrison: Brokers and dealers who were borrowing on security.

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- Burgess: The Government dealers borrow over a hundred million now on call.
- Eccles: It doesn't hurt the market anyway to raise that rate a little.
- Burgess: No, it's a good thing.
- H.M.Jr: There's one thing before we adjourn that I want to bring up. Now, Wayne, as far as I'm concerned, all I'd like to see Burgess do is keep an orderly market, see, in all the bonds. I mean I don't want to see anything particularly - just keep this thing orderly.
- Bell: You want to keep under the market as usual?
- Taylor: Spread it around wherever it looks like it needs it.
- H.M.Jr: I'd leave it to Burgess - orders under the market, the way he always has. I mean I wouldn't handle it any differently than we have before. I mean I personally don't look for very much disturbance as far as the bonds go. I don't know enough about the positions in notes to know what they'll do, but certainly as far as the bonds are concerned...
- Eccles: Well, we did all we could in the statement to help the long term market.
- Burgess: Well, I think it was a great advantage having the final adjustment at a distant date so everybody would think of himself as having plenty of time to turn around; that he wouldn't go pushing stuff out.
- H.M.Jr: Now, if this is clear I want to talk on another matter. Has anybody from Treasury got any questions? Wayne?
- Taylor: (Nods no)
- H.M.Jr: Dan?
- Bell: No, sir.
- H.M.Jr: Anybody? All right.  
Well now, I want to talk here a minute about this

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French railroad loan and tell just what happened.

In a most informal conversation we were sounded out by the National City as to just how the Government felt on the possibility of their London-to-Paris branch participating in that loan. And, very confidentially, I felt like I do on any of these really important things - that I ought to ask the President, which I did. And his answer was that he didn't know about what the legal situation was, but as far as the spirit of the Johnson Act was concerned, he would interpret it that an American institution to participate in this loan - it was contrary to the spirit of the Johnson Act.

Well, at 7:30 on - was it Wednesday or Thursday, do you remember? - Feis....

Lochnerhead: Thursday.

Mrs Klotz: I think Thursday, that's right.

H.M.Jr: ...Thursday, Feis called me and it was the first I'd heard that the Chase had been doing the same thing over in State Department, and they took an entirely different attitude. They said that they had asked the Attorney General as a legal matter and the Attorney General refused to give them an opinion, and they sort of left it as though they didn't have any objections. Well then, I told Feis, said, "Tell the State - Mr. Hull at once what the President's view on it is, that he felt it was contrary to the spirit." And then in Cabinet yesterday the President himself brought it up, and he feels very - has - how shall I say? - a very definite opinion that no American institution should participate in this thing. Then I told him about this law firm that you (Taylor) mentioned. What's it called?

Taylor: Sherman & Sterling.

H.M.Jr: And that didn't make him feel any happier.

Taylor: I've got another chapter to add to that.

H.M.Jr: He said, "You tell Wayne Taylor for me that he should

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call back Sherman & Sterling and remind them that a man by the name of Mr. Cuse also got a legal opinion and that that didn't do him very much good." And he says, "You tell Wayne to tell Sherman & Sterling just that."

Now, this is one of the times the President really feels quite upset about it, and I know on account of the State Department not letting me know and - what they did - because I asked Taylor to tell you (Harrison) and I just wondered if any American bank did participate.

Taylor: Why, here's the chapter that finished the other one. This man called me up the other day. Wasn't tied in with Sherman & Sterling; he was an attorney who also consults - I mean acts for this same bank. I gave him some background, so and so, about the spirit of the Act, that we couldn't express - I mean an opinion as to the letter of the law, etc., because nobody could, and the criminal statutes, etc. etc. And he was thinking himself in just the same terms that the President was thinking, so that what it amounted to was checking. I didn't tell him where the spirit - I mean the remark about the spirit came from. So he called up his bank in New York and they stayed out of the business.

H.M.Jr: What bank was that?

Taylor: I don't know.

H.M.Jr: Well, somebody said that they were attorneys for three banks up there.

Taylor: Yes, they are. But this particular crowd which was the one who came to me - and I don't know which bank he was acting for, because he didn't tell me; and they stayed out of the business.

H.M.Jr: Do you (Harrison) know who they are attorney for?

Harrison: Who?

H.M.Jr: Sherman & Sterling.

Harrison: Yes, they are the City and the Chemical that I know of.

Lochhead: The Bank of Montreal also, I think.



- Taylor: This bank would have been the Chemical. I'm sure it was.
- H.M.Jr: The Chemical?
- Taylor: I'm sure it was.
- H.M.Jr: Now, now can we find out whether any American bank did participate in that?
- Lochhead: First of all, on the weekly returns. I simply asked Raymond if he'd heard of anybody participating in any foreign loans. Not so far, he said. I told him I didn't want him to make any inquiries, but I wanted him to watch these weekly reports for any changes in any of the banks' investments abroad, and, if necessary, to ask questions as to what constituted the increased investments. But I told him I didn't want him to go out and ask anybody if they had made investments.
- H.M.Jr: Would that show up in his reports?
- Lochhead: Those are the total figures the banks would report on an increase in loans in the London market, and that's where the thing would probably show. But I have told him that I am asking him just simply to give very special attention to it, just try to determine any reports, if anything has come through. As I say, of course, you can always ask, but I didn't know whether you'd want anything to be done like that.
- H.M.Jr: Of course, I can do it through the Comptroller's office, but I don't know whether I want to do it.
- Lochhead: Well, you can do it under the Gold Reserve Act. You can go into as much detail as you want in the reports. But I didn't know whether you wanted to put a spotlight on anything by asking for that specially.
- H.M.Jr: Well, when I talked to Harrison a day or two ago, I didn't feel so keen about pressing it, just hoping it would come to light through ordinary channels. But inasmuch as the President does feel so, I now feel that I do want to know because he wants to know.
- Harrison: The difficulty of course, Mr. Secretary, is this: that all these banks up there have regarded it as their responsibility to determine as a matter of

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law whether the loans they made are within the Johnson Act or not, and I think that's quite right, because Washington has let them know heretofore they don't want to rule on the question of law. They haven't felt quite right to make up their own minds whether they are violating the law or not. The Guaranty Trust Company, under advice of its own attorneys, has from time to time in the past made loans on gold to the Bank of France. Some question whether that might be within the Johnson Act or whether it might not be within the Johnson Act. But they have taken the responsibility.

H.A.Jr: Well, with our knowledge and our backing.

Harrison: Yes, really.

H.M.Jr: I mean we stood back of them on that.

Harrison: So that I think if the Administration quite frankly feels strongly that these loans should not be made, there ought to be some general indication to the banks in New York that, regardless of what local attorneys might say, regardless of whether they are technically legally correct, the Administration would prefer the loans not be made. Then they know where they are. But at the moment they, I think, are justified in assuming that that is a matter of indifference to the Administration and that the responsibility has been put on the individual banks.

H.M.Jr: But you see what they do. They call up different people; they don't play fair with us. I mean now the Chase goes over to the State Department, the National City comes here, and then they have some attorneys representing another bank call up. I mean...

Taylor: Well, really that is about the only way they could do. I mean there isn't any central place, because they don't rule on that kind of a statute and they can't give an advance ruling on it.

Harrison: I think the explanation of the Chase going to the State Department is clear: that for a great many years the State Department has expected banks, before

making any kind of advance to any country abroad, whether within the Johnson Act or not, to acquaint the State Department with the facts - or if there were some governmental reason, whether the Johnson Act or some other reason - so the Government would have an opportunity to let them know; and if the State Department shook its head negatively, that ended the loan regardless of law. They went to the State Department on that theory, I think, rather than on the theory of the Johnson Act.

- H.M.Jr: Well, can you, in your capacity as our fiscal agent, make inquiries under the Gold Reserve Act?
- Harrison: Yes, if you ask us to. I think we could put it in our questionnaire, couldn't we, Mr. Lochhead?
- Lochhead: I think we'd have to make it pretty general. I mean what I'm afraid of is starting to pick out the information from...
- H.M.Jr: Word it so that it would apply to anything.
- Lochhead: That's what I meant. I think anything we do should be broad enough to cover any loans made to any countries in default.
- H.M.Jr: Why not make it retroactive to the first of January? See? Starting with the first of January. And cover it that way. Because I know the President's going to ask me, "Well, what about that," and I - when I go to see him, I like to be ready, that's all.
- Harrison: I hope he hasn't got the feeling that there's been any lack of cooperation in New York about it, because I feel they have done everything they could in the circumstances.
- H.M.Jr: No, he doesn't, but he wants to know; he wants to know.
- Harrison: And then, knowing he feels it shouldn't be done, I think it is only fair to the New York banks to let them know a great deal more directly than we have let them know.
- H.M.Jr: That's all right, but can you fix up this questionnaire to make it effective from the first of January, so that particular kind of business will show up?

Lochhead: I think it's just a question of revising....

Harrison: We can revise the current weekly report.

H.M.Jr: Which would cover last week.

Harrison: Which would cover last week. And they would have to list on a separate report any loans or credits advanced abroad since the first of January.

Burgess: what about acceptance credits?

Harrison: I said any kind.

Burgess: They'd be lumped in right with the others.

H.M.Jr: Who works that in New York?

Lochhead: Duprey and Raymond, but Duprey is out right now. Raymond works that, and I would say Raymond and Knoke together...

H.M.Jr: Is it agreeable to you that he works it out with Knoke?

Harrison: Quite all right. We are acting as your agent. Any kind of questionnaire you want.

H.M.Jr: Have you (Eccles) any objection?

Eccles: No, no, none whatever.

H.M.Jr: What?

Eccles: No objection.

Lochhead: The Export-Import Bank - very definitely asking them to make cotton loans.

Taylor: But they are exempted from the provisions of the Johnson Act.

H.M.Jr: They are exempted from the provisions of the Johnson Act?

Lochhead: The Export-Import Bank....

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Taylor: Specifically.

Lochhead: The last loans the Chase was making - is that tied in under the Export-Import?

Taylor: Probably the Chase acting as the agent of the Export-Import.

Harrison: But if you are going to ask these banks, as a matter of cooperation, regardless of the strict construction of the law, which you are not prepared to give, to cooperate and not make these credits to the countries coming within the Johnson Act, then clearly, even though the Export-Import Bank is exempted under law, I think they should be asked, as a matter of policy, not to make loans which the Administration has indicated they do not want banks to make.

H.M.Jr: I think that's perfectly right. And that would go on that Russian thing too.

Taylor: The Russian thing is another thing which hasn't got anything to do with...

H.M.Jr: Export-Import Bank doing business with Italy.

Taylor: They approved business with Italy certainly.

Lochhead: Italy as a government or private credit?

Taylor: Private credit, see? Now, that thing also is true in the question of this railroad loan, because the relationship of the railroads to the government is a rather peculiar one. The railroads have private stock ownership, but they....

H.M.Jr: But the money that they are getting goes back in the Bank of France.

Taylor: Well, that probably would be true. It eventually would get back into the Bank of France.

H.M.Jr: I want to know all the facts and then let's get all the things, put the whole picture on the President's table; not only this, but what any government agency is doing. But how can he keep track of all that? Now he's got an idea, see, and if you say, "This is so and so, but you know that your right hand is doing

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this" . . . . . Now, it's up to us. The thing that I've always done here is to get all the facts I can and give it to him and then let him make up his mind. And I don't think he's got the whole picture. He's got an idea, and he wants to know. Now, if he wants to, he is entitled to know.

At the same time, I think I agree with you we shouldn't say that a private bank in New York can't do something that a government financial agency can. I don't think we should draw that distinction. Are you (Taylor) in agreement? Do you agree with me on that?

Taylor: Well, the distinction was drawn at the time the Johnson Act was passed, so that Congress fully agreed with that position.

H.M.Jr: I know, but supposing, Wayne, that this is legal and this is the correct thing, but the President of the United States draws this distinction. Well then, shouldn't he also draw the same distinction for the Export-Import Bank?

Taylor: He ought to clarify the situation. I entirely agree with George on that.

Harrison: Mr. Secretary, after getting the facts, suppose that he finds certain credits have been given which are possibly and probably legal, for one reason or another, and if then he determines that he doesn't want the loans made anyway, it seems to me it is going to be a very difficult thing for the Administration to ask banks as a matter of cooperation not to make certain types of loans and to authorize them to make others, because the lines of differentiation are so difficult to determine that I think you may find the Administration gets into an almost impossible position.

H.M.Jr: But George, you will agree with me that the President is entitled to have all the facts.

Harrison: Oh surely.

H.M.Jr: All right then. Again, in this room, while he hasn't said so, unquestionably what he's got in his mind is a

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much more difficult and bigger problem. That is, what is he going to do in Europe in case Europe gets into a war? Now, that is unquestionably what he's got in his mind. And he doesn't want... The problem he's got to settle on how far he is going to let America go in selling raw materials to a country at war and let American business people finance - American banks finance the sale of that, is a much more difficult one, and if he can settle this thing in advance, the question of selling raw materials to European countries at war will be that much easier. Now, that is undoubtedly what he's got in mind. He's got that in mind. He's very much worried, and he hasn't been able to see the thing through. What are we going to do? Where are we going to stop? The question of Europe going to war and the sale and financing of raw materials. And that's why, knowing that he must have that in mind, I'd like to clear up this thing now. And I know that that thing is worrying him and it worries me. And that would immediately - I mean might just as well corral everything, R.F.C., Export-Import, the whole business, and let's get a policy. Be easier for us.

Taylor: Definitely.

H.M.Jr: What?

Taylor: Much easier.

H.M.Jr: And I think it would help over at the State Department, because certainly they have no policy over there.

Eccles: It's all part of a neutrality program that you can't - couldn't possibly make a consistent program without it.

H.M.Jr: No, but you see, Marriner, suppose you're in the banking business in New York; you call up the State Department and the answer is, "Well, we referred the matter to the Attorney General" - that's what they did - "and the Attorney General sent back word they don't give rulings on cases until they are in the courts." And then this fellow - well, he just doesn't know where he stands.

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- Eccles: Well, after you get all the facts, then of course you can determine on what clarifying legislation you need, if any. So it isn't a question of having - in other words, it isn't fair for the banks - for them not to know what they can do and what they can't do.
- H.M.Jr: And we would all help if we can do it before there is a serious question of....
- Harrison: There is nothing simpler, assuming they went to cooperate, as I believe they do, than to determine as a matter of judgment what is cooperation and what is not cooperation. We had that same difficulty when the State Department issued a request that American exporters comply with the spirit of the Neutrality Act and not export things that might be used in connection with war. And the question came up with the New York Banks: Shall we lend credit - give credit to a cotton exporter who is shipping cotton? And some of the banks said, "Well, if the Government doesn't want us to do this thing, of course, we won't, but we want a ruling one way or the other that would be applicable to everybody."
- H.M.Jr: I think the Administration has to clear up this thing.
- Eccles: Absolutely, which they haven't done.
- Harrison: We haven't even got that one question cleared up, as you will remember.
- H.M.Jr: I think - between the President and those people who are here, I think we can do a better job than the State Department can, because I think this is a purely fiscal matter.
- Eccles: There was a time when these matters were largely diplomatic, but today they are financial. It is far more than a State Department problem today.
- H.M.Jr: Quite frankly, I'd much rather have it clear and then be able to say to the Federal Reserve of New York, "Now, this is the position and if any banks call us up, we're going to refer them to you." I mean I don't like these private telephone conversations. They bother



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me a lot, and I don't like them. I don't like to have people calling me up.

Harrison: Especially if banks up there are going to get different reactions from different departments of the Government.

H.M.Jr: Exactly, and you know what they'll say amongst themselves.

Harrison: I've heard it.

H.M.Jr: Well, I think - I don't think maybe in this case, but I think in some cases they do it deliberately too.

Well, if you, Archie, and Wayne Taylor could sort of stimulate this thing and get this into a report, and also find out what, if anything, we have done with any country commercially or otherwise; then let's get the thing together. We can put it on the President's desk and say, "Here's the situation."

Taylor: That's what the Export-Import Bank has done with any country.

H.M.Jr: But it hasn't been brought to his attention.

Taylor: This Italian thing was supposed to have been.

H.M.Jr: Well, he's never done a thing like that since I've been here that he hasn't asked me about it, told me about it. Not once. I mean I don't know that anything like that has ever happened - Heavens knows we get enough memorandums which don't concern the Treasury - but anything like that that comes over, we get it from the White House. So - I mean I'd be surprised, very much surprised; it's possible. Anything's possible, huh? Anything and everything is possible, but I'd be surprised.

Marriner, anything you've got? Anybody at all?

Eccles: It's all right; no trouble this morning.

H.M.Jr: Yet. Well, thanks very much, and you can all go to church now.