

DIARY

Book 64

April 9 - April 14, 1937

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*The franc*

LONDON.--HEAVY SELLING DEVELOPED IN THE FRENCH FRANC AGAIN TODAY BECAUSE OF BELIEF IN SOME QUARTERS THAT A CAREFUL PLAN HAD BEEN INSTITUTED TO LOWER THE UNITED STATES GOLD BUYING PRICE FROM \$35 A FINE OUNCE TO \$34.45 AND PERMIT A SUBSEQUENT DECLINE IN VALUE OF THE FRANC.

THE FRANC WAS QUOTED AT 109 1/8 TO THE POUND AS COMPARED WITH 107 25/64 TO THE POUND YESTERDAY. RUMORS SPREAD THAT THE FRENCH CURRENCY WOULD BE PERMITTED TO DROP TO ITS PRESENT LEGAL LIMIT OF 112 TO THE POUND.

ALSO IT WAS NOTABLE THAT BAR GOLD WAS QUOTED AT 141 SHILLINGS, 9 1/2 PENCE, COMPARED WITH 141 SHILLINGS 11 1/2 PENCE YESTERDAY AND THAT THE QUOTATIONS WERE BASED ON "SUPPLY AND DEMAND ONLY" RATHER THAN ON ANY FIXED STERLING RATE.

THE BELIEF PREVAILED IN FOREIGN EXCHANGE DEALINGS THAT THE PURPORTED PLAN TO LOWER THE AMERICAN GOLD BUYING PRICE, WHICH HAS BEEN DENIED IN WASHINGTON, ALSO WOULD PERMIT THE FRENCH FRANC TO SLIDE ONE OR TWO FRANCS IN RELATION TO THE DOLLAR WHILE THE DOLLAR-STERLING RATE WOULD RETURN TO THE CLASSIC \$4.866 RATE.

WASHINGTON DENIALS OF ANY CHANGE IN THE AMERICAN GOLD POLICY HAVE APPARENTLY OUTFULED THIS THEORY, BUT FOREIGN EXCHANGE TRADERS NEVERTHELESS HAVE BEEN PROTECTIVELY SELLING FRENCH FRANCS.

4/9--R929A

April 9, 1937.  
10:30 A. M.

H.M.Jr: Hello?

Operator: Mr. Knoke. Go ahead.

H.M.Jr: Hello, Knoke?

L. W.  
Knoke: Good morning, sir.

H.M.Jr: How are you?

K: Fine; thank you.

H.M.Jr: Just - I - I've got a few of my people here; I want to talk to you a little bit. And they tell me that the gold - sterling is down to 4.88-11/16.

K: Yes, sir.

H.M.Jr: I wondered if you wanted to give me a little background and then we'd decide what we'd do about sterling.

K: Well, ah - let me say this. I put a call in for the Bank of England for 10:30 .....

H.M.Jr: Yes. If it comes you - you take it and hang up on me.

K: ..... to find out what has been doing in the gold market.

H.M.Jr: Yes.

K: The information which we have so far is that out of 290 bars, which came on offer, the Bank of England took 270.

H.M.Jr: Yes.

K: If that is correct .....

H.M.Jr: Yes.

K: .... and that I want to check up, it would indicate that there were no buyers of gold - no private buyers of gold in the market.



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H.M.Jr: Ah-ha.

K: Which I think would be - would make it considerably more serious.

H.M.Jr: Ah-ha. Well, now, on that just - I don't want you to pass this on except to Governor Harrison, see?

K: Yes, sir.

H.M.Jr: But I want you and he to think about this: The possibility of the Treasury taking over the importation of all gold because when things go bad like they do now, the Guaranty stops, and then people get nervous and they start rumors, etc., and so on. Every time it gets bad we have to step in any way.

K: Yes.

H.M.Jr: And we'd extend the Tripartite Agreement to gold coming in as well as gold going out. Just think it over. See?

K: Yes.

H.M.Jr: And then - then when there are cirses, we could go along quietly and take care of the thing and nobody is going to get rattled. And it may be the time to do it. But I want you to think about it. See?

K: Yes.

H.M.Jr: I haven't talked it over yet with my people, but every time things get bad we have to step in any way.

K: Yes.

H.M.Jr: See?

K: Yes.

H.M.Jr: But talk it over with Governor Harrison.

K: Yes, sir.

H.M.Jr: And I'd like to talk to about - after you've talked to the Bank of England, see, And then another thing, I want to talk about this Russian gold.

K: Yes.

H.M.Jr: And my thought is that - also thinking out loud - is to say to the Russians that if we're going to buy their gold, we'll buy it directly from their State Bank through the Federal Reserve, and we'll not continue to do it the way they're doing it. See? I mean they're - they're just childish about this thing. And then make them deposit the proceeds with the Federal Reserve. Just the way any other Government does. I mean if they're going to enjoy the privileges of - of Governments, let them act the way everybody else does. Think that one over, see?

K: Yes.

H.M.Jr: I mean that - that they're perfectly childish about it the way they handle it.

K: Yes.

H.M.Jr: And I just want to give you this - I never was calmer in my life. There's nothing to get excited about on this side, - hello?

K: Yes.

H.M.Jr: I see no reason to be excited about the price of gold. I see no reason to be excited about that there are buyers or there are no buyers. Now, maybe on the other side, the Bank of England or the Treasury are becoming loaded up with gold and they may be worried over there. But I - I want to tell you, and you can use this judiciously, that I'm not worried about anything as far as gold goes.

K: Yes.



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H.M.Jr: I mean it's no different today than it was a month ago. I mean I can't help it that a lot of gossip people and a lot of -

K: No, that is - that's quite right, but, of course, the one that I - the one thing that has disturbed me very considerably .....

H.M.Jr: Yes.

K: ... is the effect, which I - I think it is more than likely to have upon the exchange rate. Now, that, it seems to me, is the direction where there might be trouble.

H.M.Jr: Well, now, the only way to act on that is - is through demonstration. Now sterling is 4.88-11/16, and Mr. - Archie Lochhead is sitting here and I think we ought to begin to buy a little bit. See?

K: Yes.

H.M.Jr: (Aside to Mr. Lochhead) Do you want to say something, Archie?

(To Mr. Knoke) All right. I'd - I'd like to begin to buy at this price.

K: Yes. Well, they---Mr. Secretary, the Bank of England is just coming in.

H.M.Jr: Well, call me immediately .....

K: I'll call you as soon as I'm through.

H.M.Jr: All right.

## MEETING RE GOLD CHANGE RUMOR

April 9, 1937  
10:15 A.M.

Present: Mrs Klotz  
Mr. Bell  
Mr. Upham  
Mr. Haas  
Mr. Lochhead  
Dr. Viner  
Mr. White

H.M.Jr: Now, if you don't mind, start - I mean let's go through this whole thing quietly, see? I mean let's get in the first place what's happened the last couple days, what's happening to the French franc. I mean just take it - the purpose, what I am trying to school myself into is to be able to think a bit, not always have a pistol at my head.

(Harris comes in)

Harris: There's been a change in the market this morning - changed about a 32d off.

H.M.Jr: Thank you.

(Harris goes out)

Lochhead: Within the last two days there have been very active rumors of a contemplated change in the gold buying rate by the United States. The rumors are not new.

H.M.Jr: Excuse me. Would you (Haas) like to bring White into this? Isn't this his field, or, not?

Haas: Yes, that gold change is.

H.M.Jr: (On phone) Dr. Harry White - tell him to come in.

Lochhead: But they seem to have reached their head in the last day or two. A couple of newspapers, the Journal of Commerce especially, ran regular scareheads in the morning paper with regard to it. And we have had more inquiries through the Federal Reserve Bank from foreign banks. The Dutch bank called up and said the rumor was over on their side, the Bank of France mentioned the rumors as reaching their side, and the Bank of England also mentioned the rumors on the other side. The main action so far - banks taking action on the



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rumors - has been the Guaranty Trust Company has told their London and Paris offices that they don't want to engage any more gold abroad; the Guaranty Trust has instructed their foreign branches not to engage any more gold. The reason they did this is that as long as there is even a very slight chance of a change, they think that the business is being done on such a small margin of profit that they should really be very ultra-conservative.

The other banks in New York have made inquiries. We don't know of any other bank that has actually stopped engaging gold for shipment, but we do know that some of them are nervous, possibly due to the fact that they had a very heavy position of gold on the way over. The Chase Bank has 30 million dollars on the way; the City Bank has a certain amount. Both the City and the Chase Bank engaged gold from London in small quantities; but they actually engaged some gold.

The markets, of course, have reacted very strongly to this rumor - the commodity market and stock market - and they have attributed the break in the commodity market entirely to the rumor of devaluation.

H.M.Jr: Now let me ask you some questions. Now, take the franc today. It's down to....

Lochhead: It's down to 445; lower gold point is 435, if they - that they could go to under the tripartite. Cariguel yesterday said that the trouble was starting from over here because of the rumor of gold change.

H.M.Jr: Well, why would that put the franc down?

Lochhead: Well, if they changed the price of gold, the rates in other countries would go down.

Viner: Franc would go down in dollars.

Lochhead: The franc would go down in dollars, and the sterling would go down in dollars. However, it is very natural that Cariguel would say that is our trouble, because everybody likes to have an out, and that may be one.

But their own situation in France has deteriorated

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quite a lot. I was speaking about that to Dr. Feis over at the State Department, and he seemed to be very blue at the French situation right now.

H.M.Jr:

Well, may I say this. Being away - it seems like a month. But, getting the thing, I just don't believe that the rumor that we were going to drop the price of gold is sufficient - I mean I think there's something back of it. I mean the rumor is there, but I'm not satisfied as to what started the rumor.

(White comes in)

Viner:

Well, the market was very jittery before the rumor. I meant to tell you of some conversations I've had. Any sort of rumor they'll pick up now like that.

H.M.Jr:

But there's something fundamentally - I mean what I'm trying to get at is that you might spread this rumor out and it wouldn't catch, but the fact it catches means there's something more, and that's what I'm calling this meeting for. I mean I'm just not satisfied that somebody said or misunderstood that the ground seems to be ripe, and what I want to do is get down underneath this rumor. That's what I want to do.

White:

Let me suggest one reason why; that is, that there has been a good deal of talk about too rapid rise in prices and means of checking it, and it would occur to many, as it has occurred to many, that one of the means would be the opposite of what was used to stimulate prices, when the price of gold was increased in order to foster a price rise. Now the logical thing, they would say, would be to move in the other direction. That is one underlying reason.

The second underlying reason has to do with hot money. There's been a good deal of talk ever since the discussions of hot money that the way to check the increase in gold imports would be a lower gold price - dollar price for gold - without considering the merits of that. I mean there's been a good deal of talk of that. And the fact that, from the outside point of view, ways and means could not be found to check hot money through taxes, leads them to think that



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there is going to be an attempt to fall back, possibly, upon this other method.

I think those two factors, among others - but those two are some of the dominant reasons which lend color and validity to the rumor.

H.M.Jr: You (Viner) say you've got something?

Viner: Well, Wednesday night I met Ned Brown, First National Bank, and had a long talk with him, and - you see, they are, I think, the second most important bank in the country in terms of correspondent balances - and he says all their correspondents have been in asking for advice, and he says the country banks are scared to death about their own status with respect to Government bonds.

And he explains it through a number of things. First, the first shock; they're not accustomed to shocks with respect to Government bonds. Some have lost their two years' interest already, and some of them have not got excess balances and will have to sell bonds; some are not members of the Federal Reserve System and cannot rediscount them; and they're simply scared.

He explained the drop in bonds - partly, he says, the rates were too low; he says the Treasury took advantage of an abnormal technical situation. He says their bank was under no illusions at the time, and they have set up reserves which he said they have found already to be too small. But, he said, these country banks didn't set up such reserves.

But he blames also the degree and speed of it on a regular campaign of prognosticators. He says Angas has had a very big influence. He's hit right. It so happens that Angas has hit it right, and he brought out a pamphlet on the coming decline.

Haas: "Coming Slump in Bonds."

White: I'll have to withdraw my remarks. I thought you were trying to - talking about the rumor in respect to the fall in the price of gold.

Lochhead: We were.

Viner: According to Brown, the whole market is jittery. He

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says the state of the Budget is a big factor, and that the wealthy men, customers of his bank are again talking the way they were talking in 1934. They're scared in general. And he says when they are scared in general, they are not fools to be scared, but he says they'll act like fools when they are scared, and there will be no rational basis to what they do, and they're doing all sorts of funny things. And he pats them on the back and has to settle their nerves.

And he says your bond market is through. He says that this shock - that you mustn't think that you can do anything to eliminate the lasting effect of this shock. He says that in general investors and banks will not touch anything under three percent, and he said....

H.M.Jr: Well, I don't know whether he's right.

Viner: I don't know whether he's right either. I'm just giving you his judgment. He's a good bank man. You know Ned Brown.

H.M.Jr: Well, I've said right along that the bond market does down one point in a day, but try to lift it one 32d.

White: Well, there is some fundamental reason for the readiness to accept the concept of lower bond prices, and the fact that they accept that concept naturally justifies it, because they are the ones that make the concept. But they do have this much to bring to their support; they do know that in times of expanding prices, expanding prosperity, bond prices fall and interest rates rise. They do know that's happened abroad and they do see ahead of them no decrease in prices; they don't see any immediate recession in business. And therefore, coupled with their other less justifiable jitteriness, they do say there is going to be lower bond prices. The fact that they all say so is sufficient to make it so, and if enough of them believe that they won't touch anything below three percent, they won't touch anything below three percent.

Viner: He said too that your statement that the Treasury would not push up the price of bonds - he said the



- 6 -

policy was the correct one, but he said the statement has been an important factor in making these small banks believe that the recovery would not occur in the prices. He said it was the correct policy, because if you get involved in trying to push them up again to a 2½% yield.....

Lochhead: Sterling yesterday, 489½ - this morning, down to 489. That's a half point.

(Harris brings in further quotations)

Now here's the latest.

H.M.Jr: How much?

Lochhead: 488 11/16. There is really three-quarters of a point.

H.M.Jr: What was it, 489½?

Lochhead: 489½, and it is now 488 11/16. And under the gold price we can support the market at 489¾.

H.M.Jr: Do you mind if I just break off and talk directly to Knoke?

Lochhead: I haven't had a chance.

H.M.Jr: But the beauty is that I'll never have a trip to the country which will pay more dividends than this one. And I've learned my lesson. Every time that Wall Street gets jittery, I get the extra physical strain. What I was doing it for wasn't for this; I was building up my strength for the relief message.

Viner: Brown said that Wall Street's crazy anyway.

White: Before you talk to Mr. Knoke, did Taylor have an opportunity to tell you his conversation with George Harrison yesterday?

Lochhead: That's what I told you about.

H.M.Jr: What's that?

White: Oh, you did describe that.

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H.M.Jr: Talk slowly.

Lochhead: The Federal Reserve Bank is jittery and they want you to make a stronger statement.

H.M.Jr: (On phone) Hello, Knoke? (Has conversation recorded on dictaphone at 10:30 A.M.)

(Taylor comes in)

Taylor: I heard the end of that, and that's just a hundred percent.

H.M.Jr: What's everybody excited about? I never get excited.

Mrs Klotz: Oh, never.

H.M.Jr: Listen, not when things are bad.

Viner: Mrs. Klotz, you'll have to develop a poker face. This won't do at all.

Mrs Klotz: I've got my heart on my sleeve.

Viner: On both sleeves.

H.M.Jr: The fact that Archie's talking 250 words a minute instead of 200, which means his blood pressure is going up a little, which normally would worry me - now, just - this Chesapeake Bay atmosphere.

Lochhead: Sterling is going off - 250,000 pounds at 488½. Now, I think we ought to buy some of the sterling in, and not let this market get away.

H.M.Jr: Go out.

(Lochhead goes out)

(On phone) Hello (Conversation with Governor Harrison, recorded on dictaphone at 10:40 A.M.) *attached at end of this transcript.*

(Lochhead back in)

Lochhead: He was jittery.

Taylor: You ought to have heard him yesterday.

Lochhead: Sterling touched 488½ - bid, 488 9/16. I told them



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to give it some support.

H.M.Jr: Now, I'm going over to the White House, I don't know what for, and I'll come back. Let's just see how the bonds go, and let's take things easy.

Taylor: On the bonds, I did something yesterday which I think would have your approval.

H.M.Jr: You sold some?

Taylor: No. Federal discovered that it would be possible for us to make some switches profitably for the trust funds, and I said that I didn't think that that was such a good idea, and would certainly not do it yesterday, for obvious reasons.

H.M.Jr: So you didn't do anything?

Taylor: No.

H.M.Jr: Don't let's do anything at this time until we have a chance to sleep on it. There's no reason at all to do anything at the moment.

Taylor: Check.

H.M.Jr: I mean - I mean calling Harrison - I mean I can't call other people - just let this calmness kind of emanate from this room, see?

Taylor: We've been giving that - fifteen dollars worth of that a day - while you were gone.

H.M.Jr: All right, we'll give them twenty-five dollars.

Lochhead: One person or institution that doesn't seem to be worrying about the price of gold is the Bank of the Republic at Colombia, which has sent up a cable to the Federal Reserve Bank saying they'd like to buy 10,000 ounces of gold.

H.M.Jr: What Republic?

Lochhead: Bank of the Republic, Colombia. Now, that fits in very well with their condition now. They've been gaining reserves down in Colombia.

Viner: Dollar reserves.

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Lochhead: They've been gaining dollar reserves up here and also they've been gaining gold down there, because they haven't had to ship it up to get dollar reserves.

H.M.Jr: When I come back, Jake, I'll see you, because this afternoon I'm all tied up. Are you going back tonight?

Viner: No.

H.M.Jr: Are you here for a while?

Viner: I'm here tomorrow anyway. Could stay over Sunday if necessary.

H.M.Jr: Fine.

Viner: Just got in this morning.

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



April 9, 1937  
10:40 a.m.

H.M.Jr: Hello?

Operator: Governor Harrison.

H.M.Jr: Hello?

Harrison: Hello, Henry?

H.M.Jr: Yes, George.

H: I'm glad to hear you're back.

H.M.Jr: Good.

H: I tried to get you a little earlier because I wanted to talk to you about the exchanges. I understand that Knoke has talked to you since then.

H.M.Jr: Yes.

H: So there's no need of my repeating what he's probably told you. Well, except that I don't like it (laughs).

H.M.Jr: What don't you like?

H: Well, I mean I think it's getting a little out of hand at the moment. The fact that that gold is backing up in London, there being no American buyers apparently .....

H.M.Jr: Yes.

H: It means that the pound is apt to go down as well as the franc.

H.M.Jr: Well, the suggestion that I made, which I have not yet talked over with my own people is .....

H: Yes.

H.M.Jr: This sort of thing has happened before .....

H: Yes.

H.M.Jr: ..... and I think this is a pretty good reason. I told him to tell you to be thinking

about it - that we take over gold both ways as between Governments. I mean every time it gets bad, we have to do it any way, George.

H: Yes.

H.M.Jr: Now if, for instance, we were handling gold both ways, this thing wouldn't have arisen.

H: You mean .....

H.M.Jr: The fact that the Guaranty stopped taking, you see?

H: You mean why did they?

H.M.Jr: No, I say if - if we were handling gold between Governments and through fiscal agents both ways .....

H: Yes.

H.M.Jr: ..... the fact that the Guaranty got jittery .....

H: Yes.

H.M.Jr: ..... wouldn't have had this effect. At every time there's a crisis, we have to step in any way.

H: Yes; that's right.

H.M.Jr: So I want you to think about it.

H: Yes.

H.M.Jr: I mean the fact that - that - that we make an addition to the tripartite agreement and handle gold both ways, see?

H: Yes.

H.M.Jr: Now, for instance, then if Japan wants to come in, all right; and then if Russia wants to come in, all right.

H: Ah-ha.



H.M.Jr: See? I don't mean necessarily on the agreement, but I do mean as to - as to handling gold.

H: Yes.

H.M.Jr: I mean why should - why should the Russian Government go through these four or five dummies, which they've incorporated, which they're using to sell us gold. It's just childish. And then when they do sell it, they should deposit their money to the credit of the Russian State Bank with you.

H: Yes.

H.M.Jr: See?

H: Ah-ha.

H.M.Jr: Now, I'd like you to think about it, but I .....

H: All right, I'll be glad to think about it.

H.M.Jr: But I want to tell you, as far as this<sup>gold</sup> goes - as far as the foreign exchange goes, there's no reason that I can see why we should be worried. And I'm not worried.

H: Yes. Well, I'm - I'm glad you're not. The only thing that .....

H.M.Jr: There's no fundamental reason; there's nothing that has come up that anybody should be worried about.

H: Yes.

H.M.Jr: Now, I can't help it that these people are jittery, that they're gossiping, etc., and so on. They've got nothing to hang it on.

H: Yes.

H.M.Jr: See?

H: Yes.

H.M.Jr: There's nothing - they can't say the President said this or Morgenthau said this, and those are the only two people who would have any authority to say it.

H: Yes.

H.M.Jr: Nobody else has any authority.

H: Well, now, I think that they - I think that they have interpreted things that you have said as not being as definite as the President was.

H.M.Jr: My dear George, I've been away since Tuesday, and I haven't seen or heard anybody. I've been down in the Jefferson Island Club, .....

H: Yes.

H.M.Jr: ..... by myself. Now, how could I say anything. Maybe the papers said I said something, but I haven't.

H: Yes.

H.M.Jr: I've been away.

H: Yes.

H.M.Jr: Now, I've - I've never said a word. The only thing I said was about two months ago. They asked me in connection with hot money, was I considering the price of gold, and I said positively not.

H: Yes.

H.M.Jr: Now, what you can do is.....

H: Oh, I thought that time you reported to us that - why, of course, we're considering everything.

H.M.Jr: No, I corrected you on that once before.

H: Yes.



H.M.Jr: No, I corrected you on that once before.  
Now, the point is, George .....

H: Oh, I'm not - don't misunderstand me. I'm  
not finding fault. I was just trying to  
.....

H.M.Jr: Well, there's nothing to find fault about.

H: No, there isn't.

H.M.Jr: There isn't anything to find fault about.  
The only place I find fault about - I very  
distinctly - if I saw - I - I - well, I  
don't want to do it. I mean I have some fault  
to find with the New York banks and with  
some of the gossip that they have been sending  
out and some of their actions.

H: Yes.

H.M.Jr: I - I - I very definitely - but, as you know,  
when times are bad I don't call up people and  
find fault.

H: Yes.

H.M.Jr: I'll wait until a month or two months, and  
then some time I'll ask you to have Mr. Potter  
come down and I'll talk it over .....

H: Yes.

H.M.Jr: ..... but not now.

H: Yes. Well, of course, there were statements.  
I mean the Fortune statement of Eccles dis-  
cussed the question of lowering the price of  
gold.

H.M.Jr: Well, after all, I'm not a fortune teller.

H: (Laughs) That's a good one for you. I give you  
top credit this morning.

H.M.Jr: That's original, too.

H: (Laughs) Yes, I mean there are several -  
that being so, there are some background or

reason why commercial banks are in the business.....

H.M.Jr:

George, .....

H:

..... to make money.

H.M.Jr:

George, .....

H:

And might - might hesitate about bringing gold over.

H.M.Jr:

Now listen, George, .....

H:

I don't say I would if I were in their place but I think there is some background for it.

H.M.Jr:

Now, supposing you do this. You're my fiscal agent.

H:

Yes.

H.M.Jr:

You've talked to me. I've never misled you in my life, have I?

H:

No, that's right.

H.M.Jr:

Have I ever kept anything from you?

H:

No, I don't think you have, or if you have, you told me you were keeping something.

H.M.Jr:

Exactly. But I mean - I've never said, "Now, there's nothing to this," or I said there is something but I can't discuss it. Now, I'm telling you that this time neither the President or I have any idea of lowering the price of gold. And were the only two people in the United States that have that power.

H:

Ah-ha.

H.M.Jr:

And you can, in a very quiet way, if anybody asks you, you can talk authoritatively for me.

H:

All right. Well, I'm much obliged to you for that because it will enable me to quiet some of this unnecessary gossip.



H.M.Jr: Well, you can talk authoritatively as my fiscal agent.

H: All right, thank you. And that is, I've got it written down that at this time neither the President or you have any idea of lowering the price of gold.

H.M.Jr: That's right.

H: All right.

H.M.Jr: That's right.

H: All right, Henry. Well, if there is anything I can do, let me know.

H.M.Jr: Right.

H: I called up to see you before I left Washington, but Eccles told me you'd gone out of town, so I didn't bother.

H.M.Jr: You might add to that pencil, or raising the price of gold.

H: (Laughs) All right.

H.M.Jr: All right, George.

H: Thank you.

H.M.Jr: Goodbye.

April 9, 1937,  
10:40 A. M.

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H.M.Jr: Hello?

Operator: Governor Harrison.

H.M.Jr: Hello?

Harrison: Hello, Henry?

H.M.Jr: Yes, George.

H: I'm glad to hear you're back.

H.M.Jr: Good.

H: I tried to get you a little earlier because I wanted to talk to you about the exchanges. I understand that knoke has talked to you since then.

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about it - that we take over gold both ways as between Governments. I mean every time it gets bad, we have to do it any way, George.

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- 3 -

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- 4 -

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- 5 -

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- 6 -

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H: (Laughs) All right.

H.M.Jr: All right, George.

H: Thank you.

H.M.Jr: Goodbye.



April 9, 1937.  
1 p.m.

Admiral  
Waesche: Hello Mr. Secretary

H.M.Jr: Waesche, I hear this party for Ickes is growing?

W: Well it's not growing but there's a substitution and I was over there and talked to Mr. Ickes. He counted on taking his son along and probably one more.

H.M.Jr: Yes.

W: Ah - now his son isn't going and Mr. Slattery is - ah - his personal Secretary called Billy up just this morning.....

H.M.Jr: Yes.

W: .....and said Harry Hopkins was going with - down - ....

H.M.Jr: I see.

W: He wasn't actually going on the same train with Ickes but was going to meet him down there.

H.M.Jr: Ah-ha.

W: So now - and he also said a - a stenographer. So now the party consists of Mr. Ickes, Harry Hopkins and a stenographer for Mr. Ickes.

H.M.Jr: Well - ah - ah - when is - when is Mr. Ickes going to get on that boat?

W: Ickes will get there Monday morning.

H.M.Jr: This Monday?

W: He's leaving Chicago Saturday night - hello

H.M.Jr: Yes I'm here - well - ah - that's alright but if it's going to be that big I'm - I'm not going to pay for them personally. I don't see why I should. I was there to-day and the President said the Coast Guard was charged about a dollar a day.

W: It probably will be just about a dollar a day to cover the food and laundry aboard the ship.

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H.M.Jr: About a dollar a day.

W: Yes sir.

H.M.Jr: Is that what they charge?

W: That's - yes, that's about the average; it won't be more than that.

H.M.Jr: Well I'd - I'd charge it and I'd let them pay it too.

W: Let the - just let the whole party pay it?

H.M.Jr: Yes, let them each pay a dollar each.

W: Yes - I - I don't think that will break them.

H.M.Jr: No and they might just as well do it - I was going to do it personally but there's no reason why I should do it personally.

W: I don't see any reason at all why you should.

H.M.Jr: You might ask - I tell you what you might do. I know when they're on the battle ship with the President I think they paid a dollar and a half a day. Ickes was on the battleship.

W: I see.

H.M.Jr: But do you think a dollar would cover it?

W: Ah - I should think so, yes sir.

H.M.Jr: Well the President told Ickes, in my presence, a dollar a day so I'd let it go at that.

W: All right, we'll let it go at that.

H.M.Jr: But I just don't see how Hopkins can get away but that's none of my business. How long is he going to stay?

W: Not more than two weeks.

H.M.Jr: What!

W: (Laughs) Yes sir - ah - that's - that's what - I talked to Mr. Ickes and he didn't think he would stay that long but Mr. Slattery was in there with him when the three of us were talking together and Slattery said they were going to try to make him stay down for two weeks.



- 3 -

H.M.Jr: Well the President asked us so we'll do it and do it well.

W: Yes sir.

H.M.Jr: All right.

W: I think we've taken care of him.

H.M.Jr: Thank you.

W: All right sir.

H.M.Jr: Thank you.

April 9, 1937.  
2 p.m.

Operator: Go ahead

H.M.Jr: Hello

Hello - Mr. Secretary?

H.M.Jr: Talking.

This is Borah.

H.M.Jr: How do you do Senator.

B: How are you?

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

B: Mr. Secretary I have a telegram from Sidney Norman, who is Correspondent of the Globe and Mail of Toronto.

H.M.Jr: Yes.

B: I happen to know him and I presume that's the reason why he wired me.

H.M.Jr: Yes.

B: That he wanted to know if it would be possible for him to see you the first of the week, should he come down. He wants to talk to you about some matter which I don't know.

H.M.Jr: Well I - I mean - can you - is it somebody that you can recommend.

B: Well yes - he's a - of course, I don't know him well but he's a correspondent for the Globe and Mail.....

H.M.Jr: Yes.

B: .....and a responsible person and a responsible paper, of course.

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



- 2 -

B: But - but - ah - don't - ah - I don't know why he telegraphed me except possibly he knew me personally.

H.M.Jr: Good.

B: But I wouldn't want you to - ah - as any favor to me because I'm not concerned in it at all.

H.M.Jr: No, well, frankly, I'd only do it because you asked me to.

B: Yes.

H.M.Jr: And - ah - because he means nothing to me.

B: Yes.

H.M.Jr: But if you'd like me to see him I will.

B: Well I - I couldn't say that because it - I don't know him; I don't know what he wants to talk with you about either.

H.M.Jr: No.

B: So I'll not ask that.

H.M.Jr: But - ah - I - if he wants to come down and I'll let him see Mr. Gaston who sees the newspapermen for me.....

B: Well that will be all right.

H.M.Jr: Ah - Herbert Gaston - G-a-s-t-o-n.

B: Yes, all right.

H.M.Jr: Ah - the reason I'm (laughs) - I mean if you asked me I'd do it but with all this speculation about gold now I'm a little timid about seeing newspapermen.

B: I understand, yes.

H.M.Jr: And that's why I'm a little extra careful.

B: Well that's all right.

- 3 -

H.M.Jr: But anytime you ask me to do something you'll find that I'm more than willing.

B: Thank you very much, Mr. Secretary.

H.M.Jr: All right.

B: Thank you.



MEMORANDUMApril 9, 1937 

To: Secretary Morgenthau

From: Dr. Burgess

Government bond market looked much better today. Treasury bond prices were steady in the forenoon after some slight initial weakness and firmed up gradually during the afternoon, closing quotations being the best of the day; volume of trading on the board was moderate at \$1,500,000. The long Treasury bonds closed generally  $3/32$  to  $6/32$  higher than yesterday, and the rest of the list was generally unchanged to  $4/32$  higher. New  $2\ 1/2$ s which have been a weak spot in the last few days, closed 96.25 - 96.26,  $6/32$  better than yesterday's closing quote. F.F.M.C. bonds were strong with gains of from  $1/8$  to  $3/8$  of a point; H.O.L.C. bonds were up  $5/32$  to  $7/32$ . Quotations in the note market showed mixed changes but the middle and most of the long maturities tended higher on the day, closing  $1/32$  to  $3/32$  up from yesterday. The new  $1\ 1/4$ s were down  $1/8$ th.

In the domestic bond market small lot trading was fairly active in the first hour and prices declined. In the second grade group, rails were off fractions to about 1 point while industrials and utilities were fractionally lower. High grade bonds also showed fractional losses at that time. The market was subsequently quiet with a firmer tendency in evidence in the latter part of the day. At the close second grade bonds were fractionally off from yesterday and high grade bonds showed small fractional declines.

Foreign bonds were dull and for the most part steady. German and Polish issues showed mixed price changes and two Italian issues were off 1 to 2 points.

Purchased today \$1,000,000 miscellaneous Treasury bonds for account of Government Life Insurance Fund and \$500,000  $2\ 7/8\%$  1955/60 for System Account.

*Pres says no plan to lower Gold*

PRESIDENT ROOSEVELT SAID TODAY HE KNOWS OF NO PLAN TO LOWER THE

PRESENT PRICE OF GOLD, NOW 35 AN OUNCE.

4/9--R1057A

#### ADD GOLD

MR. ROOSEVELT SAID THAT THE U.S. TREASURY LIKEWISE HAS NO PLAN ALONG THAT LINE.

REPORTS OF SUCH A MOVE, HE SAID, SEEM TO ORIGINATE FROM THE FOREIGN PRESS.

4/9--R1058A

#### ADD GOLD

AT THE SAME TIME, ADMINISTRATION FISCAL OFFICIALS WERE WATCHING WITH KEEN INTEREST OPERATIONS OF THE FEDERAL RESERVE SYSTEM'S OPEN MARKET COMMITTEE, WHICH PURCHASED \$25,194,000 OF LONG TERM U.S. GOVERNMENT BONDS IN THE FIRST THREE DAYS OF THIS WEEK.

BY ITS NEW OPERATIONS, THE FEDERAL RESERVE SYSTEM ENLARGED ITS OPEN MARKET PORTFOLIO FOR THE FIRST TIME SINCE NOV. 1933.

THE RESERVE SYSTEM'S PURCHASES FROM MONDAY THROUGH WEDNESDAY WERE MORE THAN TWICE THE AMOUNT OF TRANSACTIONS IN GOVERNMENT BONDS ON THE NEW YORK STOCK EXCHANGE DURING THE SAME PERIOD, INDICATING THAT THE PURCHASES WERE MADE THROUGH OVER-THE-COUNTER DEALERS.

4/9--R1106A



37

CONFERENCE WITH THE PRESIDENT AT THE WHITE HOUSE ON FRIDAY,  
APRIL 9, 1937, REGARDING WPA EMPLOYMENT IN THE VARIOUS STATES.

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Those present were Governors Lehman, of New York, LaFayette of Wisconsin, Benson of Minnesota, and Quinn of Rhode Island, Congressman McCormack representing the Governor of Massachusetts, Mr. Leo Lyon representing the Governor of Illinois, the Secretary of the Treasury, Mr. Hopkins, and Mr. Bell.

Governor Lehman started the conference by referring to the previous conference with the President regarding the same matter and said that they had again reviewed the situation as the President had requested and that they had asked for this further conference with a view to coming to some conclusion regarding the immediate problem facing the States with respect to the policy adopted by Mr. Hopkins to reduce the present payroll of the WPA program from 2,200,000 people down to approximately 1,600,000 by June 30, 1937, and to ascertain what the Government intends as a program for the fiscal year 1938.

He pointed out that the States and local communities had materially increased their expenditures for unemployment purposes during the past two years and that they had just about reached the end of their funds. He further pointed out that if the Government's program was to be reduced during the coming year it was necessary for him to know at this time to what extent that will be done because he will have to go to the New York Legislature for additional money. He said that some of the States and local communities are not in position to raise additional money and he was not quite certain just what the result would eventually be.

-2-

Governor Benson pointed out that in his State he thought they might expect serious consequences as a result of the reduction of the WPA program; that there were many people in his State who were now actually starving because they could not get on the payroll of the WPA, nor were the State and local communities able to carry any additional burdens.

Governor LaFollette said that he realized the budgetary difficulties as they concerned the Federal Government and he was wondering if it would not be possible to work out a program with Mr. Hopkins whereby some inducement would be offered to the States and local communities to work out a program for the entire year to take care of all of the unemployment in any particular locality, the Federal Government to contribute a certain amount of money with the understanding that that is all the particular locality would get for the year. He said he realized that it might be necessary to reduce the present allowances but the States would have to work that out.

The President had nothing to say except to state very definitely that he could not give them an answer to their questions. He had only within a few days asked for a revised 1937-1938 Budget. Those figures were not available as yet. He did not know just how much he would ask the Congress to appropriate for relief for the coming fiscal year until he could study these revised estimates. He stated that the Federal Government would do its best to cooperate with the States and make the money go as far as possible but he just could not give a definite figure at this time nor could he indicate as to how much any particular State would receive out of any appropriation Congress might make because he said the situation naturally will change every few



-3-

months and the amount indicated at the beginning would have to be changed by subsequent events.

The conference then broke up without any commitment on the part of the Administration as to its program for the fiscal year 1938.

*swB*

○his is a copy of the memorandum left  
with the President by HM, Jr at the meeting  
with the group of Governors.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

41  
DATE April 9, 1937

TO The Secretary  
FROM Miss Lonigan *el*

Attached are four tables on expenditures in the seven industrial States where governors are asking for more relief.

Table I on Expenditures for Relief and Welfare, by calendar years, shows that all seven States spent much larger funds in 1936 than in 1935.

Table II on Expenditures, by six-month periods from July 1935 to December 1936, shows that expenditures in the second half of 1936 were almost as high as in the first half of the year, and much higher than in the last half of 1935. Large reductions in expenditures would still not bring the spending level down to the level of 1935.

Table III includes heavy work programs, as well as relief and welfare. Here the last six months of 1936 was the highest period on record, because of continuous expansion in heavy construction.

Table IV shows that reductions in actual employment have been very slight, probably less than the total of all resignations.

TABLE I

## GOVERNMENT EMERGENCY EXPENDITURES

## RELIEF AND WELFARE

## Federal Funds Only

|                 | Calendar Year<br>1935 | Calendar Year<br>1936 | Percent<br>Increase |
|-----------------|-----------------------|-----------------------|---------------------|
|                 | In thousands          |                       |                     |
| Illinois        | \$112,064             | \$148,466             | 33                  |
| Massachusetts   | 73,212                | 104,782               | 43                  |
| Michigan        | 58,037                | 78,525                | 35                  |
| Minnesota       | 40,655                | 57,077                | 40                  |
| New York        |                       |                       |                     |
| New York City   | 187,793               | 263,679               | 40                  |
| Up-State        | 57,497                | 101,166               | 76                  |
| Total State     | 245,290               | 364,845               | 49                  |
| Rhode Island    | 4,361                 | 10,385                | 138                 |
| Wisconsin       | 42,026                | 64,903                | 54                  |
| <br>Total U. S. | <br>\$1,637,788       | <br>\$2,378,561       | <br>45              |

Includes FERA, WPA, Social Security, and Resettlement Administration.

April 9, 1937



TABLE II

## GOVERNMENT EMERGENCY EXPENDITURES

## RELIEF AND WELFARE

## Federal Funds Only

|                 | July-Dec.<br>1935 | Jan.-June<br>1936<br>In thousands | July-Dec.<br>1936 |
|-----------------|-------------------|-----------------------------------|-------------------|
| Illinois        | \$56,891          | \$76,266                          | \$72,200          |
| Massachusetts   | 35,323            | 51,799                            | 52,984            |
| Michigan        | 28,664            | 40,772                            | 37,752            |
| Minnesota       | 16,758            | 29,720                            | 27,357            |
| New York        |                   |                                   |                   |
| New York City   | 105,419           | 133,788                           | 129,891           |
| Up-State        | 29,605            | 52,027                            | 49,139            |
| Total - State   | 135,024           | 185,814                           | 179,031           |
| Rhode Island    | 2,460             | 5,631                             | 4,755             |
| Wisconsin       | 17,998            | 32,518                            | 32,385            |
| <br>Total U. S. | <br>\$781,349     | <br>\$1,212,905                   | <br>\$1,165,656   |

Includes FERA, WPA, Social Security, and Resettlement Administration.

April 9, 1937

TABLE III

## GOVERNMENT EMERGENCY EXPENDITURES

## ALL WORK AND WELFARE

## Federal Funds Only

|                    | July-Dec.<br>1935 | Jan.-June<br>1936<br>In thousands | July-Dec.<br>1936 |
|--------------------|-------------------|-----------------------------------|-------------------|
| Illinois           | \$78,952          | \$99,911                          | \$106,796         |
| Massachusetts      | 52,116            | 67,216                            | 68,813            |
| Michigan           | 46,056            | 56,380                            | 54,675            |
| Minnesota          | 33,954            | 42,810                            | 43,851            |
| New York           |                   |                                   |                   |
| New York-Up State) |                   |                                   |                   |
| City        )      | 177,496           | 235,937                           | 226,770           |
| Rhode Island       | 5,448             | 8,587                             | 6,925             |
| Wisconsin          | 38,207            | 41,289                            | 50,970            |
| <br>Total U. S.    | <br>\$1,391,523   | <br>\$1,880,772                   | <br>\$1,920,232   |

Includes All Relief and Welfare, PWA, CCC, Other Federal Projects, and Miscellaneous Administrative Expenses under the Works Program.

April 9, 1937



TABLE IV

## WORKS PROGRESS ADMINISTRATION

## Number of Employees

|                   | 1936       |                |             |
|-------------------|------------|----------------|-------------|
|                   | July<br>25 | December<br>26 | March<br>27 |
| Illinois          | 154,462    | 158,749        | 148,075     |
| Massachusetts     | 98,027     | 97,145         | 90,779      |
| Michigan          | 74,338     | 67,223         | 61,798      |
| Minnesota         | 44,788     | 45,179         | 46,802      |
| New York          |            |                |             |
| New York City     | 202,696    | 193,984        | 180,296     |
| Up-State          | 98,405     | 88,654         | 80,591      |
| Total - State     | 301,101    | 282,638        | 260,887     |
| Rhode Island      | 10,905     | 10,725         | 11,377      |
| Wisconsin         | 48,586     | 51,389         | 50,793      |
| Continental U. S. | 2,248,113  | 2,187,944      | 2,110,833   |

April 9, 1937

Government emergency programs  
Expenditures from State and local funds

| State and local funds |               |                    |                                  |           |           |          |
|-----------------------|---------------|--------------------|----------------------------------|-----------|-----------|----------|
|                       | ERA<br>Relief | Social<br>Security | Total ERA and<br>Social Security | WPA<br>1/ | PWA<br>1/ | RA<br>1/ |
|                       | Column 1      | Column 2           | Column 3<br>(1 and 2)            |           |           |          |
| <u>1935</u>           |               |                    |                                  |           |           |          |
| July                  | \$36,942,000  | -                  | \$36,942,000                     |           |           |          |
| August                | 36,092,000    | -                  | 36,092,000                       |           |           |          |
| September             | 31,870,000    | -                  | 31,870,000                       |           |           |          |
| October               | 35,241,000    | -                  | 35,241,000                       |           |           |          |
| November              | 31,800,000    | -                  | 31,800,000                       |           |           |          |
| December              | 39,641,000    | -                  | 39,641,000                       |           |           |          |
| 6 mos. total          | 211,586,000   | -                  | 211,586,000                      |           |           |          |
| <u>1936</u>           |               |                    |                                  |           |           |          |
| January               | 49,200,000 2/ | -                  | 49,200,000                       |           |           |          |
| February              | 51,400,000    | \$2,373,000        | 53,773,000                       |           |           |          |
| March                 | 49,800,000    | 2,716,000          | 52,516,000                       |           |           |          |
| April                 | 44,700,000    | 4,088,000          | 48,788,000                       |           |           |          |
| May                   | 39,400,000    | 4,631,000          | 44,031,000                       |           |           |          |
| June                  | 38,100,000    | 6,001,000          | 44,101,000                       |           |           |          |
| 6 mos. total          | 272,600,000   | 19,810,000         | 292,410,000                      |           |           |          |
| July                  | 35,800,000    | 7,333,000          | 43,133,000                       |           |           |          |
| August                | 34,600,000    | 9,426,000          | 44,026,000                       |           |           |          |
| September             | 34,720,000    | 10,064,000         | 44,784,000                       |           |           |          |
| October               | 35,820,000    | 11,223,000         | 47,043,000                       |           |           |          |
| November              | 36,750,000    | 12,002,000         | 48,752,000                       |           |           |          |
| December              | 36,700,000    | 12,715,000         | 49,415,000                       |           |           |          |
| 6 mos. total          | 214,390,000   | 62,762,000         | 277,152,000                      |           |           |          |
| <u>1937</u>           |               |                    |                                  |           |           |          |
| January               | 37,000,000    | 13,262,000         | 50,262,000                       |           |           |          |
| February              | 37,000,000    | 13,848,000         | 50,848,000                       |           |           |          |

Treasury Department, Division of Research and Statistics

April 19, 1937

1/ No direct information.

2/ Estimated for January 1, 1936, and all later months.



DISTRIBUTION OF FEDERAL EXPENDITURES

By Fiscal Years on basis of daily Treasury statements

(In millions of dollars)

|                                                         | 1933    | 1934    | 1935    | 1936    | 1937                    |                          |            | 1938<br>Budget<br>Estimate |
|---------------------------------------------------------|---------|---------|---------|---------|-------------------------|--------------------------|------------|----------------------------|
|                                                         |         |         |         |         | July 1<br>to<br>Mar. 31 | April 1<br>to<br>June 30 | Total      |                            |
| Emer. Conservation work                                 | -       | 331.9   | 435.5   | 486.3   | 282.8                   | 85.2                     | 368.0 1/   | 330.0                      |
| Public highways                                         | 178.2   | 267.9   | 317.4   | 243.9   | 294.7                   | 71.2                     | 365.9      | 289.9                      |
| Public buildings                                        | 105.9   | 78.7    | 58.1    | 67.9    | 58.4                    | 26.0                     | 84.4       | 52.1                       |
| Rivers and harbors                                      | 118.4   | 150.8   | 203.0   | 223.7   | 184.9                   | 46.0                     | 230.9      | 178.3                      |
| Reclamation projects                                    | 25.2    | 24.7    | 40.9    | 49.8    | 39.0                    | 28.7                     | 67.7       | 57.6                       |
| Civil Works Adm.                                        | -       | 805.1   | 11.3    | .7      | .2                      | .3                       | .5         | -                          |
| Public Works Adm.                                       | -       | 156.2   | 224.9   | 94.4    | 218.7                   | 87.3                     | 306.0      | 214.0                      |
| Works Progress Adm.                                     | -       | -       | -       | 1,263.7 | 1,468.1                 | 431.9                    | 1,900.0 2/ | 1,500.0                    |
| Agricultural payments                                   | -       | 290.2   | 823.6   | 545.6   | 361.4                   | 121.7                    | 483.1      | 498.9                      |
| Resettlement Adm. (including<br>subsistence homesteads) | -       | 2.4     | 5.4     | 138.0   | 136.1                   | 16.8                     | 152.9      | 30.9                       |
| Tennessee Valley Authority                              | -       | 11.0    | 36.1    | 48.8    | 31.6                    | 16.4                     | 48.0       | 49.0                       |
| Federal Emer. Rel. Adm.                                 | 37.9    | 707.3   | 1,821.0 | 495.6   | 10.9                    | .1                       | 11.0       | -                          |
| Social Security Act -<br>Grants to States               | -       | -       | -       | 27.8    | 122.2                   | 31.5                     | 153.7      | 272.2                      |
| Commodity Credit Corporation                            | -       | 164.3   | 60.1    | 129.7   | 76.4                    | 48.6                     | 125.0      | 30.0                       |
| Other                                                   | 34.8    | 27.8    | 118.6   | 14.0    | 2.2                     | 6.6                      | 8.8        | 8.0                        |
| Sub-total                                               | 500.4   | 3,018.3 | 4,035.7 | 3,801.9 | 3,134.8                 | 921.1                    | 4,055.9    | 3,434.9                    |
| Departmental                                            | 497.5   | 339.1   | 354.6   | 437.8   | 378.0                   | 180.7                    | 558.7      | 563.0                      |
| Postal deficiency                                       | 117.4   | 52.0    | 64.0    | 86.0    | 32.6                    | 17.7                     | 50.3       | 30.8                       |
| Social Security Act -<br>Old Age Reserve Account        | -       | -       | -       | -       | 135.0                   | 90.0                     | 225.0      | 540.0                      |
| National defense:                                       |         |         |         |         |                         |                          |            |                            |
| Army                                                    | 318.3   | 205.3   | 212.2   | 373.0   | 269.3                   | 108.3                    | 377.6      | 393.5                      |
| Navy                                                    | 349.6   | 274.4   | 321.4   | 391.4   | 358.1                   | 152.2                    | 510.3      | 587.3                      |
| Veterans' pensions and benefits                         |         |         |         |         |                         |                          |            |                            |
| Veterans' Adm.                                          | 763.2   | 506.5   | 555.6   | 576.0   | 433.0                   | 155.8                    | 588.8      | 587.5                      |
| Adj. Ser. Ctf. Fund                                     | 100.0   | 50.0    | 50.0    | 1,773.5 | 56.0                    | 507.5                    | 563.5      | -                          |
| Debt charges:                                           |         |         |         |         |                         |                          |            |                            |
| Retirements                                             | 461.6   | 359.9   | 573.6   | 403.2   | 79.2                    | 325.3                    | 404.5      | 401.5                      |
| Interest                                                | 689.4   | 756.6   | 820.9   | 749.4   | 595.7                   | 239.3                    | 835.0      | 860.0                      |
| Refunds of receipts                                     | 70.3    | 62.7    | 45.2    | 44.2    | 33.4                    | 14.8                     | 48.2       | 52.9                       |
| Federal land banks                                      | .2      | 47.6    | 48.0    | 60.6    | 46.9                    | 23.0                     | 69.9       | 24.0                       |
| Home loan system                                        | 44.0    | 192.2   | 75.7    | 37.4    | 20.7                    | 4.7                      | 25.4       | -                          |
| Federal Housing Adm.                                    | -       | -       | 16.0    | 14.5    | 13.1                    | 1.9                      | 15.0       | 16.0                       |
| Reconstruction Finance Corp.                            | 1,121.4 | 584.6   | 141.9   | 238.7   | 334.0                   | 91.0                     | 425.0      | 150.0                      |
| Public Works - Recovery<br>and Relief                   | -       | 123.6   | 280.0   | 327.1   | 228.5                   | 35.8                     | 264.3      | 48.7                       |
| Other                                                   | 110.0   | 532.3   | 64.8    | 52.5    | 40.7                    | 272.7                    | 113.4      | 267.9                      |
| Sub-total                                               | 4,642.5 | 4,086.8 | 3,340.1 | 5,077.9 | 2,386.2                 | 2,038.7                  | 4,424.9    | 4,223.1                    |
| GRAND TOTAL                                             | 5,142.9 | 7,105.1 | 7,375.8 | 8,879.8 | 5,521.0                 | 2,959.8                  | 8,480.8    | 7,658.0 3/                 |
| Recoverables                                            | 943.0   | 1,620.0 | 237.0   | 94.0    | 347.0                   | 79.2                     | 426.2      | 122.2                      |
| NET                                                     | 4,199.9 | 5,485.1 | 7,138.8 | 8,973.8 | 5,868.0                 | 3,039.0                  | 8,907.0    | 7,780.2                    |

1/ Excess credits, deduct.

2/ Includes \$60M from supplemental items.

3/ Includes \$500M from supplemental items.

4/ Includes \$1,500M for Works Progress Administration not included in the Budget.

ACCOUNTS AND DEPOSITS

April 13, 1937

Relief and Welfare

| FERA 1/            |              | WPA               |              | FERA-WPA           |                    | Resettlement loans and grants |              | Social Security grants 2/ |              | Total Relief and Welfare |                         |
|--------------------|--------------|-------------------|--------------|--------------------|--------------------|-------------------------------|--------------|---------------------------|--------------|--------------------------|-------------------------|
| Number of families | Expenditures | Number of workers | Expenditures | Number of families | Expenditures       | Number of families            | Expenditures | Number of families        | Expenditures | Number of families       | Expenditures            |
| Column 1           | Column 2     | Column 3          | Column 4     | Column 5 (1 and 3) | Column 6 (2 and 4) | Column 7                      | Column 8     | Column 9                  | Column 10    | Column 11 (5, 7 and 9)   | Column 12 (6, 8 and 10) |
| <b>1935</b>        |              |                   |              |                    |                    |                               |              |                           |              |                          |                         |
| July               | 4,389,000    | \$123,604,000     | 70,000       | \$162,000          | 4,459,000          | \$123,766,000                 | 1,000        | \$13,000                  | -            | 4,461,000                | \$123,779,000           |
| August             | 4,242,000    | 111,705,000       | 253,000      | 5,812,000          | 4,495,000          | 117,518,000                   | 51,000       | 1,071,000                 | -            | 4,545,000                | 118,588,000             |
| September          | 3,925,000    | 89,228,000        | 456,000      | 16,960,000         | 4,381,000          | 106,188,000                   | 46,000       | 877,000                   | -            | 4,427,000                | 107,065,000             |
| October            | 3,725,000    | 85,284,000        | 777,000      | 35,696,000         | 4,502,000          | 120,979,000                   | 58,000       | 1,509,000                 | -            | 4,560,000                | 122,488,000             |
| November           | 3,474,000    | 63,410,000        | 2,484,000    | 61,068,000         | 4,900,000 3/       | 124,478,000                   | 43,000       | 2,065,000                 | -            | 4,943,000                | 126,543,000             |
| December           | 2,609,000    | 30,311,000        | 2,740,000    | 136,955,000        | 4,900,000 3/       | 167,266,000                   | 156,000      | 4,914,000                 | -            | 5,056,000                | 172,180,000             |
| 6 mos. average     | 3,727,000    |                   | 1,130,000    |                    | 4,606,000          |                               | 59,000       |                           | -            | 4,665,000                |                         |
| 6 mos. total       |              | 503,542,000       |              | 256,653,000        |                    | 760,195,000                   |              | 10,448,000                |              |                          | 770,643,000             |
| <b>1936</b>        |              |                   |              |                    |                    |                               |              |                           |              |                          |                         |
| January            | 2,210,000 4/ | 10,400,000        | 2,927,000    | 167,920,000        | 4,900,000 3/       | 178,320,000                   | 180,000      | 6,729,000                 | -            | 5,080,000                | 185,049,000             |
| February           | 2,130,000    | 4,600,000         | 3,039,000    | 164,324,000        | 4,900,000 3/       | 168,924,000                   | 180,000      | 11,611,000                | 275,000      | 5,355,000                | 182,710,000             |
| March              | 1,985,000    | 3,100,000         | 2,877,000    | 191,530,000        | 4,862,000          | 194,630,000                   | 232,000      | 18,387,000                | 324,000      | 5,418,000                | 215,520,000             |
| April              | 1,830,000    | 3,100,000         | 2,586,000    | 182,570,000        | 4,416,000          | 185,670,000                   | 210,000      | 24,222,000                | 503,000      | 5,129,000                | 213,710,000             |
| May                | 1,660,000    | 2,400,000         | 2,340,000    | 173,702,000        | 4,000,000          | 176,102,000                   | 177,000      | 12,969,000                | 563,000      | 4,740,000                | 193,410,000             |
| June               | 1,550,000    | 1,700,000         | 2,256,000    | 169,104,000        | 3,806,000          | 170,804,000                   | 159,000      | 8,730,000                 | 644,000      | 4,609,000                | 183,919,000             |
| 6 mos. average     | 1,894,000    |                   | 2,671,000    |                    | 4,481,000          |                               | 190,000      |                           | 385,000      | 5,055,000                |                         |
| 6 mos. total       |              | 25,300,000        |              | 1,049,149,000      |                    | 1,074,449,000                 |              | 82,649,000                |              | 17,221,000               | 1,174,319,000           |
| July               | 1,470,000    | 936,000           | 2,248,000    | 162,870,000        | 3,718,000          | 163,806,000                   | 91,000       | 1,935,000                 | 809,000      | 4,619,000                | 172,513,000             |
| August             | 1,450,000    | 940,000           | 2,371,000    | 157,422,000        | 3,821,000          | 158,363,000                   | 96,000       | 2,561,000                 | 962,000      | 4,879,000                | 169,727,000             |
| September          | 1,401,000    | 285,000           | 2,477,000    | 165,039,000        | 3,878,000          | 165,324,000                   | 108,000      | 4,824,000                 | 979,000      | 4,964,000                | 179,376,000             |
| October            | 1,398,000    | 228,000           | 2,575,000    | 180,897,000        | 3,973,000          | 181,125,000                   | 142,000      | 5,444,000                 | 1,108,000    | 5,222,000                | 196,864,000             |
| November           | 1,403,000    | 157,000           | 2,478,000    | 167,765,000        | 3,881,000          | 167,942,000                   | 115,000      | 3,454,000                 | 1,171,000    | 5,168,000                | 182,415,000             |
| December           | 1,400,000    | 170,000           | 2,188,000    | 185,468,000        | 3,588,000          | 185,638,000                   | 151,000      | 4,131,000                 | 1,245,000    | 4,984,000                | 201,502,000             |
| 6 mos. average     | 1,420,000    |                   | 2,389,000    |                    | 3,810,000          |                               | 117,000      |                           | 1,045,000    | 4,973,000                |                         |
| 6 mos. total       |              | 2,716,000         |              | 1,019,481,000      |                    | 1,022,197,000                 |              | 22,348,000                |              | 57,852,000               | 1,102,397,000           |
| <b>1937</b>        |              |                   |              |                    |                    |                               |              |                           |              |                          |                         |
| January            | 1,400,000    | 863,000           | 2,134,000    | 148,003,000        | 3,534,000          | 148,865,000                   | 359,000      | 9,500,000                 | 1,289,000    | 5,183,000                | 170,569,000             |
| February           | 1,400,000    | 140,000           | 2,141,000    | 134,943,000        | 3,541,000          | 135,083,000                   | 245,000      | 9,309,000                 | 1,346,000    | 5,132,000                | 157,116,000             |

Treasury Department, Division of Research and Statistics

Source: FERA and WPA checks issued - Treasury Department  
Emergency Employment and Pay Rolls - U. S. Bureau of Labor Statistics  
All others - Direct from the agency

- 1/ The number of families reported under FERA includes all families on relief rolls under both Federal and State funds. Funds are Federal funds only. It is not possible to separate families on Federal funds only, before 1936.
- 2/ Excludes administrative grants.
- 3/ Total of families or workers under FERA-WPA is adjusted from November 1935 to February 1936 to eliminate duplicate count of WPA workers receiving relief payments during transition between two programs. Supplementary relief on a continuing basis is not excluded.
- 4/ Estimated for January 1, 1936, and all later months.
- 5/ Figures for Emergency Employment exclude overhead and cost of materials. Totals are, therefore, an understatement of all Federal emergency expenditures.



EMERGENCY WORKERS  
Funds only

Emergency employment excluding WPA

| CCC                  |              | PWA 1935 and 1936 Funds |            | Works Program,<br>other Federal projects |             | PWA 1933 Funds       |              | SFC                  |             | Regular Governmental<br>Construction |             | Total -<br>Emergency Employment             |                                             | Total Relief and Welfare<br>and<br>Emergency Employment |                          | Grand total<br>Relief and Welfare<br>and Emergency<br>Employment |                          |
|----------------------|--------------|-------------------------|------------|------------------------------------------|-------------|----------------------|--------------|----------------------|-------------|--------------------------------------|-------------|---------------------------------------------|---------------------------------------------|---------------------------------------------------------|--------------------------|------------------------------------------------------------------|--------------------------|
| Number of<br>workers | Pay rolls    | Number of<br>workers    | Pay rolls  | Number of<br>workers                     | Pay rolls   | Number of<br>workers | Pay rolls    | Number of<br>workers | Pay rolls   | Number of<br>workers                 | Pay rolls   | Number of<br>workers                        | Pay rolls                                   | Number of<br>families<br>or workers                     | Funds                    | Number of<br>families<br>or workers                              | Funds                    |
| Column 13            | Column 14    | Column 15               | Column 16  | Column 17                                | Column 18   | Column 19            | Column 20    | Column 21            | Column 22   | Column 23                            | Column 24   | Column 25<br>(13, 15, 17, 19,<br>21 and 23) | Column 26<br>(14, 16, 18, 20,<br>22 and 24) | Column 27<br>(11 and 25)                                | Column 28<br>(12 and 26) | Column 29                                                        | Column 30<br>(28 and 29) |
| 481,000              | \$22,071,000 | -                       | -          | 5,000                                    | \$277,000   | 405,000              | \$24,969,000 | 10,000               | \$1,002,000 | 26,000                               | \$1,890,000 | 926,000                                     | \$50,208,000                                | 5,337,000                                               | \$173,987,000            | \$30,878,000                                                     | \$204,865,000            |
| 590,000              | 26,236,000   | -                       | -          | 33,000                                   | 1,216,000   | 395,000              | 25,293,000   | 9,000                | 1,002,000   | 36,000                               | 2,695,000   | 1,063,000                                   | 56,460,000                                  | 5,609,000                                               | 175,048,000              | 46,940,000                                                       | 221,988,000              |
| 534,000              | 24,405,000   | -                       | -          | 77,000                                   | 3,755,000   | 345,000              | 22,772,000   | 9,000                | 958,000     | 46,000                               | 3,200,000   | 1,010,000                                   | 55,069,000                                  | 5,437,000                                               | 162,155,000              | 63,766,000                                                       | 225,920,000              |
| 551,000              | 24,831,000   | 1,000                   | \$54,000   | 129,000                                  | 6,243,000   | 307,000              | 21,638,000   | 9,000                | 953,000     | 59,000                               | 4,193,000   | 1,057,000                                   | 57,912,000                                  | 5,616,000                                               | 180,400,000              | 65,738,000                                                       | 246,138,000              |
| 544,000              | 23,958,000   | 3,000                   | 145,000    | 168,000                                  | 8,392,000   | 268,000              | 19,368,000   | 10,000               | 1,001,000   | 64,000                               | 4,077,000   | 1,057,000                                   | 56,941,000                                  | 5,000,000                                               | 183,484,000              | 62,500,000                                                       | 245,984,000              |
| 507,000              | 21,906,000   | 7,000                   | 332,000    | 217,000                                  | 10,196,000  | 224,000              | 16,028,000   | 8,000                | 869,000     | 57,000                               | 3,708,000   | 1,020,000                                   | 53,039,000                                  | 5,076,000                                               | 225,219,000              | 62,537,000                                                       | 287,755,000              |
| 534,000              | 143,405,000  | 2,000                   | 532,000    | 105,000                                  | 30,078,000  | 324,000              | 130,068,000  | 9,000                | 5,803,000   | 48,000                               | 19,763,000  | 1,022,000                                   | 329,649,000                                 | 5,687,000                                               | 1,100,292,000            | 332,358,000                                                      | 1,432,650,000            |
| 479,000              | 21,427,000   | 21,000                  | 974,000    | 249,000                                  | 11,180,000  | 177,000              | 13,425,000   | 8,000                | 850,000     | 47,000                               | 3,991,000   | 980,000                                     | 51,847,000                                  | 6,060,000                                               | 236,896,000              | 3,637,000                                                        | 240,534,000              |
| 454,000              | 20,484,000   | 35,000                  | 1,579,000  | 299,000                                  | 12,529,000  | 141,000              | 10,642,000   | 8,000                | 905,000     | 44,000                               | 3,619,000   | 981,000                                     | 49,799,000                                  | 6,336,000                                               | 232,469,000              | 5,631,000                                                        | 238,100,000              |
| 356,000              | 17,252,000   | 61,000                  | 2,864,000  | 326,000                                  | 14,432,000  | 142,000              | 11,117,000   | 8,000                | 916,000     | 48,000                               | 3,675,000   | 940,000                                     | 50,256,000                                  | 6,357,000                                               | 265,776,000              | 24,248,000                                                       | 290,024,000              |
| 391,000              | 18,058,000   | 108,000                 | 6,097,000  | 376,000                                  | 16,564,000  | 157,000              | 12,819,000   | 10,000               | 1,134,000   | 60,000                               | 5,205,000   | 1,101,000                                   | 59,877,000                                  | 6,331,000                                               | 273,587,000              | 38,934,000                                                       | 312,521,000              |
| 408,000              | 18,610,000   | 144,000                 | 8,748,000  | 401,000                                  | 19,161,000  | 172,000              | 13,843,000   | 11,000               | 962,000     | 80,000                               | 6,243,000   | 1,215,000                                   | 67,567,000                                  | 5,955,000                                               | 260,977,000              | 53,582,000                                                       | 314,559,000              |
| 383,000              | 17,948,000   | 169,000                 | 10,866,000 | 453,000                                  | 22,658,000  | 180,000              | 14,975,000   | 9,000                | 942,600     | 102,000                              | 8,631,000   | 1,297,000                                   | 76,019,000                                  | 5,906,000                                               | 299,938,000              | 48,164,000                                                       | 348,102,000              |
| 412,000              | 113,779,000  | 20,000                  | 31,128,000 | 351,000                                  | 96,522,000  | 162,000              | 76,820,000   | 9,000                | 5,710,000   | 63,000                               | 31,364,000  | 1,086,000                                   | 355,324,000                                 | 6,141,000                                               | 1,529,643,000            | 174,196,000                                                      | 1,703,839,000            |
| 404,000              | 18,418,000   | 181,000                 | 11,727,000 | 452,000                                  | 22,700,000  | 167,000              | 14,242,000   | 10,000               | 1,064,000   | 126,000                              | 12,425,000  | 1,339,000                                   | 80,575,000                                  | 5,958,000                                               | 253,089,000              | 18,173,000                                                       | 271,261,000              |
| 384,000              | 17,846,000   | 184,000                 | 12,366,000 | 452,000                                  | 22,795,000  | 159,000              | 13,530,000   | 9,000                | 1,048,000   | 147,000                              | 13,000,000  | 1,334,000                                   | 80,605,000                                  | 6,214,000                                               | 250,332,000              | 12,193,000                                                       | 262,524,000              |
| 321,000              | 16,371,000   | 176,000                 | 12,122,000 | 440,000                                  | 22,585,000  | 147,000              | 12,639,000   | 10,000               | 1,085,000   | 145,000                              | 12,699,000  | 1,239,000                                   | 77,462,000                                  | 6,205,000                                               | 266,837,000              | 8,815,000                                                        | 265,653,000              |
| 404,000              | 17,663,000   | 160,000                 | 11,351,000 | 438,000                                  | 21,786,000  | 138,000              | 12,206,000   | 9,000                | 1,000,000   | 165,000                              | 15,000,000  | 1,313,000                                   | 79,005,000                                  | 6,535,000                                               | 275,869,000              | 22,640,000                                                       | 298,510,000              |
| 391,000              | 18,572,000   | 152,000                 | 10,717,000 | 405,000                                  | 20,074,000  | 117,000              | 10,138,000   | 10,000               | 1,108,000   | 150,000                              | 13,960,000  | 1,225,000                                   | 74,569,000                                  | 6,392,000                                               | 266,964,000              | 20,814,000                                                       | 277,798,000              |
| 377,000              | 18,112,000   | 139,000                 | 9,646,000  | 371,000                                  | 18,595,000  | 104,000              | 8,930,000    | 10,000               | 1,202,000   | 148,000                              | 12,805,000  | 1,149,000                                   | 69,290,000                                  | 6,132,000                                               | 270,791,000              | 36,226,000                                                       | 307,018,000              |
| 380,000              | 106,982,000  | 165,000                 | 67,949,000 | 426,000                                  | 128,534,000 | 139,000              | 71,685,000   | 10,000               | 6,507,000   | 147,000                              | 79,849,000  | 1,267,000                                   | 461,505,000                                 | 6,239,000                                               | 1,563,902,000            | 118,861,000                                                      | 1,682,764,000            |
| 407,000              | 19,000,000   | 116,000                 | 7,924,000  | 329,000                                  | 15,653,000  | 86,000               | 7,516,000    | 8,000                | 968,000     | 120,000                              | 11,857,000  | 1,066,000                                   | 62,918,000                                  | 6,249,000                                               | 233,487,000              | 46,233,000                                                       | 279,720,000              |
| 395,000              | 18,315,000   | 100,000                 | 7,023,000  | 268,000                                  | 13,024,000  | 75,000               | 6,773,000    | 7,000                | 865,000     | 113,000                              | 10,905,000  | 958,000                                     | 56,905,000                                  | 6,090,000                                               | 214,021,000              | 59,081,000                                                       | 273,102,000              |



FEDERAL RESERVE BANK  
OF NEW YORK

49

OFFICE CORRESPONDENCE

DATE April 9, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Kneke

BANK OF ENGLAND.

I called Mr. Bolton at 10:38 this morning and asked him to give me a little background as to what was going on in London. Bolton replied, "The principal feature over here is the fact that most people are still very, very afraid that something is going to be done about the American gold price or handling charges, or an import tax on gold, or something like it. This feeling has really developed into a panic. In Paris Sprague made a speech yesterday to the effect that there was nothing sacred to the price of \$35 and that if, for instance, Sweden did change its gold price, it was quite likely that you would follow. This speech of Sprague's was one of the reasons why today the market in Paris is virtually in a state of panic. Here in London, the whole feeling is dominated by the fact that no American bank would buy gold for shipment to New York. This example is being followed by bullion brokers and other arbitrageurs. At the fixing this morning, when the price was established at a 44 discount from New York parity, very confidentially, we had to step in and take about £1,000,000 gold off the market as there were no other buyers at all." I asked whether the difficulties were not added to by the fact that there was no boat until the fourteenth, and this, Bolton confirmed.

I then stated that, just when his call came in, I had been speaking to the Secretary of the Treasury over the telephone, who had just returned to Washington after two days of absence, and wanted him (Bolton) to know that the Secretary had told me in the course of our conversation that he had never been calmer in all his life and that

OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

DATE April 9, 1937.

SUBJECT: TELEPHONE CONVERSATION WITH

TO L. W. Kneke

BANK OF ENGLAND.

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there was nothing to get excited about as far as he, the Secretary, was concerned. I added that this simply confirmed what I had tried to convey to him over the telephone yesterday, namely that <sup>in my opinion</sup> there was no change of the gold price under consideration now and that I now felt very definitely assured on that point.

I then discussed with Bolton what we could do under the circumstances and what, in his opinion, would be the most effective means of tackling this thing. He replied that they had sold about \$7,000,000 today (in addition to taking £1,000,000 of gold off the market) but that he could probably act a little more strenuously if we would like him to do that. I replied that that was precisely what I would suggest he do, if that was all right with them, and that we would try to do the same thing here and that, as a matter of fact, we were all set to begin buying sterling. We had not been able to do so before because his daily order had reached me only a few minutes ago. Bolton replied that there were no objections at all as far as they were concerned, that they would welcome anything to help the situation. It would probably take some time for the consternation over the uncertainty of the American gold price to wear off. I inquired whether he saw anything that we could do as far as the London gold market was concerned but Bolton thought that that would be very difficult and that it probably would be necessary to leave the market to settle down. At the moment there was a crash in the gold share market both in London and in Johannesburg. Under the circumstances, the best method of approach, it seemed to him, was to tackle the



OFFICE CORRESPONDENCE

DATE April 9, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Kneke

BANK OF ENGLAND.

- 3 -

exchange market rather than the gold market. I asked whether he thought there was anything in trying to get the Russians to deal with us direct. He thought that might be a good idea.

that he agreed - - - - - what there was anything

I called Mr. Bolton again at 12:10 to tell him that we had bought close to 2800,000, beginning at 4.88 1/2 but not going beyond 4.89 1/4; beyond that point sterling seemed to have been carried by its own impetus, not by any bidding on our part. Bolton replied that they also had stopped at 4.89 1/4 and had sold another \$1,000,000 but had bought it back on orders from Poland and Germany, with the result that their total operations for the day were \$7,000,000. Now, he said, the market was very much steadier in London. So it was here, I said, adding that I telephoned Cariguel and de Jong and told them both of my telephone conversation with Mr. Morgenthau and the personal reaction I got from it. I also referred Bolton to the President's statement this morning, which was made shortly after I had spoken to him earlier in the day. The sum total of it all, I continued, was that I felt even more assured than before that no change in the gold price was contemplated.

I then discussed tomorrow's gold market and expressed the thought that all our efforts today might be in vain if the London price were fixed tomorrow at the same or even a greater discount from New York parity than today. I did not think, I continued that it would be advisable to try to push the price up to the equivalent of 34.77 - this

## OFFICE CORRESPONDENCE

DATE April 9, 1937.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. W. Kneke

BANK OF ENGLAND.

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I called Mr. Cariguel at 11:30 to draw his attention to the  
President's statement just made at the press conference in Washington  
might look too artificial - but ~~try~~ to bring it back to a discount  
of, say a penny or two pence, seemed to me highly desirable. Bolton  
replied that he agreed 100% and I asked whether there was anything  
that we could do. He answered that we could leave that more or less  
to him and if he needed any assistance he would give us a ring to-  
morrow.

He was today and that there was positively nothing to get excited  
about as far as he was concerned. I mentioned that I had told the  
Bank of England, had a call in for the Netherlands Bank  
and had telephoned Mr. Cariguel in order to keep him posted. I added  
that I for one felt very definitely assured as that point was. Cariguel

checked me. He then mentioned to me that the Bank of England had  
been in touch with the Bank of France and that they had  
agreed to make a stand, they would back France as a result they had  
intervened only from time to time for a financial support and, according  
to him, very little exchange and, as a matter of fact, had already  
bought it all back. I told him that we were rather aggressively  
buying sterling at the moment and that the Bank of England was operating

LWK:KMC



FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 9, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF FRANCE.

L. W. Knoke

I called Mr. Cariguel at 11:30 to draw his attention to the President's statement just made at the press conference in Washington to the effect that he and the Treasury had no knowledge of any plan contemplating a possible reduction in the gold price. In this connection, I said, I wanted him to know that I had just had a telephone conversation with the Secretary of the Treasury, in the course of which the latter had told me that he had never in all his life been calmer than he was today and that there was positively nothing to get excited about as far as he was concerned. I mentioned that I had told the same to the Bank of England, had a call in for the Netherlands Bank and had telephoned him (Cariguel) in order to keep him posted. I added that I for one felt very definitely assured on that point now. Cariguel thanked me.

He then referred to today's market in Paris and explained that its temper ~~today~~ had been such that they had felt that, if they wanted to make a stand, they would lose heavily; as a result they had intervened only from time to time for a limited amount and, ~~consequently~~, had sold very little exchange and, as a matter of fact, had already bought it all back. I told him that we were rather aggressively buying sterling at the moment and that the Bank of England was operating in the same direction.

LWK:KMC

OFFICE CORRESPONDENCE

DATE April 9, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH  
DE NEDERLANDSCHE BANK.FROM: L. W. Knoke

I called Mr. de Jong at 11:55 and referred to our telephone conversation of April 7, in the course of which I had promised to let him know if there were any new developments in the situation. I drew his attention to the statement just made by the President at this morning's press conference and added that, before that statement was made, I had had a lengthy telephone conversation with the Secretary of the Treasury who had just returned to Washington after two days of absence, and had been assured by him that he had never in all his life felt calmer than he did now and that there was nothing to get excited about as far as Washington was concerned. I continued that, personally, I now felt very definitely assured on that point.

I added that we were now buying sterling rather aggressively in this market and that the Bank of England, with whom I had spoken earlier in the day, was operating in the same direction. de Jong wanted to know whether the President's statement applied to both the gold price and the handling charge and I replied that I was satisfied it did. de Jong thanked me for the call.

LWK:KMC



EDA

GRAY

LONDON

Dated April 9, 1937

Received 3:30 p.m.

Secretary of State

Washington

206, April 9, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

The President's announcement has had a reassuring effect on all London markets which previously were somewhat disorganized. For example, in the stock market South African gold shares not only decidedly declined in value but were almost unsaleable in the morning. Likewise in the bullion market there was practically no demand for gold at fixing or immediately thereafter except from official sources.

It is said in the City that the net inflow of funds into France since the announcement of the recent loan totals about five milliards and that the French authorities are very pleased that the amount is so large and regard it in view of heavy gold purchases of commodities at higher prices as comparable to a financial inflow of say  $6\frac{1}{2}$  milliards. It is also believed here that the French authorities welcomed the opportunity for a partial readjustment of the sterling-franc rate as the

most

EDA - 2 - #206, April 9, 7 p.m. from London

most likely means of eliminating the discount on the new loan and thus facilitating its quotation and the unclogging of the French money market.

In this connection Waley stated in the course of a conversation at the British Treasury today that their information was that the permanent officials of the French Treasury were definitely concerned about the increase in French costs; the cumulative effect of the social measures particularly the forty hour week, the slowing down of French production due to the disorganization of the workmen, et cetera, was such as to overvalue the franc.

Waley also mentioned Arakawa, Japanese Financial Attache, had not yet come to see him regarding the tripartite monetary agreement (see my 199, April 2, 5 p.m.) and he therefore assumed that due to the election in Japan the matter would remain in abeyance. Waley specifically inquired whether the Japanese had approached the United States in this regard.

BINGHAM

HPD



## PARAPHRASE OF TELEGRAM RECEIVED

NO.: 468

FROM: American Embassy, Paris

DATE: April 9, 1937, 5 p.m.

FROM COCHRAN.

Paris exchange market was excited throughout the day due to the American gold scare and to rumor attributed to London and printed in the English financial press that the French would let the franc sink to 112 to the pound, that is, the maximum devaluation envisaged by monetary law of October 1st as a step necessary in a new adjustment of the tripartite arrangement. The press stressed the point that the French control had shown little inclination to try to support the franc yesterday.

Auriol has today given out a statement denying knowledge of any basis for the above mentioned stories.

Market understanding is that French control bought some francs against dollars yesterday and some through sterling today. French rentes improved and shares good except gold mining securities which lost heavily.

At 5:30 this evening I had a talk with Cariguel. Word of President Roosevelt's denial of any change in gold policy had reached him from the Federal Reserve

Bank

Bank in New York. He informed me that when I called the market was beginning to offer dollars and sterling and that there was a decline in the rates against the franc. I was also told by Cariguel that "the French control had been on balance a buyer of francs for the day".

BULLITT

H.M.Jr: Have you (Bullitt) got anything to be altered?

Magill: Well, I've got this letter - a memorandum that the President signed on the letter from the Council of Economic Advisors.

H.M.Jr: What's that about?

Magill: Well, the son of it is that Mr. Thomas Wilson, Vice-President - that was one of the - the chair of the United States Treasury - he was the present administrator of the Treasury, and he wanted to accept the President's offer to accept the points out, would you not say that? The President said he would accept.

H.M.Jr: Any hurry? What's the matter?

Magill: The date of the meeting is the 15th of the month.

H.M.Jr: Hello, Mr. Bullitt, what's the matter?

Oliphant: Did you?

H.M.Jr: Yes.

Oliphant: It's all right.

H.M.Jr: Well, I've got to go now. I'll be back in a moment.

Bullitt: EA:EB



## GROUP MEETING

April 9, 1937  
9:45 A.M.

Present: Mrs Klotz  
Mr. McReynolds  
Mr. Lochhead  
Mr. Upham  
Mr. Haas  
Miss Roche  
Dr. Viner  
Mr. Taylor  
Mr. Gaston  
Mr. Gibbons  
Mr. Oliphant  
Mr. Magill  
Mr. Bell

H.M.Jr: Have you (Magill) got anything that has to be cleared?

Magill: Well, I've got this main thing. It's this letter - a memorandum that the President asked you for on the letter from the Chamber of Commerce to him.

H.M.Jr: What's that about?

Magill: Well, the net of it is that Mr. Thomas Watson, Vice-President - that they are willing - the Board of the United States Chamber wants to impose the present undistributed profits tax, but is willing to accept the President's original proposal, which, as he points out, would cost the corporations less money. The President asked for a memorandum.

H.M.Jr: Any hurry? What's the date?

Magill: The date on the President's letter is the 27th.

(Oliphant comes in)

H.M.Jr: Hello, Herman. I liked the Bay.

Oliphant: Did you?

H.M.Jr: Yes

Oliphant: It's all right?

H.M.Jr: Now, there are certain things - I mean I want to see you (Bell), don't I, this afternoon?

Bell: Yes

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H.M.Jr: Have you got your estimates?

Bell: No, I haven't got the estimates. What do you mean - of the revenue? I have the expenditure figures.

H.M.Jr: No, but have you got anything to go up with the President for his message?

Bell: Oh, no. I'm waiting on the Treasury. They won't be ready until Monday, I understand.

H.M.Jr: Well, I just want to check off what I want to do.

Haas: We'll have to work all weekend.

H.M.Jr: They won't have that until Monday?

Bell: I understand I'll get it sometime Monday morning - afternoon.

Magill: You (Haas) are supposed to give it to me Monday morning. Supposed to clear it Monday noon.

H.M.Jr: Well then, that's out the window. I mean I won't have to - you won't want to see me over the weekend on that?

Bell: No, sir.

H.M.Jr: Now, this letter.

Magill: I've got this letter. And the other thing is the meeting of these actuaries on railroad retirement. Want to know how they came out?

H.M.Jr: Yes

Magill: Three of them have agreed. All of them other than Glenn, who is Latimer's actuary, agreed that the rates ought to be five to nine percent. That's five percent for the first three years, then stepping up one percent for the next three years, and so on, and at the end of twelve years it would be nine percent, instead of seven, as at present proposed. And Glenn, Latimer's actuary, would not agree to that, but said that he agreed the present rates were low; and he proposes a



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flat rate of seven percent, which is the present law.

H.M.Jr: Well, am I going to get this in some form? That'll come up in Cabinet.

Magill: Reagh is now preparing a report on the thing.

H.M.Jr: I mean will I have anything by two? Or is it better....

Magill: They're going to meet again this afternoon, but I don't think there's much hope of getting any further, because I think it is pretty clear that Glenn is never going to agree with the other three.

H.M.Jr: Well, why wouldn't it be better to suggest that we have a meeting Monday morning with that same group, at which we'll present the report? Why not ask the same group?

Magill: I should think that would be a good idea.

H.M.Jr: Why not suggest to them - have your office arrange a meeting here at 11 o'clock.

McR: Naster made a report of what happened. - - I mean he was there.

H.M.Jr: Why not invite them? We'll have a little rehearsal ourselves. (To Mrs Klotz) Put Mr. Magill down for 10:30. And would you (Bell) like to come at 10:30?

Bell: Yes, sir.

H.M.Jr: Then we can sort of chin the thing over. Then at 11 o'clock the actuaries.

Magill: Well now, at 11 do you want the actuaries?

H.M.Jr: No, at 11 I want the same group that was here the other morning.

Magill: That's what I thought.

H.M.Jr: And you'll make a report to them. But I want a dress rehearsal with you and Bell at 10:30, so it won't rush me too much. If you call them, they'll know it's coming up Monday. All right?

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Magill: Good. *Wait, on this same subject. And after Mrs. Kline has a chance to go through the stuff. It will*

H.M.Jr: Then the other thing you've got is the President's letter. *Steel Corporation.*

Magill: That's right. *copies of it?*

H.M.Jr: Well, there's no hurry about that. I mean if you give it to me, I'll try to catch up on my reading. *interested.*

Magill: Mr. Oliphant, Mr. Haas, and Mr. Gaston have copies.

H.M.Jr: Well, have they approved?

Magill: They - no, they haven't.

H.M.Jr: Well, I'd like to wait until - then let's put it over to Monday. Give these fellows a chance to make any suggestions they have to make to you, and if you want to you can incorporate it and then you give it to me. How's that?

Magill: Good.

H.M.Jr: I mean if it isn't Monday it's Tuesday.

Oliphant: Maybe Monday we could all go over it and then come to you Tuesday.

Magill: We ought not, I should think, delay it too long.

H.M.Jr: Put it this way. Any time that the men - you've given it to them to make suggestions.

Magill: I'd like to take it up, if we could, Monday afternoon.

H.M.Jr: Fine. Then when the letter has passed the board, bring it to me.

Magill: Good. But we meet at two o'clock, say, Monday.

H.M.Jr: What else you got? *Instead of two hits, I'd rather*

Magill: That's all.

H.M.Jr: Swell. In this thing - I mean I'm so far behind in my reading. I caught up partly on it. And there is a letter - W. O'May, writing a memorandum for the President of the United Steel Corporation, which is to the



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McReynolds: President, on this same subject. And after Mrs. Klotz has a chance to go through the stuff, it will come to me. But W. O'May writing for the President of the Steel Corporation.

Oliphant: Give us each copies of it?

H.M.Jr: When you (Mrs Klotz) get to it, you might have Mr. Oliphant and Mr. Haas each get a copy. You interested, Taylor?

Taylor: If you want me to be.

Haas: George O'May?

H.M.Jr: W. O'May. No, George O'May.

Bell: George O'May.

H.M.Jr: Anybody wants to send in a written report....

Magill: Better give me a copy.

H.M.Jr: Yes, the thing is written to go to you. And it won't cost us ten thousand dollars either to look at it. All right, anything else?

Magill: That's all I've got - estimates, railroad retirement, and the letter to the President.

H.M.Jr: Herman?

Oliphant: You were right about postponing the further inquiry of the Attorney General until Monday, because we have a response from Mr. Keenan consisting of three letters totalling 23 pages that sort of ramble all over the lot. I've had a summary of the 23 pages made and I'd like to leave that with you, with the original letter. I think you may want to.....

H.M.Jr: Well, before anything I'd like to have that charge - his charges answered. Instead of two bites, I'd rather have it in one bite.

Oliphant: Well then, before you see it we'll get together - Helvering and McReynolds and Graves.

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McReynolds: Graves is going Sunday to Chicago. He ought to know what's in it before he goes.

H.M.Jr: Yes, and you better answer it, too. When I get his letter I'd like to say, "Charge - answer; charge - answer."

Oliphant: O.K.

H.M.Jr: You know, this fellow down there - fellow that runs the place - you know, funny place, Chesapeake Bay. He says, "The longer you stay here, the sleeper you get."

Oliphant: Huh?

H.M.Jr: I don't mean it any way personal, Herman. But I wasn't there quite long enough.

Oliphant: Well, I've been there three years.

H.M.Jr: He also told me that besides the President I was the "onliest" one that slept in the bed - Presidential bed down there.

Oliphant: The "onliest" one?

H.M.Jr: The "onliest" one. All right?

Oliphant: That's all.

H.M.Jr: Are the charges "worryable"? Huh?

Oliphant: No.

H.M.Jr: All right.

Oliphant: Still, you'll want to read the letter.

H.M.Jr: What else you got, Mr. Oliphant?

Oliphant: Nothing.

H.M.Jr: Sure?

Oliphant: Well, Bankhead sort of misunderstood on sending down that letter to prefer charges. He thought that you



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were trying to avoid the investigation, see what I mean?

McR: I think you misunderstood him, Herman.

Oliphant: Huh? I don't think so.

McR: I don't think he thought the Secretary was trying to avoid anything. But, as I understood Bankhead's attitude, he just didn't agree that they ought to recognize a resolution coming from that source as a basis for investigation of anything in the Treasury, and that was my understanding of his attitude.

Oliphant: Well, the resolution has two angles. The minor angle is investigation.

H.M.Jr: Well, was he sore?

Oliphant: Oh no.

H.M.Jr: Should I call him?

Oliphant: No.

McR: No, he wasn't sore. He was very considerate, but doubtful of the propriety of permitting a resolution presented in the way that that one was presented getting by in the House. I think it's a question of his feeling what he, as Speaker, can permit the fellows - the critical guys to get away with.

Oliphant: Well now, the fellow is a Democrat and the resolution has two angles: to a minor degree, charges against the Treasury; to a major degree, charges against the liquor interests.

H.M.Jr: Well, Herman, I can't quite get it. Should I do anything?

Oliphant: Well, I'd like to have Hester talk to him again.

McR: Well, the point, I think, is that under the situation as it now exists I don't believe that the Speaker is going to permit that thing to come up, and unless the Secretary wants to make it clear from his own standpoint that he, as a matter of policy, wants it to come

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up, I don't think he's going to let it come up at all.

Gaston: I think you should forget it.

H.M.Jr: Listen, I'll appoint Mac, Gaston, and Oliphant, and whatever they decide suits me.

Oliphant: All right.

H.M.Jr: How's that?

Oliphant: That's fine.

H.M.Jr: Sold?

Oliphant: Sold.

H.M.Jr: Anything else?

Oliphant: No, sir, my shelves are empty; you've got everything I have.

H.M.Jr: Swell.

Herbert, when you say we're not going to change the price of gold, why don't you say it with a bite in it? I heard it over the radio.

Gaston: Didn't think it was strong enough?

H.M.Jr: No.

Gaston: Well, I wanted to leave a little opportunity to change your mind.

H.M.Jr: And in the paper, yesterday's Tribune, it says that the President and I denied it, and I didn't remember denying it.

Gaston: What I told them all uniformly was that there had been no change in the Treasury's policy as to gold, and that there had been no intimation from the Treasury Department of any change in its policy as to gold.

H.M.Jr: Eddie and I are going to send a letter to Arthur Krock - "Please send us a copy of Dickens. We don't know our Mrs. Gummidge." Did you (Mrs Klotz) read Arthur Krock



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H.M.Jr: yesterday?

Mrs Klotz: No.

H.M.Jr: He never can miss a chance just to put a little knife in me, can he?

Gaston: He had a swell statement in that column the day before yesterday about the necessity for revision; he was talking about not having enough revenue, so that proved that we must revise the undistributed profits tax, apparently for the purpose of losing some more revenue.

H.M.Jr: No excitement while I was away or anything?

Gaston: No. The boys got the impression that you were hiding out studying some problem, and I thought that was all right.

Viner: The migration of fish in Chesapeake Bay.

H.M.Jr: No press conferences?

Gaston: No. I suppose that you noticed, though, apparently backed by the whole Democratic majority, there is a bill down there for a hundred million for state grants for educational purposes this year, and two hundred million next year, and three hundred million the next year. Pat Harrison is behind it, and all the education societies in the world are behind it.

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

Bell: It's going to pass.

Gaston: I should think so.

Bell: I think the only chance is having a veto.

H.M.Jr: That's all right; let the bond market go down a couple more points and then maybe these fellows will begin to realize what it's all about.

Gaston: Duffield says he's more perplexed than ever what we're going to do about financing, and I told him that was all right.

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H.M.Jr: Let the bond market go down a couple more points and I'll lose five pounds more; maybe these fellows will..... I certainly can afford to be comfortable; my job's done. We've done our job. The little money we have to pick up we can pick up. And after it gets bad enough and some of the big business men who have friends on the Hill begin to complain and they begin to listen - a few more refundings go sour, a few of them back up on some of these fellows, and they start going up on the Hill. The best thing that I ever said was Monday when I said we needed extra money. You see what Joe Robinson said today.

Gaston: Yes, yes.

H.M.Jr: All right, we'll go along.

Wayne?

Taylor: Bill Myers wants five minutes today.

H.M.Jr: Well, if he wants to argue with me....

Taylor: Doesn't want to argue. He's got a swell plan, but would like to discuss it with you.

H.M.Jr: Well, he just wants to put pressure on me, doesn't he?

Taylor: No, no.

H.M.Jr: On this refunding?

Taylor: What he wants to do is call what he can call, which will amount to about a third, and pay it off in cash.

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

Gaston: Got about 33 million cash, and then he's going to borrow from banks on short terms.

Taylor: Those are - his own individual banks to do that.

H.M.Jr: All right, 12 o'clock. Will you tell him?

Taylor: Yes. It's by far the best thing you can do.

H.M.Jr: Oh, all right. What else?

Taylor: That's all.



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- H.M.Jr: Well, after this is over I want you to stay.
- Taylor: I got Welles coming in at 10:15 and I have to see him for five minutes.
- Gibbons: I got a telegram addressed to me yesterday from Frisco saying that merchandise is being held up similar to the one you got from New York, and I had Frank Dow call up the Collector out there and there was nothing to it. I think it's a little propaganda going on through certain merchants' associations. Remember in that letter the fellow said as one Democrat to another that we were - well, the whole Administration puts certain things in the law, then they close their eyes and let them slip by. But we've got to put them right on it.
- H.M.Jr: This fellow, the superintendent down there - perfectly serious - "You know, it's a very interesting thing, but the only people on the relief down here in this part of the world are Republicans." So I said, "Well, how do you figure that?" "Well," he said, "they're such a shiftless lot. The Democrats don't need it."
- Viner: All Democrats have regular Government jobs.
- H.M.Jr: I mean you pick up a lot of stuff like that. It's an amusing thing - it took 25 minutes, or 23 minutes, to go there by airplane; coming back, by water, 17 hours.
- Lockhead: You (Viner) stay afterwards.
- H.M.Jr: Miss Roche?
- Roche: Our State Health Officers Conference ended very satisfactorily. There were four general lines on which reports were summarized. I'll send you a brief memorandum on it. They were on nutrition; control of the very dangerous possibilities of yellow fever - air travel in South America; stream pollution; and the training of public health personnel.
- H.M.Jr: They didn't break loose on the Red Cross?
- Roche: Not in our conference. There was some discussion in the day and a half of conferences in their own group,

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preceding the ones in general; there was discussion of better correlation of State and Red Cross and Federal activities during emergency, but no special criticism.

H.M.Jr: Good.

George?

Haas: I have nothing new.

Upham: Nothing.

H.M.Jr: Tom Smith is all right, is he? Did you see him?

Upham: He'll be here today.

H.M.Jr: Oh, I want to see him. Let's work this thing out. You say Bill Myers needs ten minutes?

Taylor: That'll be plenty.

H.M.Jr: Then we can give Tom Smith 12:10. Give Bill Myers ten minutes, give Tom Smith ten minutes. New plan, Chesapeake plan - "Sleep like a kitten."

Gaston: Aren't you kittenish?

H.M.Jr: Best vacation I've had in a year.

Archie?

Lochhead: Nothing.

H.M.Jr: Dan?

Bell: I have nothing, except that if you want to send that bill forward now to restore the stock of currency which belongs to the Federal Reserve Banks, I think it might receive favorable consideration. So far as the Chairman of the Appropriations Committee is concerned, he has no objection. He did suggest that instead of having it appropriate the three million, we merely authorize an appropriation. I don't think we'd object to that; and that eliminates any consideration at this time of his Committee. I told him I didn't think we'd have any objection. I sent to you



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a draft of the bill with that change.

H.M.Jr: Would you fish out Mr. Ihlder's bill, which wants to do a couple little things? I'd like to take a look at it.

Bell: Alley dwellings.

H.M.Jr: A couple little things. He wants to be able to buy property other than alley property - some negro swamps he wants to.... I understand it's held up.

Bell: In my place?

H.M.Jr: Yes. And the first time you get a chance I thought you and I would go look at some of his work. I wanted to last week. Would you kind of fish it out? From all accounts, he's doing a grand job. I think he's doing the best job in slum clearance of anybody today. Well, if you'll fish it out.

Bell: All right.

H.M.Jr: And I'd like you to stay right after this meeting.  
Mac?

McR: I have nothing to bring up. I've got that Hester....

H.M.Jr: Pardon me?

McR: I've got that Hester thing still in my basket. You signed it and sent it out, but said you wanted to talk to me about it.

H.M.Jr: Bring it in. Personally - I mean there's several things I wanted to do this morning, but I don't want to hold it up.

McR: I've held it up there. Just happened to notice it.

H.M.Jr: Well now, if Bell, Lochhead, Upham, Haas - I mean the people on the finance - Taylor, would stay, I'd appreciate it.

Apr. 9, 1937: 72

President is having a conference at 11 o'clock with the following and would like HM, Jr present:

Dr. Merriam  
Dr. Ruml, National Resources Board  
Secretary Ickes  
Secretary Perkins  
Secretary Wallace  
Harry Hopkins  
Eccles  
Mr. Lubin

(Preliminary discussion of conservation of national resources)

CABINET AT 2 o'clock



TO:

Mrs. Klaty

I am sure that  
the Secretary will  
be interested in this.

From: MR. GRAVES

H/10



OFFICE OF DEPUTY COMMISSIONER  
INVESTIGATIVE UNIT

TREASURY DEPARTMENT  
BUREAU OF CUSTOMS  
WASHINGTON

April 10, 1937.

MEMORANDUM FOR MR. GRAVES -

I am appending below copy of telegram this day received from the Supervising Customs Agent at New York relative to the termination of the TAYBANK narcotic smuggling case at New York, viz-

"TAYBANK case brought to trial Tuesday, completed last night STOP Ah Nan, ships carpenter, pleaded guilty after government's case was in STOP Rest of defendants, boatswain, second boatswain, and storekeeper, all Malays, with William Bonanzi, Dominick Butto, and Tizio Buda, found guilty sentence April nineteenth STOP Customs Service highly praised from bench by Trial Judge Moscowitz for outstanding investigative work and excellent manner case was prepared for trial STOP Judge Moscowitz stated QUOTE I must compliment the Customs Agents and all the other customs officers for the wonderful investigative work done in this case Sherlock Holmes was a novice compared with them UNQUOTE ROBERTS."

*Thos Gorman*  
Deputy Commissioner.

cc- Mr. Gaston  
Mr. Gibbons  
Mr. Moyle



## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 10, 1937.

No.: 471

SECTION ONE. FROM COCHRAN.

Unofficial exchange trading at Paris this morning is still nervous. Statements issued yesterday by President Roosevelt and French Minister of Finance had good effect late yesterday and press states they should tend to bring back calm to the markets. The disturbing factor this morning is the behaviour of the London gold market where Paris understands 501 bars were offered and the Bank of England had to buy in 376 thereof. Guaranty here has had no new instructions on gold policy and is, therefore, still inactive.

The financial counsellor of the British Embassy here (Rowe Dutton) this morning volunteered to me his opinion that the French franc will not go back to the (omission) of a week ago, but he thinks it will be more likely to stay close to 110 to the pound. He told me he believes this would be a wise move, in other words, to accept the depreciation which has been brought to the franc by the American gold scare.

END SECTION ONE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 471 of April 10, 1937, from the American Embassy, Paris.

So little margin would be left between the current rate and the maximum devaluation rate of 112 francs to the pound that he felt there would be little incentive for speculation in the future franc.

Last night de Castellane, who represents the Bankers Trust in Paris, expressed an opinion similar to Rowe Dutton's in a conversation I had with him.

I had a talk this morning with Guaranty trader, who told me that French control came in as a buyer of sterling last night at 109.20, and at 108.90 this morning. This trader believes that the control has formulated no positive policy, ~~Maxwillkewer~~ but that it will follow the market close, intervening occasionally until a more clear indication of the normal level is given.

Recently I was informed by Cariguel that at the first meeting of the French Exchange Committee (set up with the change in French policy in March), permitting the franc to sink immediately to its lowest legal limit was favored by most of the members. They were prevailed upon by Cariguel to permit him to get in as much foreign exchange as he could at a rate more favorable to them. He thus succeeded (as previously reported in my cables) in rebuilding the  
gold



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gold holdings of the fund to almost fifty percent of its total capital at around 106 to 7. Should enough confidence return for bankers to again take up important amounts of London and continental gold for shipment to New York, the dollars made available therefor might so affect rates here that Cariguel could acquire fair amounts at the present price, or if the dollar supply is quite large, at an even more favorable price. Cariguel will naturally desire to keep on rebuilding his exchange and gold holdings as cheaply as possible but still avoid wasting his supply if the franc should show a definite trend toward the lower limit where he would be obliged to hold it.

On Sunday morning I leave for Basel. However I am not visiting Baden Weiler, where Schacht will entertain BIS officials at noon (just as he entertained them at the time of the meeting in April of last year).

END MESSAGE.

BULLITT.

EA:LWW

RECEIVED  
JAN 31 1941  
TREASURY DEPARTMENT  
WASHINGTON, D. C.

JR

GRAY

London

Dated April 10, 1937

Rec'd 10:35 a.m.

Secretary of State,  
Washington.

209. April 10, 2 p.m.

FOR TREASURY FROM BUTTERWORTH.

The repercussion of the events of the past three days is still somewhat felt in the bullion and exchange markets where dealers are marking time. Today's gold fixing was unusually large and official sources were forced to take 376 of the 501 bars offered at a discount on the dollar of from 3 to  $3\frac{1}{2}$  pence. Gold futures have somewhat improved and are now 2 pence either side of par for three months.

The following comment by the City Editor of the Times may be of interest:

"President Roosevelt's statement being the first definitely official denial that any change was contemplated brought about a complete reversal in markets both here and elsewhere. The rumors had gained credence for the reason that owing to the rapid rise in prices in America it was known that the authorities desired to check the movement in order to prevent a subsequent collapse. The

rumors



-2-

JR # 209, April 10, 2 p.m., from London.

rumors have had a salutary effect in the sense that they have brought about a considerable liquidation of speculative positions and therefore have strengthened the technical position of markets. A still more valuable lesson to be learned from the three days' events is that any important reduction in the price of gold by arbitrary political action would have deflationary effects, since the economy of America, as of this country, has for the last few weeks been adapting itself to the higher price of gold and other commodities".

BINGHAM

HPD

## SOVIET RUSSIA

April 11, 1937

HM, Jr's conference with Mr. Oumansky at Secretary's home. HM, Jr suggested Russian State Bank might deal directly in shipping gold to US and avoid several commissions. Distinctly to interests of USSR to see that gold is maintained as yardstick of value and as medium of balance of payment. HM, Jr would like mutual exchange of views and information.

April 22, 1937

Oumansky's return call on Secretary with answers. USSR agrees that exchange of information would be useful and opportune, and would prefer to deal directly with Federal Reserve Bank. HM, Jr's idea of USSR being interested in stable gold market is shared by Moscow. USSR will appoint permanent representative of Soviet State Bank in US. Oumansky said Soviet State Bank would prefer to deal directly with FRB in selling gold and to make deposits through Bank of England. He inquired if earmark could be done through Bank of England.

HM, Jr telephoned Eccles to confirm his belief that if Russian State Bank asked US to buy and sell gold, that FRB would be pleased to have relations with them. Eccles said it had not been before the Board.

HM, Jr telephoned Governor Harrison of FRB and HM, Jr put the direct question to him. Harrison is having meeting with Board Directors today and will ask the question. HM, Jr said he particularly wanted Soviet State Bank to have an account with FRB.

April 22, 1937

Harrison's response by telephone to Secretary's inquiry. If request of Soviet State Bank approved by Board of Directors of Federal Reserve System, FRB of NY would open an account provided certain information about set-up of bank is furnished.

April 29, 1937

Taylor's memo to Secretary reporting on conversation with Oumansky at lunch today when Lochhead was present. General discussion of capitalism, business cycles, etc.



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April 30, 1937

Dr. Haas' memo to Secretary giving digest of two articles on Russian Foreign Trade.

May 11, 1937

HM, Jr's conference with Feis and Kelly of State Department to discuss present status of Russian debt to US.

May 12, 1937

State Department's letter inclosing copy of gentlemen's agreement between The President and Mr. Litvinoff and summary of negotiations which subsequently took place with the Soviet Government with regard to settlement of American claims.

May 26, 1937

Dr. White's memo to Secretary referring to HM, Jr's conversation with Mr. Oumansky re Russian gold production.

May 26, 1937

Ambassador Troyanovsky's conference with Secretary. Oumansky also present. HM, Jr referred to unknown quantity of Russian gold and again suggested free exchange of information, and produced chart to show what happened to price of platinum.

May 28, 1937

Harrison's telephone call to Secretary informing HM, Jr that FRB has received telegram formally requesting opening of an account by USSR; also, telegram said Russian State Bank is sending FRB the information requested.

June 16, 1937

Troyanovsky's call on Secretary to bring answer to query of May 26. USSR regards question of gold production as a domestic question, but is willing to discuss question of movement of gold to the world market. Troyanovsky reported his Government ready to discuss an agreement to sell their gold and to discuss possibility of making deposit of gold sold in some place without sending to world market. HM, Jr inquired if that meant earmark the gold in Russia and the Ambassador said yes.

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June 15, 1937

State Department's letter inclosing memorandum of information available in their Department concerning Soviet participation in international arrangements dealing with the sale of Soviet timber and sugar in the world market.

June 24, 1937

State Department's letter transmitting copy of telegram from American Embassy, Moscow, on Soviet gold industry. Embassy has learned that production of Soviet gold has been diminishing rather than increasing in the past 6 to 10 months.

July 8, 1937

State Department's letter transmitting copy of telegram from Embassy, Moscow, on Soviet gold production. Another source of information says Soviet production of gold has not equaled, in the past 6 months, the planned increase and has been decreasing in many regions.

July 12, 1937

Oumansky's conference with HM, Jr. Russian State Bank has established relations with FRB but one of first actual operations did not work. July 7 the USSR asked FRB to buy gold bars from it which were on London market and suggesting this gold must not necessarily be shipped to US. HM, Jr said he was wrong; a similar request from Switzerland had been turned down. Treasury does not pay for gold delivered in London. HM, Jr then referred to transcript of conversation with Ambassador and discovered misunderstanding arose from a remark by Mr. Taylor.

July 17, 1937

State Department's letter transmitting information from Embassy, Moscow, on Soviet gold industry and inclosing memorandum of statements made by an American mining engineer formerly employed by Soviet Gold Trust in regard to conditions in Soviet gold industry.



5 p. m., Sunday, April 11, 1937  
at the Secretary's home.

Present:

Secretary Morgenthau  
Mr. Oumansky, Counselor of the Embassy, Union  
of Soviet Socialist Republics  
Dr. Herbert Feis

Mr. Oumansky: How have you been, Mr. Secretary?

HM, Jr.: I have been pretty well, when you consider the rough treatment I get in this country.

Mr. Oumansky: It is not the same house where Mr. Litvinoff -- where we had a wonderful evening with you?

HM, Jr.: No. That was on Kalorama Road.

Mr. Oumansky: Isn't that near here?

HM, Jr.: Yes; just up a little bit. We had two evenings that were nice and I always look back .....

Mr. Oumansky: It is a good memory.

HM, Jr.: ..... as one of the most interesting and exciting events while I have been in Washington and it was very interesting, especially as I was not in the Treasury. It was sort of outside.

Mr. Oumansky: Yes, but you were appointed during our stay here, weren't you?

HM, Jr.: I don't know how it came about, but the President seemed to think if he used me in that way -- and your people here seemed to have confidence in me and so it started. I don't know why it started with me. I don't know. But anyway, it worked out very nicely and I always look back -- some time I hope to see Mr. Litvinoff again.

Mr. Oumansky: Maybe during the Coronation?

HM, Jr.: I am not going. As I understand, all sensible English people are leaving England at that time, renting their

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houses and making good money.

Dr. Feis. Of course. I am sure many English are.

HM,Jr: The reason I asked you to come is this: during a very short period, your Government has sent to the United States something like \$60,000,000.

Mr. Oumansky: You mean gold?

HM,Jr: Gold. Which we have bought. Russian bars. Incidentally, may I compliment you on the fineness of the refining of the Russian bars.

Mr. Oumansky: I see.

HM,Jr: We recognize your mark and take them. They won't in England. Your bars and your silver are second only to ours in purity.

Mr. Oumansky: I see.

HM,Jr: And accuracy.

Mr. Oumansky: Of the weight.

HM,Jr: Of weight. And purity.

Mr. Oumansky: I see.

HM,Jr: We are told there may be another \$140,000,000. So far, all the information has been correct, but none of it coming from your Government. We are in the place of a buyer, but we don't understand our customer. We are furnishing the dollar and we don't know the reason for it, and it worries me. In the first place, it's an added expense to our Treasury because I have to go out and borrow the money.

Mr. Oumansky: Uh-huh.

HM,Jr: To pay you.

Mr. Oumansky: I see.

HM,Jr: Because we are sterilizing the gold that comes in, you see, not to add to our reserves.



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Mr. Oumansky: Yes.

HM, Jr: Furthermore, if you don't mind my saying, the method you are using is very expensive to you because you go through five or six hands.....

Mr. Oumansky: Uh-huh.

HM, Jr: ..... and pay commissions over and over again.....

Mr. Oumansky: I see.

HM, Jr: ..... until it arrives finally to the credit of the Amtorg, when you might -- the Russian State Bank could do business with us directly and cut out all these middlemen.

Mr. Oumansky: Uh-huh. Are the middlemen right here in this country?

HM, Jr: Some here, and some on the other side.

Mr. Oumansky: Yes.

HM, Jr: Mr. Lockheed, of my office, has all this and I tried to get him, but he's down in Maryland. But there are numbers of corporations that you use. I haven't got all, but there are a lot of handling charges where you could do away with so many middlemen. Why should you use an outsider when the Russian State Bank could do business directly? You have to come to us ultimately, anyway, because we are the ultimate buyer and then if you did business with us directly, not only would you save money, but it would give us a chance to prepare for it.

Mr. Oumansky: I see.

HM, Jr: If, for instance, you would say that during the next week we propose to do so and so. The Argentine Government, for instance, has transferred, I think something like \$100,000,000, or close to that, of credits that they had in England. My figure may be wrong.....

Mr. Oumansky: Yes.

HM, Jr: .....but it's pretty nearly right -- credits they had in Sterling to dollars here, to pay off and refund their bonds. You see?

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Mr. Oumansky: Uh-huh.

HM, Jr: But they give us 48 hours' notice.

Mr. Oumansky: I see.

HM, Jr: I mean, the Argentine Government notifies us and they notify the Bank of England that during this week we are going to sell \$45,000,000 worth of Sterling and buy \$45,000,000 worth of dollars, and it gives us an opportunity to handle such a .....

Mr. Oumansky: It goes from Government to Government? The notification?

HM, Jr: The notification. Their Central Bank notifies the Bank of England and notifies our fiscal agent, which is the Federal Reserve in New York, that this is coming.

Mr. Oumansky: Yes.

HM, Jr: And then, due to our Tripartite Agreement, it gives us a chance to handle such a large transaction. Now, in normal times, when there are no restrictions, before the World War, a transaction like that would flow through private hands and would flow normally, but it's unable now to do so on account of there not being enough foreign exchange to go around and they would not have to notify us, but they would do it as a matter of courtesy and they tell us why they want the money and we provide it, because what we are trying to do -- the State Department and ourselves -- is to increase the flow of trade and if you are going to increase the flow of trade you have to supply foreign exchange.

Mr. Oumansky: Of course.

HM, Jr: Now, in your case they use these different corporations and different methods and it goes through all of these hands and we don't realize it's coming until it's right there.

Mr. Oumansky: I see.

HM, Jr: There is no explanation. You can perfectly well say, 'Well, we don't intend to give you any explanation,' which is within your right.

Mr. Oumansky: So far I have not been interested in the technical part of handling it. I don't know.



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HM, Jr: I think when you look into it, you won't believe it that they should go through all of these unnecessary motions to transfer these funds and, in the first place, it's costly, it's clumsy, and it's unnecessary, and it makes it that much more difficult for us to keep our exchanges even. After all, if the figures are correct, if your Government is the second largest holder of gold in the world -- I mean, the figure we have is \$6,000,000,000 -- that's what the League of Nations and various people have; I don't know; we can't get an official figure .....

Mr. Oumansky: You mean output or cumulative reserves?

HM, Jr: We can't get either. I asked Ambassador Davies to get it and he could not get it. But just let me give you this idea: if it is true, if in both output and reserve that your Government is second in gold to the United States, then you are very much interested in gold. You are just as much interested as we are.

Mr. Oumansky: Yes.

HM, Jr: And it's distinctly to your interest to see that gold is maintained as a yardstick of value and as a medium of balance of payment.

Mr. Oumansky: Of course, it is the medium for our foreign trade.

HM, Jr.: All right. But up to now, I am doing this -- I mean, I want to give you my thoughts .....

Mr. Oumansky: They are very interesting.

HM, Jr: ..... with the hope that out of it will come something constructive.

Mr. Oumansky: I see.

HM, Jr: But where your Government has such a tremendous stake -- you understand what I mean? .....

Mr. Oumansky: Yes. Yes.

HM, Jr: .... in this present medium of exchange in the world -- gold -- then it is to your interest to cooperate and make gold valueable and not to do everything possible ....

Mr. Oumansky: To depreciate it.

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HM, Jr: Yes. That's the whole story.

Mr. Oumansky: You express the idea perfectly, Mr. Secretary.

HM, Jr: Well, you can say, 'If you don't want to buy it, all right,' and so forth and so on. 'How much gold we have is our business. How much gold production there is, is our business.' That's all right; if that's the position of your Government, all right. But it seems to me that the contrary should be the answer.

Mr. Oumansky: I understand perfectly.

HM, Jr: It seems to me that not only should it be so, but I will go a step further -- I think the Russian State Bank should have here -- should send here somebody who could understand what we are doing; what the Tripartite Agreement is; what it means; what is there in it for you?

Mr. Oumansky: The Tripartite Agreement came as a surprise for us.

HM, Jr: So did it for everybody because if it was announced your friend, the French, and our friend, the French Government would not be there any more. After all, let's be frank: the Tripartite Agreement saved the Blum Government.

Mr. Oumansky: Oh, yes!

HM, Jr: And they have said so often and if it had been announced, the people who objected the most didn't know about it and they were the Germans. They were the most outraged that such a thing could happen without their knowing about it. But I need not tell you that if you wish to successfully conclude such an agreement, you can't tell the world if one member is in financial embarrassment. This thing was in September. You take, for instance, take the Japanese Government. The Japanese Government sent their embassy and their financial mission and made an exhaustive study of what we were doing because I think it was on the 12th or the 8th of January that they put in temporary exchange control. They just stopped. They wouldn't pay any foreign commitments and did not for six weeks. They made an exhaustive study of our arrangements here. We gave them all the information that they wanted, as a result of which they have been gradually sending gold here to keep the yen steady and they are taking advantage of this world situation to keep the yen steady. They haven't made



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any agreements. We haven't any agreement with the Japanese, but they realize that gold is the medium of exchange.

Mr. Oumansky: Yes.

HM, Jr: And they want to have the yen steady.

Mr. Oumansky: I see. May I ask a question.

HM, Jr: You may ask five.

Mr. Oumansky: You mentioned the sum of \$60,000,000 worth actual gold here already. In what period of time?

HM, Jr: I would say during the past month.

Mr. Oumansky: One month?

HM, Jr: That may be a little longer or a little less; if anything it's a little less.

Mr. Oumansky: What was the moment that you learned of the existing procedure?

HM, Jr: I am sorry. I do not quite understand.

Mr. Oumansky: You said that you learned that the shipment is made too late, because it goes through so many hands.

HM, Jr: In fact, I don't think we actually learned about it until we bought the gold.

Mr. Oumansky: I see.

HM, Jr: And I am not even sure whether we knew about it until the first Russian bars arrived.

Mr. Oumansky: You have to buy it because of this necessity of sterilizing gold?

HM, Jr: We have announced to the world that we will buy, until further notice, all gold offered at \$35.00 an ounce less 1/4%.

Mr. Oumansky: Yes.

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HM, Jr: . Then, under the present system, if we buy \$100,000,000 worth of gold we sterilize that gold and, therefore, in order to sterilize it we have to go out and borrow \$100,000,000.

Mr. Oumansky: Which is a burden for the United States Treasury.

HM, Jr: It is a burden. But that is incidental to the whole picture.

Mr. Oumansky: I see.

HM, Jr: What I am trying to do here is my part, outside of the United States, is to maintain an even flow in foreign exchange and if I can do that, then our State Department can go ahead with their trade negotiations, but all the trade negotiations in the world won't work if I want to sell you some tractors or you want to sell me some lumber, I have to pay you or you have to pay me, and you want to be paid in money which is as near an equal value from month to month and year to year. Now, the medium of balance of payment is gold.

Mr. Oumansky: And this is correct, especially as applied to our country because, as you know, our whole trade or almost the entire trade with this country is on the cash basis.

HM, Jr: Yes.

Mr. Oumansky: And we have no difficulty in maintaining it at this basis because I think it has created .....

HM, Jr: But it's much more important -- it seems to me it is much more important than just a little trade.

Mr. Oumansky: International repercussions.

HM, Jr: Tremendous.

Mr. Oumansky: Of course.

HM, Jr: And your stake in it in the future is just as great as ours and you are just as much interested whether we can continue the \$35.000 an ounce. You are far more interested than any other country because you have the gold.

Mr. Oumansky: Exactly; yes.



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HM, Jr: England, South Africa, Russia -- you are far more interested. You have got the gold. You have got the silver; the platinum, and instead of, through misunderstanding, having constant friction, what I would like to have is an enlightening exchange of views.

Mr. Oumansky: I see. Now it is obvious that everything you say to me now will be transmitted to Moscow. I will do this and I think they will understand perfectly the implication of this. May I ask you now, if possible, first, since I do not know how we handle it technically. I can find this out in New York how is it being done by us now, and since you say this, Mr. Secretary, 'you don't understand', why there must be some technical reason, but why does it pass through so many hands?

HM, Jr: That's what we can't understand.

Mr. Oumansky: For instance: the State Bank -- we have some payment in this country. The State Bank sends X million dollars in gold bars to, say, the Chase National Bank in New York. How is it being handled?

HM, Jr: If you don't mind, find out for yourself. It will be a very interesting story. But find out for yourself, you see, if you don't mind.

Mr. Oumansky: I will do that.

HM, Jr: And then ask them if the story is true that we are told that they are sending this gold down in small fishing boats.

Mr. Oumansky: Well!

HM, Jr: From the White Sea.

Mr. Oumansky: From the White Sea??

Dr. Feis: I think Archangel.

Mr. Oumansky: Archangel!! Archangel is frozen now.

Dr. Feis: I wouldn't say 'fishing' boats, but small boats.

Mr. Oumansky: To London??

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HM, Jr: To London.

Mr. Oumansky: That surprises me very much, because knowing the conditions, the only port we have free of ice in winter is movements, or export, of lumber and, How do you call it in English? Appertite? Fertilizer.

Dr. Feis: In English it is very close. It's appertie(?). Phosphate rock, I think they call it.

Mr. Oumansky: Then I will find out how we do it. And then my next question, if you will permit me, I see two suggestions or two possibilities. First, a financial representative of the State Bank -- as we have, by the way, in Paris, if I am not mistaken, and in London; we have none here. That is correct. Second, mutual exchange of views and information. What is the main point in this sense, to know when we are going to ship and how much we are going to ship, or what would be the practical .....

HM, Jr: The way it would work.

Mr. Oumansky: I am asking this, of course, for information.

HM, Jr: The way it could work would be, I mean this would be the way it might work -- that the Russian State Bank would notify our fiscal agent, which is the Federal Reserve ...

Mr. Oumansky: Yes.

HM, Jr: .... or the Bank of England .....

Mr. Oumansky: Yes.

HM, Jr: .... either one: 'We have \$10,000,000 of gold bars that we would like to present and we wish to sell them for Sterling in London or dollars here.'

Mr. Oumansky: Yes.

HM, Jr: 'We will deliver them in London to the Bank of England and ask them to forward them for us or we will send them direct.'

Mr. Oumansky: Yes.

HM, Jr: And then what you would do, you would have an



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account the way I think, I don't know how many, 20 - 30 - 40 other .....

Mr. Oumansky: Nations?

HM, Jr: Nations have with the Federal Reserve and we would deposit the money there to your credit.

Mr. Oumansky: I see.

HM, Jr: And you would draw it out as you needed it. Or you could deposit the gold with us for earmarking.

Mr. Oumansky: I see.

HM, Jr: The way we do for other countries; not sell it, but just have it here.

Mr. Oumansky: I see.

HM, Jr: And as you need the money you could sell it, but you have actually so many ounces of gold deposited and under the recent -- which has not been announced -- but another advantage under this agreement, gold earmarked here for any of these five countries, we permit them to swap between countries. For instance, if England has 1,000 ounces of gold here and wishes to transfer to Holland, they can just do it as a book-keeping operation. They can transfer the gold from one to another, just on our books. So there you could have your money here and we would know you would be conforming to what other Governments are doing. It would make us less nervous. You might express, or might give us your views, some way, how you feel about gold, the way we have publicly, the way we feel about foreign exchange.

Mr. Oumansky: Yes.

HM, Jr: As far as I know, the Russian Government has never expressed a view about gold as a medium of exchange.

Mr. Oumansky: With one exception. Only indirectly, of course, concerning this question was a statement you may have seen. It was about November, 1936. A statement by Mr. Rosenberger, the Foreign Trade Commissar, on our foreign trade principles, where he said that old schemes of currency, old currency schemes are obsolete to us. We have gold and gold enough, but we will not waste it because we must always keep in view an emergency situation. That was the only

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official statement.

HM, Jr: I have not seen it.

Mr. Oumansky: He said, We have all the necessary prerequisites to pay cash for things we need, but of course we would not be extravagant because we cannot waste it. Something of this kind. I will be glad to send it to you and to Mr. Feis.

HM, Jr: The other thing I would like to ask, if the information is correct that you are going to build up a balance of \$200,000,000, I would like to ask the purpose of that.

Dr. Feis: That partly due to the fact -- Mr. Oumansky might know -- that this accumulation of foreign holdings in this country has reached a total of \$8,000,000,000 and has become necessarily a most important element in every phase of both trade and monetary .....

Mr. Oumansky: Our share in that \$8,000,000,000 would be a very modest one.

Dr. Feis: I am just asserting \$200,000,000 and perhaps \$200,000,000 --- well, in order to know what the problem is the more information we can get from any and every source as to the nature of those deposits .....

HM, Jr: Look what we did in silver, for instance. After the most strenuous time time and pacing the floor at midnight and pulling out the little hair we had, we have been able to establish a stable market for silver throughout the world. You are interested in that. Take Turkey, for instance. Because silver has been steady at 45 cents for a year and a half, Turkey is beginning to coin large silver money. Turkey is one of your big customers. You are interested. But we have done it. We are doing the same thing in gold. You have got just as big an interest as we have in silver and in gold and I think that you ought to cooperate with us in making this money, this metal, valuable instead of possibly, through lack of information, making it cheaper. It is a very important question.

Mr. Oumansky: I understand perfectly, Mr. Secretary.

HM, Jr: Then the whole question comes up of neutrality --



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the whole question of neutrality. I am no diplomat. The idea of Russia having \$200,000,000 or \$500,000,000 here, cash, for what?

Mr. Oumansky: Neutrality legislation is not very encouraging for our trade.

HM, Jr.: But I think you are interested in world peace.

Mr. Oumansky: Of course.

HM, Jr.: We are too. The whole thing is so important that instead of our being in complete ignorance, we think that the time has come when we should exchange information and we certainly will extend the same courtesies to your Government as we do to other Governments, but we have never been asked. We have never been approached by the Russian State Bank.

Dr. Feis: I wonder if Mr. Oumansky has seen the quarterly reports the Treasury is now getting out on foreign capital.

Mr. Oumansky: I have not seen them.

(At this point, the Secretary instructed that two copies of each of the reports be sent to Mr. Oumansky.)

Dr. Feis: .... full and detailed picture.

HM, Jr.: And we are the only country that has.

Mr. Oumansky: The press here and in New York asked me, the end of this last week, a question about alleged shipping of \$109,000,000 -- a report by the Evening Journal in New York.

HM, Jr.: I made no comments on it of any kind.

Mr. Oumansky: They asked whether it is true that some representatives asked a guarantee of the price of \$35.00 would remain for the next 60 days, or something.

Dr. Feis: I think it was in the Times, or one important morning paper -- maybe the Journal of Commerce or the Herald Tribune.

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Mr. Oumansky: We had no authority. We were not asked nor was Amtorg asked to ask any questions of this kind.

HM, Jr: I just want to say it is to your interest to keep gold valuable just as it is to us.

Mr. Oumansky: I understand you perfectly, Mr. Secretary.

HM, Jr: And for the time being, this Government happens to be making the price of gold. The time may come when somebody else can make the price, but for the time being the gold and silver price is kept stable only for one reason and that is because the United States Government makes it stable. And let me give you one other thought: for you people to send all this money over here without knowing our policy -- I mean, any more than I would want to buy an interest in a company .....

Mr. Oumansky: Without knowing the policy of that company.

HM, Jr: You have no idea. You don't know how it works. You have never asked me. Would I buy 10 shares in General Motors without wanting at least to know how many or what kind of cars they make; how many cylinders; what kind of engine; at least I would like to look under the hood.

Mr. Oumansky: I understand it perfectly. I will both refer and investigate, because I know nothing about the procedure we are using.

HM, Jr: You will be very intrigued. You really will be.

Mr. Oumansky: There must be some reason which I do not know.

HM, Jr: And, as I say, any information on how this is handled is available to you just as it is to any other Government.

Mr. Oumansky: I see.

HM, Jr: All right.



FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE April 12, 1937.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF ENGLAND

I called Mr. Bolton at 11:29 today. Things looked much quieter, he said; the market had been small in London for both dollars and the franc. Stability was also reasserting itself in the gold market where very little business was done after fixing, with the price up about one penny. Practically all the gold available came from de-hoarding or else was newly mined. He had heard of no more Russian gold in the market for the last few days. He had heard of four or five small buyers, none of them dealing in a very large way; nevertheless, this helped to give the market a steadying appearance. He himself had taken about £500,000 worth of gold today and £1,000,000 on Saturday. I mentioned that three or four foreign central banks had released gold from earmark on Saturday in a total amount of about \$8,000,000. That looked to me, I said, as though at least some of them were switching from earmarks in New York to earmarks in Europe, which, after all, would be quite a profitable transaction and, incidentally, add to the stability of the <sup>gold</sup> market there. As far as the Swiss were concerned, Bolton thought, releases in New York were probably for the purpose of supporting the French franc as the Swiss had also released about £800,000 altogether in the last few days in London. The fact was that the Swiss franc had never quite recovered from the effect of German sales some four weeks ago, totaling 200,000,000 Swiss francs, in connection with the forcible repatriation of German capital.

I told Bolton very confidentially of our exchange of cablegrams with the Belgian National Bank; he seemed to think that the Belgians' cable to us was sent as a preparatory measure in case the

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 12, 1937.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnobeBANK OF ENGLAND.

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**Belgian election went against Van Zeeland.**

RECEIVED

APR 15 1937

TREASURY DEPARTMENT  
Office of the Secretary  
Treasury Building, 15th Street  
Washington, D. C.

LWK:KNC



April 12, 1937

H. M. Jr. called the President. "I want to tell you what went on behind the scenes yesterday. Eccles' man, Elliott Thurston, gave out this statement to the boys about interest rates, etc. Eccles had not known it. At my Press Conference they tried to drive a wedge between Eccles and myself and I think I handled it all right. That is why there is all this stuff in the papers. This fellow Elliott Thurston has made a lot of trouble for both Eccles and myself and I think that Eccles is now on to him.

"I thought you were marvelous with Kennedy yesterday. I am too trusting. I never suggested that he should come with me to see you and you didn't have to signal to me twice to keep quiet. I got your signals. You were very firm and when he went outside he said, 'After what the President tells me I will have to wait until Monday and then I will get drunk'.

"No one will get the plan out of me until you give it out. Our bond market behaved very well yesterday. If you are not busy tomorrow I have a few more things I didn't get to clear with you yesterday".

April 12, 1937.  
9:30 A. M.

GROUP MEETING

Present:

Mr. McReynolds  
Mr. Upham  
Mr. Lochhead  
Mr. Bell  
Miss Roche  
Mr. Haas  
Mr. Gibbons  
Mr. Gaston  
Mr. Taylor  
Mr. Oliphant  
Mr. Magill

H.M.Jr.: Good morning, everybody.

Gibbons: Got somebody docking this morning?

H.M.Jr.: Henry comes in from Bermuda. We didn't do anything, but he sent Miss Wais a cable at the dock to meet him.

Gibbons: What time does he get in?

H.M.Jr.: Nine o'clock. You know Miss Wais.

Gibbons: Yes. She'll see.

H.M.Jr.: What?

Gibbons: Surely, that's O. K.

H.M.Jr.: But I didn't think of it. I mean let - he'll get through all right.

Gibbons: You've got to determine now what is "aged and infirm." We got a regulation now that if you are aged and infirm, you can be expedited.

H.M.Jr.: Well, this is - we'll let him go through the ropes.

Mac?



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McReynolds: They're going ahead with that thing very satisfactorily. The men over there are working with Peoples. I had a long talk with Peoples about it.

H.M.Jr.: Well, if I had the time - I don't know whether this is good discipline or bad discipline - I'd like to get Peoples and the group over here and just give them hell that such a thing could go on in Procurement.

McReynolds: Well, they had - it's been long since fixed, as far as the possibility of that is concerned, see? That was back in '35 when they took over the Resettlement group and this was the Resettlement group until they had merged it into the regular procedure. But I'm checking that. The boys are going through a review of all their procedure.

H.M.Jr.: May I keep this?

McReynolds: Yes.

H.M.Jr.: What I want to do is - before you people throw stuff at me - I'm going to practically make no appointments this week for anybody and I'm just going to think of nothing but budget, so - I mean whatever anybody has got to shoot at me will have to be in the room and I'll do what I can, but outside of that - I'm going to say what is frank - I've got for the budget. So we'll keep the Treasury rolling but I'll just have to take as little outside stuff as possible.

But that is rolling (McReynolds)?

McReynolds: Oh, it's on its way. It's on the way.

H.M.Jr.: Now I spent Sunday - Saturday afternoon, Mrs. Morgenthau and I, with Mr. Ihlder and I've asked Mr. Ihlder to come to the Treasury and give us half time at our expense beginning today, which he's agreed to do. I went around and saw the work and I guess there's no question that - Mrs. Roosevelt confirmed this - that he is the only man in the United States

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that has been able to do slum clearance. There's no other place. And he's got his feet on his ground and he knows the value of money. I've been within a hundred yards of the Capitol and I've seen the worst slums there are. You can stand there and see these things. And I've been to Hopkins' place. We went all through the thing. I've been out to those - something heights where those shacks are - Marshall Heights.

But anyway he's coming. Now I'd like to get him started. I'd like to take and get everybody in here - take fifteen minutes to get him started, see? So let's say this: that at three o'clock..... And you (McReynolds) phone him; I don't know what he's paid, but we pay him half whatever he gets. And fix him up with an office.

Let's say three o'clock. Now who is it that works on this thing?

Bell: Patterson has been working with Mr. McReynolds' group on Wagner housing.

H.M.Jr.: You want him to be in for fifteen minutes?

Bell: Well, I'd like to be in.

H.M.Jr.: Let's see how it is.

Bell: I think most of my time might be taken up.

H.M.Jr.: Well, send somebody in.

George?

Haas: Unless you want me, Lindau has been working on it.

H.M.Jr.: Well, you better come in for fifteen minutes - just listen, get this thing started.

Bell: He has submitted to me a memorandum on the Wagner Bill which points out some defects.



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H.M.Jr.: Well, I don't want to go into the whole thing but I've worked out an idea of my own which Mr. Ihlder said - while it's new, he says he thinks I'm on the right track. And that is to make the community buy the land and overcome this question of .....

Oliphant: Eminent domain.

H.M.Jr.: .... eminent domain, and then work from that. Start with that rather than - and the Federal Government do the building after the community tells us what their needs are. But overcome all this local graft, see? The Federal Government - I mean they tell us what they need and we build it. But the community buys the land and then we have - then he's going to work this idea that out of that maybe we can sell a mortgage against the property and make the property carry itself, see? But he says it - he certainly thinks it's worth-while. And it's never been approached from that angle. It's always been that the Federal Government buys the land and then subsidizes the locality to build the building and the more subsidy the more expense - just a vicious circle, and there is no incentive to save money.

But he certainly has got his feet on the ground, and anybody who has time to go and spend two hours with that man - it's certainly worth-while.

Now have you got anybody, Miss Roche?

Roche: Miss Switzer and I have both been working on it.

H.M.Jr.: Would you like to come?

Roche: I'd appreciate coming in very much.

H.M.Jr.: All right.

Roche: I've been very interested in that section, sir. One of the elevator boys, two of the messengers here have been definitely wanting to get in on this alley dwelling thing here. They had over six hundred applications and they wouldn't consider anybody who was getting less than \$1500

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a year, on the basis that unless somebody got \$1500 a year, they wouldn't be sure to get their rent paid. These boys are only getting around \$900, so all that group has been eliminated - all your low income group is out.

H.M.Jr.: Well, of course, for the Hopkins' place, the rent is \$25 a month.

Roche: Yes.

H.M.Jr.: That's what they charge.

Roche: \$25. And the least these boys can get they tell me is \$47.50. Now they have to pay that anyway. But even \$25 - they won't take a bet on anybody who is getting less than \$1500. And as the boys say, they have to pay their rent if it is \$47. It's interesting.

H.M.Jr.: It is interesting.

But the other question is: How much would this be a subsidy in place of the lease? I mean I've gone pretty far in this thing and I think in Ihlder I've found the best man.

Roche: He's good, but...

H.M.Jr.: I know.

Roche: But those are just the facts that the low income groups are up against.

H.M.Jr.: But at least in Ihlder we have a man who is sympathetic and who knows the stuff.

Roche: And a realist.

H.M.Jr.: Very. And he isn't a truckler. There is nothing - he doesn't kiss your toe at all or anything like that. I mean he looks you in the eye and talks straight from the shoulder. I mean he's a real person. I was very much impressed with him.



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Well, anyway, anybody who is interested in housing - I'll put it that way - can be here at three o'clock. It will only run fifteen minutes.

McReynolds: I'll have Barton here and Max Dunning.

Oliphant: How about Clarence?

H.M.Jr.: Anybody who is interested.

Cy, I think you better get on a train this afternoon and go out visiting some banks, see how they feel - what this talk is about their profits being wiped out in small banks, etc. Work out a trip. I'd go out in the field.

Upham: Any particular section?

H.M.Jr.: I don't care. Call up the Comptroller or FDIC or some place and find out where the - I mean go to the good, bad and indifferent, see?

Upham: All right.

H.M.Jr.: You can start at St. Paul and work down or something like that.

Upham: (Nods yes)

H.M.Jr.: But I'd stay on it for a week. And send me an air mail letter every night. Go in right in the bank and talk to them. What?

Upham: Surely.

H.M.Jr.: Because I'd like to know just how some of these fellows feel - I mean starting with a fellow like Brown of the First National, down to the fellow that has maybe a couple million dollars worth of Government, five hundred thousand. I mean I think you'd better make another field trip.

Upham: All right.

H.M.Jr.: And if it is important enough, you can phone me - if you have something important.

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Roche:

There was an extremely interesting resolution passed by the State health officers at their conference which bears on this full grant-in-aid program which I thought might be of interest. It escaped press notice; I don't know whether they got the significance of it. But with all the violent antipathy to any Federal regulation or conditions on grants to States that the other groups that are handling social security have had, it was quite interesting that after a year of these practically unconditional grants that we have given to the States, they unanimously this year, after they had canvassed the difficulties we had had in places, voted a resolution approving conditions being put on the funds by the Federal Government - the Surgeon General in this instance - and assuring proper type of personnel and proper use of the funds. So that you have at their own suggestion a very interesting possibility for guiding the program further, and it developed right out of their own group thinking as a result of sub-committees canvassing the problem. So I thought it was quite encouraging from a Federal-State relationship. It might be of interest. That's about all.

I have several other things that I might put in a memorandum this afternoon for you.

H.M.Jr.: Dan, will you stay after this meeting? Anything you want to say?

Bell: No, I think not. I have a letter which I'd like you to look over.

H.M.Jr.: Now there was a letter - probably it went to Mr. McReynolds - a letter asking heads of the Departments to canvass the expenditure situation for the next three months.

McReynolds: Yes, I got it Saturday morning and sent it out to be circulated through the Treasury. That was just a Treasury letter of course. That was your letter. That was the letter of the President; it went to all other departments, I think.



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H.M.Jr.: I'd like to see it. You bring it in afterwards, will you?

McReynolds: Yes.

H.M.Jr.: Anything else, Bell?

Bell: No.

H.M.Jr.: George?

Haas: I have nothing.

H.M.Jr.: Well, now, your '37 figures are through. What about your '38?

Haas: We've got those through too. Ros there.

H.M.Jr.: What?

Haas: Mr. Magill has them.

Gibbons: I have nothing but personnel, which I have to make a study of with Mac, in Customs. That's the only....

H.M.Jr.: What did you do about a successor to Flynn?

Gibbons: He's already appointed. In New York?

H.M.Jr.: Yes.

McReynolds: Cleared it.

H.M.Jr.: Did you clear it?

Gibbons: Yes, it's cleared. Jim turned me over to Vince Daley and Vince said - well, Civil Service, they had no interest in it.

H.M.Jr.: Flynn called up?

Gibbons: Ed Flynn is not around.

McReynolds: He may be out with John. I don't know. They couldn't find him.

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Gibbons: So they just simply said that it wasn't a place they were interested in, and nothing more than if there was a place for an appointment and two men. And Vince said that if they wanted a Democrat appointed, they wouldn't go that far, they'd come to me or go to you. So he said, "We haven't any interest in who it is."

H.M.Jr.: So it's cleared.

Gibbons: Yes, it was absolutely cleared. I got him on the phone the same afternoon.

H.M.Jr.: Same day! Marvelous!

McReynolds: Well, it was hot - needed to go. That thing had been running loose end.

Gibbons: We had a situation - Harry Durning had a health survey made of his inspectors and guards and people like that and they got everything from arthritis to erysipelas, and yet the Civil Service says that unless they fall down, you can't get rid of them; they must die in their track. One fellow out in San Francisco, a laborer, had no toes. I'm asking how he got in the service. They want to promote him to a guard. I turned it down. So those are just some of those - just minor personnel matters. But Civil Service - absurd you know in their...

H.M.Jr.: Herbert?

Gaston: I haven't anything.

H.M.Jr.: Wayne?

Taylor: I got a reply to that neutrality memorandum that you sent over. Shall I talk to Herman about that?

H.M.Jr.: Yes, will you? And when you agree on what action I should take, will you talk to me?

And after Miss Chauncey has written up her notes of yesterday afternoon, ask for them. I won't



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say what they are. Just ask for them. I'd like you (Oliphant) to see them too, and Archie and George. Just take a look. Anything else?

Taylor: That's all.

H.M.Jr.: I didn't want to bother you. Herbert Feis was there. You said you needed Saturday and Sunday. Herbert could have killed me. I made him work most of yesterday.

Oliphant: I've got some item of news on the E. M. Smith tax case in Los Angeles.

H.M.Jr.: Pardon me?

Oliphant: Item of news on that E. M. Smith, Los Angeles, tax case. There's one thing - I would like to have five minutes with you and Mr. McReynolds.

H.M.Jr.: All right. I'll just make a note.

McReynolds: Well, Graves will have a memorandum some time this morning that you (Oliphant) and I will want to look at.

Oliphant: Yes, I know, but it's more general. Better this afternoon than this morning, because we'll get some critical information at lunch.

H.M.Jr.: Critical? Well, why not say - we'll have that "HO" at three fifteen?

Oliphant: That'll be fine.

H.M.Jr.: What?

Oliphant: All right.

H.M.Jr.: What else, Herman?

Oliphant: That's all.

Magill: I have these estimates for '37 and '38. There's some questions of policy, I presume, to thrash out with Bell.

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H.M.Jr.: Well, let's have Bell and Haas and you stay right now.

Magill: All right.

I also have this report from Charlie Russell as to what his check in these larger districts shows, and there's some very funny things. It will take some study.

H.M.Jr.: Well, I'd like to go into it right after this. As I understand, the actuarial group will not be in this morning.

Magill: That's right. Tomorrow morning.

H.M.Jr.: Magill is out at ten thirty so I'll have the whole morning free. We've got Railroad Retirement down....

Magill: That's tomorrow. Better put your ten thirty there tomorrow if you can - the same story as today.

H.M.Jr.: I'll try to. I'll put you down and we'll see how we go.

Mac, call up Secretary Wallace's office and say I can't come to - I'd better do it myself. I'll call Wallace. I mean I'd better say why. You (Magill) stay now.

Magill: All right. I'll stay now.

H.M.Jr.: Now this is the way I'm working. I mean we've got that stuff. That's what I told Haas yesterday - for the purposes of this week we've got to take as our estimate the money that has come in.

Oliphant: That's right.

H.M.Jr.: And we can't say "Well, there's some bugs in this thing and if we can iron those out, maybe we can get another fifty or a hundred million." So what I am doing this week is being as practical as I can, and then if we discover some new gold and



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we think maybe we can..... But I'm not going to be in a position again that I take Wallace's word that the unjust enrichment tax is going to give us a hundred fifty million and we get one million.

So in preparing this thing - I talked to George yesterday - we're going to take the figures as they are. Now if there is anything better, why, that's manna from heaven.

So this thing here of going into the bugs in this thing would be second.

Oliphant: We'll have time to develop it.

Magill: I want to develop it somewhat with Russell anyway.

ooOoo

April 12, 1937.  
10:00 A. M.

Meeting on Revised Budget Estimates.

Present:

Mr. Magill  
Mr. Haas.  
Mr. Bell

Magill: I may just give you this figure; I think you will be interested in it. A hundred ninety-three wealthy individuals in these six districts - the dividends which they received increased in 1936 only 13 per cent over what they received in '35 according to their returns.\*

Bell: What per cent?

Magill: Thirteen. That is - there is something funny somewhere.

H.M.Jr.: Well, my guess is - I mean it should be nearly double.

Magill: As I was saying....

H.M.Jr.: It should be about double.

Magill: The other thing that strikes you about it, on the large corporations which were widely held there was an increase in the dividend credit which they took of only 11 per cent, and in the large corporations which were closely held there was an increase of 47 per cent in dividends.

H.M.Jr.: Well, when I say it ought to be double, I am conservative. It ought to be more than double. But anybody that had just an average run of stocks last year - his dividends should have been double, just about double.

Magill: Well, there's some - there's some bugs in there somewhere.

\* Mr. Magill later advised reporter correct figures were: 13 per cent more net income; 1 per cent more dividends.



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H.M.Jr.: Well, you're going to get those returns out.

Magill: Yes.

H.M.Jr.: One hundred and how many richest people?

Magill: One hundred and ninety-three.

H.M.Jr.: And the returns were only what?

Magill: The dividends they reported increased from 88 million to 101 million, which is 13 per cent.

H.M.Jr.: I'd like to see some of those returns. Have you sent for them?

Magill: Yes, we've already started in to make a quick examination of all returns of individuals with \$100,000 or more.

H.M.Jr.: Have you got enough people?

Magill: I'm going to find out this morning.

H.M.Jr.: All right.

Now let's have a little campaign program. I mean let's start with Dan. After all,..... What do you need from the Treasury that you haven't got?

Bell: The estimates of revenue and an explanation of their estimates.

H.M.Jr.: Are you talking '37?

Bell: Both '37 and '38.

H.M.Jr.: Well, all right. Now when is he going to get it?

Haas: As soon as - Ros will probably want to talk to me for awhile. I have transmitted them to Ros but he usually wants to talk to me a little about it. I don't know how he feels about it.

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Magill: I've got these estimates for '37 and '38 and also the explanations. I had '37 up in New York over the week-end. I got '38 this morning.

Well, now, I think there are one or two questions of policy that we can thrash out right here, and there are some details that George and I may want to talk about.

H.M.Jr.: I've got all the time you fellows have.

Magill: Speaking to '37, what George has done, I think, is to make a quite conservative picture as I see it of what we are likely to get except I would think in the case of estate taxes. That is, my own feeling would be that it is speculative whether the estimates of revenue - or whether the revenue actually received will not be less than what this revised estimate shows.

Haas: Well, I ....

Magill: Now the reason for that is that there was a postponement of the period for filing returns, from twelve months to fifteen months, and we have no very good way of gauging what we are going to take in in the next three months. If it came in on a proportional basis to what we have received during the past nine months, we would get less than what this revised estimate shows. On the other hand, there is some reason to expect that we might get more than what we have been getting.

H.M.Jr.: Well, may I give you my philosophy on this - which I've done ever since I've been here, and this doesn't check with the President and I can't help it and I'm not going to change myself. My instructions have been ever since I've been in the Treasury on the estimate that there is an upper and a lower figure - always take the lower one. Now I told that to George. I mean if they say, "Well, we may get between a hundred and a hundred and fifty million dollars" I say, "Well, how do you arrive at a hundred?"



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"Well, if you eliminate all the possibilities, we'll surely get a hundred." So I've told him right along to take the lower figure, so if there is any question.... Now that isn't what the President told me but I can't help it. I mean I'm not going to change to make the picture look pretty at this stage. I've never done it, and therefore - after all we've been right up to now. So I'm going - so in working on this thing, I want to show him that every dollar that we can - we'll come as near as possible saying, "Well, Mr. President, we are positive of this much revenue."

- Magill: Well, George, am I right in thinking as I go over this that these various estimates except, as I say, in the case of the estate taxes, are really rock bottom figures?
- Haas: Yes. I'll explain. I called up Helvering Saturday - you (H.M.Jr.) weren't here and I thought just for a - and asked him if he had some thought on estimates from some people over there in the different divisions. So I had them come over Saturday and we had a conference. So they went over these estimates. I don't feel any better than I did about having them, but I feel we at least had them over.
- H.M.Jr.: Well, it's very important, because Helvering goes to the President and gives him an entirely different picture.
- Haas: Now let me tell you about it. That girl came over who is some relative of his - made those estimates - and the other people, Self and another man, disagreed with her.
- Bell: Miss Wetherton.
- Haas: Miss Wetherton - disagreed absolutely, and they thought for the basis of receipts we'd better go to these figures which we've got.
- H.M.Jr.: Now may I interrupt? Now listen, Magill, before these go to Bell, I want Helvering to sign this

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thing, see? And if you will hold it up until he does.... Because Bell and I can't go over to the President and say, "Here are the things." And the first thing he'll say, "What about Helvering's figure of 350 million?" And I want to say that Helvering has seen this and agrees to it, so the ground isn't cut from under my feet.

Haas: I've paved the way for that.

H.M.Jr.: I want to tell you that before these figures go from you, I want Helvering to initial them and if you can't get together and if you have any arguments, bring him in here and we'll get together. But before they leave your hands, Helvering's got to agree or give a written memorandum where he disagrees. But if he disagrees, please bring him into this office and then we can - I'll drop anything that I've got for budget estimates, our end of the thing, or for you (Bell), see? What?

Bell: (Nods yes)

H.M.Jr.: I mean everything this week I'll drop at a moment's notice. But I mean let's confine it strictly to this. Buy please get Helvering over here yourself.

Magill: All right.

Haas: Now on the estate tax I thought as Ros did; I wanted to cut the thing down. But then I had Crum - and Crum has been working very hard on it - and Crum went over the thing with me and he said he thought there would be no use in going to an extreme. He thinks there is a real case for that and I'd like to present that.

H.M.Jr.: How much is the difference on the estate tax?

Magill: Thirty million.

H.M.Jr.: In other words out of the whole thing that Haas has done you are arguing about thirty million?

Magill: I should think so.



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H.M.Jr.: Well, that's not so bad.

Magill: And I think it is otherwise quite conservative.

Haas: And I allowed no increase for some of the other miscellaneous taxes where there might be more.

Magill: That's true.

Haas: Where we might conceivably get more income than the estimates show - maybe more liquor tax; I washed that out.

Magill: But I should think that what you might get more might be in the neighborhood of 50 million at the outside. Wouldn't you think so?

Haas: Yes.

Magill: Which isn't very much.

Bell: Give the Secretary the net picture there, Ros, will you?

Magill: Well, the net reduction in actual receipts as against estimates for '37 - we are off 594.5 million.

H.M.Jr.: Well, I've been carrying 600 millions net.

Magill: Yes, your 600 is right.

H.M.Jr.: Well, I told the President between five and six hundred when he was at Warm Springs, and then he came out with an announcement that from a layman's viewpoint we had a distinct balance. And then Joe Kennedy.... You know, the thing would be balanced from a layman's standpoint. Then Joe Kennedy tells me Saturday night - he spoke to the President Saturday night and told him "That's what Henry told me." Well, I told him no such thing - just the opposite. I told the President right along this year we'd be off between five and six hundred million dollars and he kept saying three hundred fifty.

Now do you include in that anything we'll save?

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Bell: No, that 595 is just revenue. But the 350 that he's talking about, he may have had in mind revenue, but I think on the whole it may be in the neighborhood of 350.

Magill: I don't understand this Helvering story because he has said right along to me that the income tax would be off 300 million.

Haas: I've got his figures.

Magill: George has it off 267 million.

H.M.Jr.: Look, this is what happened. Helvering always played square with me. Helvering goes over because the President - a couple of things he couldn't do in making out his income tax, see? I mean he never made out his income tax at Warm Springs. He sent for Helvering - a couple of questions. While he's sitting there gossiping - "What do you think?" Helvering says he wasn't prepared and he pulled the best figure he had out of the air. He said he had no preparation, wasn't ready for it. The President said, "Tell me, what do you think?" He said, "I gave him a guess and the President grabbed it." He said, "I didn't go over it at all." So I mean the fellow played fair.

Bell: But he did give him a statement.

H.M.Jr.: Written statement?

Bell: Typewritten statement somewhat on the order of...

H.M.Jr.: That's what Helvering gave me when I asked him to try to....

Bell: He didn't give the President any written statement?

H.M.Jr.: No, nothing. So he played perfectly fair, I want to make clear. No, he had nothing.

Magill: Well, I think in Helvering's own mind he must have been thinking about the income tax and not these other taxes.



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H.M.Jr.: Well, let's say a net loss of revenue of 600. And where are you (Bell) going to save 150?

Bell: Well, I'm just going through the estimates of the various departments and see what they have done up to date and compare them and see whether or not I can take a little money; maybe we've overestimated. And we expect when this letter goes out to save a little. But I hope to take 200 million dollars off this figure; maybe I can take 250.

H.M.Jr.: Let me have Miss Chauncey a minute (on phone).  
.... Miss Chauncey, Mr. Haas' memorandum which he prepared for the meeting of Thursday a week ago and had to do with what we call selective spending - will you bring that in to me please?

Magill: Well now for '38....

H.M.Jr.: Incidentally, did you see that Walter Lippman had an article called "Selective Spending" in quotes? Somebody talked.

Haas: It would be surprising if they didn't - as many people as they had there.

Magill: The '38 figures I've just gone over this morning and I have no special competence on it, of course. The point that I wanted to bring to your attention was that these estimates show an increase over the budget figure of 307 million dollars on account of the carriers' tax and 77 million on account of unjust enrichment.

H.M.Jr.: What's the total?

Magill: The total is minus 75 million.

H.M.Jr.: Off?

Magill: Yes - '38.

Haas: I'd like to explain before you get that crystallized in your mind...

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- Magill: Now on the carriers' tax and the unjust enrichment, you of course know of the situation. If the carriers get away with their 5 per cent rate, we'd get in fact in the fiscal year '38 about 110 million dollars or about 200 million less than this. Now looking at it within the room here, I think you can be pretty sure that you're not going to get much more than that; and furthermore, if the agreement goes through, as I suppose it would, the back collections which are included here probably will come in in the current fiscal year.
- Bell: If the bill goes through.
- Magill: Now George has no doubt estimated this on the basis of the existing law.
- Haas: That's right.
- Magill: Which is a perfectly proper way to do it.
- Haas: But I've got it flagged.
- H.M.Jr.: What do you mean flagged?
- Haas: I mean I've got it marked so as to raise the question of policy. Your previous policy has been to put in figures on the basis of existing law, and I think this distorts the picture by putting it in.
- H.M.Jr.: You mean you ought to leave it out?
- Haas: No, it's a question of policy. If it's in, it makes the picture look a lot better than it actually is.
- Bell: That's right. It can't go without very clear comment on it.
- Haas: We'll have to comment on it.
- H.M.Jr.: Now wait a second. We're talking about how much money?



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Magill: From the carriers' tax....

H.M.Jr.: How much?

Magill: You've got in plus 307 million.

H.M.Jr.: Plus 307?

Magill: Right.

H.M.Jr.: You mean that's what you're counting on?

Haas: That is - we're not counting on it but that's what the existing law would bring.

Magill: There was nothing on the '38 budget on account of this carriers' tax, because it was to expire this last February.

Bell: First I think you should explain that the 595 includes the loss of revenue amounting to 134 million due to this Railroad Retirement tax.

Magill: Right. In other words these are essentially set up on a little different basis. The '37 as far as the carriers' tax is concerned is a realistic picture; we're not going to get that 135 million. The '38 is unrealistic, in my opinion, because we're not going to get the 307 either.

H.M.Jr.: How much are you going to get?

Magill: Well, I think you're going to get 110.

H.M.Jr.: Why not put it down?

Bell: By putting it in we're tipping our hand to the carriers.

H.M.Jr.: I see.

Magill: That's the trouble. If you put it in this way, for what it is worth, it indicates that the President is going to stand by the present law.

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H.M.Jr.: And what do you figure that at - 7 per cent?

Magill: Yes.

H.M.Jr.: If you figure it at 7, how much revenue do you get?

Magill: Well, you'd get 154 million for the fiscal year and then George has put in another 154 for back tax collections - that is, for '37. I wouldn't put that in. I think that the most that you ought to put in is your 154.

H.M.Jr.: Well, if it went through on my basis starting the first of July, how much?

Magill: You'd get 110.

Bell: But we'd get the back taxes of 134 million that are due in the fiscal year 1937.

Magill: But that's the other fiscal year.

Haas: But it comes into '38.

Bell: It might come in - after the Secretary's suggestion that we carried to the Hill the other day of allowing the present law to go on until June 30th and then starting a new program July 1st, we would get 134 million dollars that had accrued.

Magill: You would be justified if you wanted to - and I'm not so sure but what I would do this - to leave the thing out entirely, on the same basis as you had in '37. It's been left out in the '37 on the theory that it is in litigation and consequently we don't know whether we're going to get anything. Now you can leave it out of '38 for the same reason, that we don't know what we're going to get. And we would know among ourselves that we are going to get 150 million more than what we say.

Haas: Leaving it out and putting in a note....



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Magill: I think I'd leave it out and put in the statement about it.

H.M.Jr.: Put it in a footnote, but leave it out.

Bell: Or we can put it in and comment on it.

H.M.Jr.: No. I know my President. If he sees that it makes that much difference, he's going to put it in. Because he's told you and me "Don't be so damned stingy over there and make this thing look right." He told it to me and then he told it - well, he told it to me. He says, "In your estimates don't be so blue. Take the rosy picture on this thing." You were there when he said....

Bell: Just the opposite. I don't know whether I was there at the particular time, but I remembered the opposite.

H.M.Jr.: What?

Bell: That he said, "Hold the Treasury estimate down." He said the same thing for last year's budget.

H.M.Jr.: Well, he didn't tell me that.

Bell: He thought these estimates were a little high.

H.M.Jr.: No, I'm talking about revenue.

Bell: He thought they were a little high.

H.M.Jr.: On revenue?

Bell: Yes.

H.M.Jr.: Well, when I brought this thing up about the 600, when I said we were going to be off 600 million and Helvering said 350, he said, "Give me the best you can on this thing. Don't be too blue."

Well, anyway, never mind what he wants to do.

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Bell: I think you should be conservative.

H.M.Jr.: I'm going to be conservative. After this particular question - let's forget that we've got this. The easiest way always to - let's be intellectually honest on this thing and let's say where we arrive at. Let's see if we can't be practical and intellectually honest, if they can be compatible.

Magill: I think they are usually the same thing when you work it out.

H.M.Jr.: Well, I would say that the way this thing stands now certainly these fellows are going to contribute something, aren't they? The Railroad boys. And after tomorrow's meeting we'll know a little bit more where we stand. Now the President's position is that he wants this thing to be "Even-Steven" - I mean for it to carry itself. And as I understand it, just talking out, three out of the four actuaries say - how much do they say?

Magill: They say five increasing to nine at the end of twelve years.

H.M.Jr.: They say - well, that would be five, wouldn't it?

Magill: Five.

H.M.Jr.: And if it were five per cent beginning the first of July.

Magill: 110 million in the fiscal year '38.

H.M.Jr.: Then we'd be sure of that, wouldn't we? That is, because that is the railroad agreement.

Magill: (Nods yes.)

Bell: If it would be five per cent beginning January 1st, we'd get 55 million this year. If the act went through before June 30th, they'd give us a check immediately.



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- Haas: That would just help the '37 55 million.
- H.M.Jr.: Well, I'm just thinking out loud - what I would say - I wouldn't count on anything for this year. I mean that may be a little conservative but I wouldn't count on anything for this year, and I'd count on 110 beginning the first of July. Now how does that check?
- Bell: Well, I think we can estimate on the basis of whatever we arrive at in the form of an agreement between now and Thursday, which I think - we've got to take the agreement as a whole and not just put in one year's tax, and if we agree that it should become effective January 1st - if we don't put that 55 million in 1937 I think that increases your revenue by 165 million in '38, doesn't it?
- Haas: Yes.
- H.M.Jr.: How's that?
- Haas: It's a carry-over.
- Bell: It's a carry-over - accumulated taxes they've got to pay.
- H.M.Jr.: So we'd get how much?
- Bell: Well, if the act goes through on the new basis June 30th, they obviously can't give us the accrued liability from January 1st on that date and get it in this fiscal year, so that would come in the fiscal year '38. Therefore, we'd get the regular tax in 1938 of 110 million plus the accrued from January 1st to June 30th of 55. So you'd get a total of 165 million in revenue in the fiscal year '38.
- H.M.Jr.: Well, what do you think? How would you handle it?
- Bell: I'd handle it on that basis I think.
- H.M.Jr.: You mean if the thing goes through as they have agreed now?

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- Bell: Well, if we agree to that between now and Thursday.
- H.M.Jr.: In other words, give in to them.
- Bell: I'm hoping that we will come to an understanding before this message goes up and that we can put it in this budget estimate, based on that understanding.
- H.M.Jr.: Yes, but the understanding they have is - if we took their understanding, we wouldn't get this 55.
- Magill: Yes, we would. If we took their agreement, we'd get just what Dan is talking about. We'd either get 55 this year or - and 110 next year, or we'd get a 165 next year. That's the situation.
- Bell: Uh-huh.
- H.M.Jr.: Now wait a second. Do this thing again, will you please?
- Magill: All right. If we....
- H.M.Jr.: If we take it as these boys have agreed....
- Magill: If we took it as they have agreed, we would either get 55 million this year and 110 next, or if the law went through a little later, we'd get 165 next. In other words, we're going to get 165.
- Bell: Within the eighteen months' period.
- H.M.Jr.: Right.
- Magill: Now I would think for '37 we ought to set it up as George has - that it is in litigation and we don't know that we are going to get anything.
- H.M.Jr.: Yes.
- Magill: For '38 I am quite sure we ought not to put in the 307 million that we're going to get because we're just not going to get it.
- Now I would like to see it as Dan suggests -



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that is, if we can put in 165 with a note and say that this is pursuant to an agreement which has been reached that the tax rate be revised to yield this amount.

H.M.Jr.: Well, why do you (Bell) say Thursday - come to an agreement by Thursday?

Bell: By Thursday? Well, I thought Thursday was about the dead line.

H.M.Jr.: This thing won't go up to Congress until Monday.

Bell: Well, the President says the 14th - message date.

H.M.Jr.: Week of the 14th.

Bell: Well, that would give me a little more time.

H.M.Jr.: He said the week of the 14th. He can't be ready. He won't be ready.

Bell: I haven't even got Hopkins' stuff. It'll give me more time.

H.M.Jr.: Well, let's just let this go on the 165 basis with a question mark on it for me.

Magill: I'll put 165 down there.

Now on the unjust enrichment I don't know what to say on that.

H.M.Jr.: Is that the same as the windfall?

Magill: Yes. George's two estimates are consistent. We have shown in the present budget that we thought we were going to get 82 million this year. Now we have actually collected 5 or will by the end of this year. That's pretty sure, isn't it? I think we've got that or pretty close to it.

Haas: Well, we haven't got it yet. They've got nearly three.

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Magill: They've got about three.

Haas: And they got over there - they wanted to make it seven and I cut it to five - the people from Internal Revenue.

Magill: What George has done is throw the other 77 into '38. Well, I don't know - I don't think we're going to get it.

Bell: Of course, that makes '38 look better. That's the trouble with shifting the tax.

Haas: It will be drawn out over five years.

Magill: We'll get some in '38 but we won't get 77 million.

H.M.Jr.: Do you mind if I just break this a minute. If this goes out (referring to UP clipping) it's just going to kill the market. No, I'll wait.

Magill: No, go ahead, get it off your mind.

H.M.Jr.: No, I'd rather get you boys started. Let me just have Gaston - call him up and find out.

(On phone) Mr. Gaston on the telephone -- Herbert, they just brought in that United Press statement. Who gave that out? Will you please call up Elliott Thurston and say I want to know. See? -- What? -- Will you please? -- Tell him I want to know. And if he can't answer it, tell Eccles -- Well, find out and then come back. Come into my room, will you? But call up Elliott and ask him if he's seen it and I want to know.

Haas: Do you know what's worrying them?

H.M.Jr.: What?

Haas: They think the bug is on their back and they are trying to...

Bell: One of the officials of the Schroeder Banking Corporation came in to see me and he was telling me about statements of this kind coming out.



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He said the minute they hit the press you have a group of people in New York who begin to analyze them and try to outguess the other fellow. They say that they know probably in their own hearts that there isn't anything to them in the way of trying to influence the market but they know that somebody else is going to get scared and they immediately try to outguess the other fellow. And then, he said, they all rush in there and try to do something with the market. He said that's one thing that's causing your difficulties.

H.M.Jr.: Well, anyway, let's go ahead. I'll try to be...

Magill: Well, now, what we better do on that windfall tax...

H.M.Jr.: What have you got it down for?

Magill: 77 million.

H.M.Jr.: For next year?

Magill: For next year. I presume you could put it - put in a blank and say it is in litigation, if you wanted to - which it is.

Bell: I agree with you that it will take five years to collect the windfall tax.

Magill: We're not going to get it.

Bell: You won't get it all.

H.M.Jr.: How much will you get in?

Magill: It's problematical.

Bell: Get a little more next year than you have this year. If you estimated it five, then next year maybe it'll be ten.

Magill: If you get anything, it will be by settlement.

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H.M.Jr.: How much?

Haas: Oh, I think it would be very small.

Magill: I think more likely ten than fifty.

H.M.Jr.: Well, put it down to ten.

Bell: Ten or fifteen. I'd go a little over 1937.

H.M.Jr.: He's got a million?

Bell: No, he's got five million for this year.

H.M.Jr.: Ten or fifteen million.

Magill: The only other one on the estimates - you're pretty sure of your 464.

Haas: That's a thing I want to discuss with you too. I'll get the boys together.

Magill: Now, the only other question I have is just as to the form of this communication. What Haas has set up here are these figures plus in each case an explanation, and the substance of the explanation is first, why the original estimate seems to have been too high and then secondly, why we have arrived at the particular figure that we have, with a view to demonstrating, for instance, that when we knock off these various amounts, we now are right - we're just not going to get them.

Now of course there's no reason why these memoranda of Haas shouldn't be transmitted to Bell and - in that form. But what do you want? What does Bell want?

Bell: Yes, that's what I want. I want some explanation of the estimate rather in detail. And that brings up the question as to how much we ought to put in this presidential statement going to the Hill. Of course, in the annual budget we put in a complete analysis of the revenue estimates and also the expenditure estimates, telling in great detail the basis for the estimates. I've just been wondering whether or not it would be a good policy to



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put something in this statement along the line that we have been discussing about the loop-hole business, as to whether or not - or make the statement that there are loopholes in the law and that something should be done to plug it - whether we can make that positive statement and whether or not it would have a beneficial effect or if you make that statement, would the public think that there is some hidden nest-egg, there is some hidden money some place and that the budget is going to look better on the actual results than it does on the estimated basis.

Magill: I wouldn't think the public would have that opinion simply on the basis of your saying that there are some loopholes. What would bother me is that I assume that both Senator Harrison and Mr. Doughton would immediately come to me and say, "Just exactly what are these loopholes and what are your amendments?" Now, I don't think that we are in a position at this particular moment to give them detailed amendments.

Haas: And some of the loopholes are types of things that don't require amendments.

Magill: That's true.

H.M.Jr.: In the message - amendments?

Haas: No, in the law.

H.M.Jr.: But in the message?

Bell: No, but suggest that the amendments should be made to the act in order to plug the loopholes, if they are such that the fault is with the law. Now George said some of them, he thinks, may be administrative.

H.M.Jr.: I wouldn't say anything about loopholes at that time.

Magill: I'd dislike to. I think they are legal loopholes in the law.

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- H.M.Jr.: Look, just let me - I have written out my program and I wanted to talk with you (Bell) but let me give it to you. And this takes in this thing, you see. What I was going to try to sell the President was this. On his '37, you see, that he'd give out first his letter to the departments cutting down the money, and that he's point out what money, if any, he can save still in 1937. He'll put it as an example 25 per cent for Customs, you see.
- Bell: For what?
- H.M.Jr.: That Agriculture gets from Customs. Was it...
- Bell: 30 per cent.
- Haas: One third.
- Bell: No, it's 30 per cent.
- H.M.Jr.: Well, that's part of it. .... to show that he's doing something to save some money this year, see?
- Then for '38 - well, what I put down for the new taxes, I'll just go - well, I can give you the whole thing. I put down one billion for relief and Resettlement until February 1st, 10 per cent for impounding of all funds starting July 1st, exclusive of relief funds. Then, a new tax bill next Congress, hearings to start next November.
- Magill: Right, right.
- H.M.Jr.: See?
- Bell: Is that increased taxes?
- H.M.Jr.: Well, in view of what the situation is - inequalities - anything.
- Magill: Yes, I'd emphasize the inequalities.
- H.M.Jr.: What I'm thinking about is if we are short - if we're going to be short, if we can't



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balance the budget exclusive of debt retirement for '37 and '38, then I say we ought to have a new tax bill, hearings in November and the tax bill to be introduced in January, see? Both for revenue and inequality. But not attempt to do it until next January. And then, in connection with that also at that time we will know whether we need new revenue for relief. But we start the hearings next November. And then I'd put in the message that all appropriation bills passed outside the present budget will be vetoed unless this new revenue is provided. Now that's the program that I worked out, you see, for myself. I mean it's just...

Bell: Well, that's along the lines that I've been thinking, except the tax hearings; I haven't got anything about that.

Magill: Well, I've been aiming...

H.M.Jr.: You've got my whole story, as I stand today.

Magill: I've been aiming at that result. Now as far as the tax bill is concerned, what I want to see is, as I think you know, an ironing out of some of these inequalities that now do exist, and then plugging up some of these loopholes that I know do exist. But I don't want to be asked to go up before the Ways and Means Committee on the Finance Committee in the next couple weeks to point out how to plug these loopholes, because I think that would be a great mistake. We're just not sufficiently prepared.

Haas: And as a matter of fact, your study would indicate where you are; we don't know.

Magill: We don't know yet.

H.M.Jr.: (To Kieley) Find out where Mr. Gaston is and tell him I'm waiting for him.

Magill: I've been told here within the last two or three weeks that there are no loopholes within this law. Well, now, I know darned well that there

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are, but I'm not prepared to go up on the Hill and tell precisely what they are until we make this study of these big returns.

H.M.Jr.: But do you see what I mean - giving a billion dollars until February 1st. Then we see the revenue picture and the bills and the whole business; then we'll know. And the President would say, "Then if the budget isn't - if I see it isn't going to be balanced by December, I will then put in requests for the necessary funds in a tax bill in January, to raise enough funds to balance the budget and to give me whatever additional money I need for relief to carry us the balance of the five years." I think I can sell that to him.

Bell: Five months you mean.

H.M.Jr.: Five months. I think I can sell that to him. I think that's better.

(Gaston comes in.)

Gaston: I talked to Elliott Thurston quite at length, and he denied that anybody has talked to any United Press man within the last two days. He says they are all keeping their lips very closely buttoned. He hasn't any idea of where the UP man may have gotten this story. The only people he has talked with were Fred Shelton and Kiplinger and Harry Eaton. At the same time he says that in the past he has called attention to the boys to your statement about an orderly market - that you weren't trying to raise or lower the price of government bonds. That you were merely trying to keep an orderly market. He has called attention to Eccles' statement about the impossibility of controlling the commodity inflation by monetary means. But he can't imagine how Kleins or any other UP man could have written anything so contrary to anything he could have said.

H.M.Jr.: He's a liar, and Mr. Eccles is either going to fire Elliott Thurston or I'm just going to go out and just burn Eccles up this afternoon. I'm sick and tired of him.

(On phone) Chairman Eccles, please.



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Bell: Got any report on the market?

H.M.Jr.: No.

Gaston: Of course, you've got to consider that these UP fellows will force a story.

H.M.Jr.: Oh, this is just Elliott Thurston, this fellow over there. I told Eccles - now I warned him and I'm just - that I'm just going to burn the hide off him.

Gaston: It isn't safe to talk frankly or for background to those UP boys. You can do it to Duffield and one or two others.

H.M.Jr.: (On phone) Hello. (Has conversation with Eccles. Recorded on dictaphone at 10:32 A.M.)

Gaston: Of course, Elliott does deny...

H.M.Jr.: Well, he's just a liar. Everybody knows - they know him from the London Economic Conference; he double-crossed the President, he double-crossed everybody. He's known as a tricky, low-down bastard. Now everybody knows it in town that you can't rely on the fellow; you can't tell me they got that out of thin air.

Well, let's just take two minutes more.

Bell: I have a Civil Service Commission meeting right away.

Magill: I think we're clear.

Haas: I've got one thing.

H.M.Jr.: Well, talk fast, George.

Haas: We've gone wrong on these estimates and now we've got the '37 experience. But if there's nothing done to close up those loopholes, those loopholes will get wider in '38 and you won't get the estimated revenue that we are figuring in '38.

H.M.Jr.: I think we've got to take it as of the experience - that he's told me enough that we

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know what to look for. I mean those dividends of 13 per cent - there's something wrong. We'll certainly find that out, and Congress will be here and if there is a loophole on that, we'll have to hit that and not wait. But on the other experience, I don't think you can cut it any lower.

Haas:

The only point is that we should get at it immediately.

ooOoo



April 12, 1937.  
10:32 a.m.

H.M.Jr: Hello

Operator: Chairman Eccles

H.M.Jr: Hello

Eccles: Hello

H.M.Jr: Marriner.

E: Yes Henry.

H.M.Jr: Now there's a United Press story - ah - just came out over the ticker making a great guy out of you and making a bastard out of me. Now I'm stick and tired of this stuff; I told you; I warned you about Elliot Thurston; Gaston has talked to him; I think he's a God-damned liar and I'm just not going to sit here and take it any more, see?

E: Well what is the story?

H.M.Jr: Oh it's the usual stuff that's been fed out of your office; now I've sat here.....

E: Well I'm - I'm - I'm.....

H.M.Jr: .....I've sat here and I'm just not going to take it any longer, see? And I - I mean if you think that I'm such a fool that you're going to have Elliot Thurston feed out stuff and - and - and pull down the Treasury and belittle it in the eyes of this nation I am not going to take it any longer.

E: Well I don't blame you but I can't understand your passing judgment without knowing the facts at all.

H.M.Jr: Oh Gaston called up Elliot Thurston and he - he just lies. Now here's - let me read you this story, see?

E: All right.

H.M.Jr: United Press story: "Federal Reserve Board officials say that contrary to opinion in some financial circles the Administration is not opposed to an orderly rise

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of interest rates in the money market where the Treasury expects to seek new funds within the next few months. They express the opinion that the general depression in the money market in recent days was due in large measure to misunderstanding of the Administration's intentions concerning an easy money policy. Discussing the recent statement of Federal Reserve Chairman Eccles announces support of an easy money policy they maintain that such a policy did not necessarily imply that he favored low interest rates, neither could his statement be interpreted as meaning that he or Secretary Morgenthau was opposed to gradual stiffening of interest rates." They added, "Eccles was represented as being appreciative of the healthy effect of gradual rise in the cost of long-term money provided other factors such as prices were kept in line." The Reserve official said that they assumed that Morgenthau undoubtedly appreciates that he cannot continue to put out government obligations indefinitely at interest rates so low as to be unattractive to bankers at a time when other inducements are becoming available."

H.M.Jr: Now I ask you - is that playing ball?

E: Well I can't understand who put that out. Of course, I didn't even know there was any statement out at all. You say this comes out this morning over the United - ah

H.M.Jr: Yes - 9:34. Now I take a lot of this stuff that's come out of the Federal Reserve Board but Elliot just feeds these fellows and I - really, Marriner, I can't take this all and just sit here and keep my mouth shut. Now he can just lie his head off.

E: Well there's no occasion to say anything; there's no occasion to put anything out. As a matter of fact, the position I've taken - ah - is the least that's said for the next two or three months the better off everybody is.....

H.M.Jr: I know and.....

E: .....and I've refused to see anybody.

H.M.Jr: Well but Elliot Thurston is there all the time.



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- E: Well I don't know whether it's been Elliot or whether they've seen somebody over to Goldenweiser's Division.
- H.M.Jr: Well -
- E: These fellows go over there all the time.
- H.M.Jr: But I mean this thing - I mean I'm not - I'm not so dumb that I can't understand why a story like that is put out and they certainly can't get the thing out of the thin air. Now all this past month I've kept my mouth shut - there's been no story in any way or intimations from the Treasury criticizing you. There hasn't been a single story out of here.
- E: Well, of course, that statement doesn't criticize anybody.
- H.M.Jr: Oh no!
- E: What?
- H.M.Jr: No it's just trying to build up that I'm - that - that this whole movement on their part is in order that I can do some financing.
- E: Well what movement do you mean - you mean....
- H.M.Jr: Oh well now Marriner you've read the paper the last week and this whole thing - I mean it's so self-evident.
- E: Well I - of course I knew that the minute that we started to buy government bonds some of these fellows up in New York that want higher rates would immediately say, of course, that what we were doing was in an effort to - ah - to help the Treasury. I knew they'd say that but it doesn't make any difference what you do - some of that financial press - they're going to pan you, now they panned.....
- H.M.Jr: Here - here's a story leads off - "Federal Reserve Board officials say" - that's the way the story starts. I should think they had enough statements coming out of the Federal Reserve Board.
- E: Well we've had - we've had plenty and as far as I'm concerned I'll - I'll certainly raise hell about it. Now I - that's all I can do because I put no statements out. The only statement that - that - that - that

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went out with my knowledge and my consent was the one that the Open Market put out there a week ago which I read to you over the telephone and as I have seen none of the press since, have refused to see anybody and I have told the members of the Board that my opinion - and I told Elliot too that the thing that would - the least that was said the better off everybody would be; that the market was settling down in good shape and it seemed to me that we ought - that we ought to be damned glad everybody's left well enough alone.

H.M.Jr: Well I should think so certainly after what we've gone through for three weeks on this question of gold and prior.....

E: Of course, I don't like that statement a damned bit better than you because the inference is that these fellows are going to get higher interest rates; they would assume that they're going to get higher interest rates than they're getting now; well that doesn't please me at all; it doesn't please me at all.

H.M.Jr: Well some day you're going to wake up to Elliot Thurston. I don't know when you are but the.....

E: Well, of course, the first criticism I've heard of him was the one you mentioned a week ago.

H.M.Jr: Oh well, anybody.....

E: That's the first time that you ever said anything about it.

H.M.Jr: Well the - I'm - I'm not going to criticize your personnel.

E: Well I'm glad to have you do it. I'd criticize yours if I.....

H.M.Jr: If - if I had said this stuff - they can't get this out of the thin air and the important thing is that you and I worked together and that people over in your shop don't do things which can't help but irritate me.

E: Well I'm - I'm - I'm - I'm terribly sorry and I'll certainly talk.....

H.M.Jr: I mean if a statement came out over the United Press or anything else "Officials of the Treasury say that



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Marriner Eccles wants higher interest rates and that he expects to control commodities and so forth and so on."

E: Well hell - higher interest - that's absolutely.....

H.M.Jr: I know but supposing something comes out and supposing also that I planted the story, "the reasons for the last three weeks - the upset in the gold market is due to the article in Fortune by - by Chairman Eccles" - and that the rumors started from the date that that article was released and the havoc that had been all over the world due to that article. I could plant stories like that but I never do it. Hell I want to be friendly.

E: Well I hope you don't think I want to be otherwise.

H.M.Jr: Well but this thing pushes me pretty hard, Marriner.

E: Well what do you want me to do?

H.M.Jr: I - I want you to get hold of your people and I'd like you to get hold of the United Press and find out where they got it from. I mean - the - they can't publish a story like that if you send for them and try to make them justify it.

E: Well I'll get ahold of them and see what I can find out about it.

H.M.Jr: I mean I think you owe it to me.

E: Yes.

H.M.Jr: I want - I have a Press Conference at 4 o'clock; they're going to pound me; I don't want to - I don't want to - ah - ah - ah - ah - publicly have a split but when the Federal Reserve Board tries to say what I do or don't think - ah - they've gone too far.

E: Well they've got no business saying anything about it at all; there's no reason to say anything - absolutely none.

H.M.Jr: That - that was our agreement.

E: Well that - I - of course I - I've said nothing and I gave instructions not to. Now if something gets out why it's certainly contrary to - to - ah - instructions that I've given. Of course, I don't know whether some

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Board Member has talked or not.

H.M.Jr: Well I think that - I know if - if the United Press wrote something and credited it to me I'd get ahold of Lyle Wilson and ask them where they got it from.

E: Well -

H.M.Jr: After all, he's the Manager of the Washington Bureau.

E: I'll get - I'll get ahold of Elliot and find out whether he's given them anything at all or not. Ah - was that supposed to have been given out this morning?

H.M.Jr: It's dated 9:34. Well will you call me back?

E: I'll see what I can find out about it.

H.M.Jr: And incidentally the President has switched me - he's having me for lunch to-day contrary to what I thought. So you were coming to-day, weren't you?

E: Ah - no - ah - ah.....

H.M.Jr: Oh well I.....

E: I understood it was a week from to-day - I mean a week from Tuesday. Bonnet had some banker over here and last week he wanted me to come over to lunch tomorrow.

H.M.Jr: Yes, well you're lunching with him tomorrow?

E: Yes, but before I made that engagement I checked up at.....

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

E: .....your office to find out if - ah - our lunch was first.

H.M.Jr: Yes, and then the President switched me Monday to Tuesday and now he's switched me back again.

E: Oh I see.

H.M.Jr: But - ah - so I told him to let you know that you most likely when you get to the office - because I'd like to have you eat with me Monday but I've just gotten word that the President wants me Monday.



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E: I see. Well then - what - what - would you like to fix Wednesday or some other day this week?

H.M.Jr: Well - ah - let's - let's see how this thing turns out and then we'll get together.

E: Yes.

H.M.Jr: But this - please go to the bottom of this, will you?

E: All right I will.

H.M.Jr: I'd appreciate it so much.

E: And don't - don't - don't - don't - don't - don't pass judgment on me on that now.

H.M.Jr: I don't - your - I - I - I - your word is good with me.

E: All right.

H.M.Jr: Thank you. Goodbye.

April 12, 1937.  
10:55 a.m.

H.M.Jr: Hello

Operator: Mr. Altschul

H.M.Jr: Thank you. Hello

A: Hello Henry.

H.M.Jr: Good morning.

A: Good morning.

H.M.Jr: Before I see Mr. Mayer or Meyer, which is it. Is it Mayer or.....

A: I don't - I don't hear you Henry.

H.M.Jr: Your partner Mr. Mayer - is it Mayer or Meyer?

A: It's spelled M-e-y-e-r. He calls it Mayer.

H.M.Jr: Well did you want to just give me a little inkling - something about him or something before I see him?

A: All I can tell you is that he that he is the active - the - the editorizing head of our - member of our firm in Paris.

H.M.Jr: I see.

A: Very able fellow.

H.M.Jr: Yes.

A: Very - ah - ah - playing a very prominent role in all kinds of things in his own country.

H.M.Jr: Ah-ha.

A: And he is - knows a great many people over there and I understand that one of them asked him to come over and when he was here to call on you to present some kind of an invitation or other to you.



- 2 -

H.M.Jr: Well I just wanted to talk with you for a second and just check before I saw him but.....

A: Right. Is there anything more you want to know Henry?

H.M.Jr: No - no that's the - you vouched for him and he's your partner and.....

A: Oh yes - quite.

H.M.Jr: Well that's all I wanted to know.

A: O.K. old man.

H.M.Jr: Thank you.

A: Thank you.

April 12, 1937.  
11:40 A. M.

H.M.Jr: Hello.

Operator: Governor Harrison.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello.

George  
Harrison: Hello Henry.

H.M.Jr: I'm awfully sorry to hear about Burgess.

H: Well, he went home - ah - on - very unexpectedly on Friday; he had - he was down Friday morning; he seemed very chipper and very well and then suddenly something happened and he felt these cramps internally .....

H.M.Jr: Yes.

H: ..... he had to go home and they operated on him Saturday but he's coming along perfectly all right.

H.M.Jr: Good.

H: A little uncomfortable but everything's going just as well as they expected at this time.

H.M.Jr: Fine. What hospital is he at?

H: What's that?

H.M.Jr: Do you know what hospital he's at?

H: Ah - he's at St. Luke's.

H.M.Jr: St. Luke's. All right. Now ....

H: Say Henry, one thing I forgot to tell you on - ah - when was it we were talking - Saturday.

H.M.Jr: Yes.

H: Ah - we were having releases of gold from earmark.



- 2 -

H.M.Jr: Oh really?

H: Ah - by foreigners who were converting them into dollars and buying gold at a discount in London.

H.M.Jr: Huh.

H: Which was very smart of them and, as far as we are concerned, all to the good.

H.M.Jr: Yes.

H: But I thought it would interest you.

H.M.Jr: That is interesting. How much did it run to?

H: Well now the last I heard it was about five million - I think it was. I'd have to check.

H.M.Jr: Yes. Now did you find out who bought those five .....

H: No but I told - I told Sproul that I'd like to find out so he's going to try and do it today.

H.M.Jr: I see.

H: And after I hear anything I'll let you know.

H.M.Jr: Did Wayne call you up about any switching?

H: No. I hear he talked to Sproul.

H.M.Jr: We had ten and a half million worth of notes coming due this fall and we thought we'd sell them and buy 2-7/8's.

H: Well, he may have talked to Sproul.

H.M.Jr: I - ah - the boys here say he talked to Madison.

H: Oh well, I guess he done it then.

H.M.Jr: Yes, but we thought that might help a little bit.

H: Yes - first rate.

- 3 -

H.M.Jr: And I got so mad this morning that I completely lost my temper for the first time in a long time. Long statement out on the United Press ticker about - supposedly quoting the Federal Reserve Board here about long-term interest rates indicating that they had to do this to help me out with my government bond market and - crediting the statement to the Board here.

H: Well I haven't seen it.

H.M.Jr: Well I let them know in no uncertain terms how I felt about it.

H: (Laughs)

H.M.Jr: They denied that they talked to anybody but .....

H: Well I called up Saturday and I let loose about some things came out of there too. They announced to the Press on Wednesday how much we had bought in bonds on Monday and Tuesday and I thought it was a regretful way to run it.

H.M.Jr: Well I - I - Eccles says he knows nothing about this statement and I believe him, and now he's going to try and run it down.

H: Yes, well there's somebody who is doing altogether too much talking around there.

H.M.Jr: I think I know who it is.

H: Ah-ha.

H.M.Jr: But I've asked Eccles to find out and I never was more serious because I should think by now they've learned their lesson and that the thing to do was to keep their mouth shut, but we'll see. But on the gold they're thoroughly satisfied that we're not going to change the price?

H: Well I think everybody is very much more complacent about all that now.

H.M.Jr: Good.

H: And that statement of the press was just what was needed of course.



- 4 -

H.M.Jr: Thank God he didn't make a liar out of me.

H: (Laughs) Well I thought of that.

H.M.Jr: Yes, well it was all right.

H: (Laughs)

H.M.Jr: He hasn't yet and I don't think he will.

H: No, I don't think so.

H.M.Jr: Well, thanks, George.

H: All right, and let me know if there is anything you've got to suggest or if there is anything we can do.

H.M.Jr: Thank you.

H: All right.

H.M.Jr: Goodbye.

Memorandum of Conference Held in the Secretary's

Office at 3 p.m., April 12, 1937.

Present: Secretary Morgenthau  
Mr. Oliphant,  
Miss Roche  
Mr. Haas  
Mr. Oppen  
Mr. Lindow  
Mr. Dunning  
Mr. Ihlder  
Mr. McReynolds.

The Secretary stated that he wanted to tell this group that he had arranged with Mr. Ihlder to devote a portion of his time to a study of a program for slum clearance and low-cost housing, and to give this group very confidential information that the President had decided to devote to slum clearance and low-cost housing during the next fiscal year an amount ranging from ten to fifteen million dollars and thereafter for fifteen or twenty years an amount not to exceed twenty-five million dollars a year. This decision of the President's is not to be communicated outside of the Treasury.

The Secretary informed Mr. Ihlder that he would deal with Mr. McReynolds in connection with his work and arrange with him in the event he wanted to bring any additional assistants in to work on the project.

The Secretary stated that he had told the President about his idea of having the communities buy the land and let the Treasury do the building and at first blush the President liked it, but this idea



- 2 -

should be considered purely as tentative.

The Secretary stated that he would like Mr. Ihlder in studying this matter to approach it from the slum clearance angle initially because he would prefer to await the result of Secretary Ickes' experience on the fifty-three low-cost housing projects he has under way before going into that field extensively.

April 12, 1937.  
3:48 p.m.

H.M.Jr: Hello

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello Marriner.

Eccles: Hello. I called, as I told you this morning I would, at twelve and you - I tried two or three times and you were busy.

H.M.Jr: Well I've been at the White House.

E: Yes, I assumed that you were pretty well tied up on this budget thing.

H.M.Jr: Yes.

E: Ah - well - ah - what I wanted to say was that I don't blame you being sore. I got here - when I got ahold of the statement and saw - read it over.....

H.M.Jr: Yes.

E: .....ah - of course the damned thing puts me in a position, I think, just as bad as it does you because it's absolutely contrary to what I said publicly.....

H.M.Jr: Yes.

E: .....on so darned many occasions and looks - it makes me look perfectly inconsistent.

H.M.Jr: It does.

E: And - and I'm just as sore about it as I can be.

H.M.Jr: Yes.

E: When it - when it says that I'm in favor - that the Administration is not opposed to a rise in interest rates.....

H.M.Jr: Yes.

E: .....where the Treasury expects to seek funds and so forth.



- 2 -

H.M.Jr: Yes.

E: Well now - ah - I talked to Elliot about this. He says that last week on Wednesday.....

H.M.Jr: Yes.

E: .....that this fellow Kline.....

H.M.Jr: Yes.

E: .....and a couple of other fellows were over here.

H.M.Jr: Yes - Wilcox.

E: Yes, and he talked to them and they - it wasn't a question of him asking them to come over. They came over to just ask him some question.....

H.M.Jr: Yes.

E: .....and that the question of interest rates was - was - came up and he - he merely stated that - that - that - an abnormally low interest rate - nobody wanted to force down a rate to a point where later on it would merely get out of line.....

H.M.Jr: Yes.

E: .....and cause losses.....

H.M.Jr: Yes.

E: ....and then he said as a result of that they've gone ahead and got together and written a story that - that - well I said, of course, I - I wished to devil we wouldn't even talk about these things at this time and - that I said a week ago that when the Board put out that statement that by God we wanted to keep completely in the background as we wanted to let well enough alone.

H.M.Jr: That's right.

E: Well Elliot feels sick about it - he - he's just - he's just sick as hell.

H.M.Jr: Well I think he should.

- 3 -

- E: And I'm - I'm pretty sure that this thing happening has - will - will make him - ah - he'll lean backwards the other way. I told him you were just - I never saw you as mad.
- H.M.Jr: Yes.
- E: You were just terribly sore.
- H.M.Jr: Yes.
- E: And that I had - right at this time of tension that you and I just had one hell of a time trying to - ah - trying to keep this situation in balance -
- H.M.Jr: That's right.
- E: - That everybody was trying to throw monkey wrenches and - and trying to get a cleavage in here.....
- H.M.Jr: That's right.
- E: And that we had done everything possible and, therefore, it seemed to me that men in the Reserve Board and men in the Treasury is the last place in the world that we ought to get any trouble from.
- H.M.Jr: Well you remember I told you the people in - not only the people in New York that would like to see you and me fall out -
- E: Well I know a few others around here.
- H.M.Jr: I know that.
- E: I can - I can - I could name them and I think you and I would name the same people.
- H.M.Jr: I think so.
- E: And, of course, I'm always conscious of that fact.
- H.M.Jr: And a story like this just did burn me up - I mean.....
- E: Well I don't - it burned me up. You - you take the night I was out to your home with the Open Market Committee.....
- H.M.Jr: Right.



- 4 -

- E: .....and - and you saw right there - there was the best demonstration of where the cleavage was.
- H.M.Jr: Right.
- E: And you heard what I said.
- H.M.Jr: That's right.
- E: And - and - and there isn't no one at any time can say, so far as I was concerned, that I was - I was after high money rates.
- H.M.Jr: Yes.
- E: And - and - ah -
- H.M.Jr: Well the unfortunate thing is there were two good reporters came there and they went away undoubtedly with the impression that's what Elliot Thurston thought that you thought.
- E: Well - ah - ah, of course, I - I - Elliot knows better than that and I don't think Elliot thinks that himself. I'm - I'm perfectly sure that what happened these fellows - ah - ah - got a wrong impression from what Elliot.....
- H.M.Jr: I wouldn't be too generous, Marriner, you know I told you that the other day but, after all, he's your hired help - not mine.
- E: Well I - this is an experience anyway and I - I'll be watchful.
- H.M.Jr: Well I appreciate talking to you and.....
- E: Well I didn't want you to - to - to - ah - to - go into a Press Conference or to - to - to - if - if - if you have occasion to - to - to - to - this question of this article comes up and you have a question to state.....
- H.M.Jr: Yes.
- E: .....ah - what the administration - if this is correct, see, it would seem to me what I'd like to have you do is to say that - that the Administration is not favorable to higher interest rates at this time.
- H.M.Jr: Yes.

- 5 -

E: .....and - and that the present condition of the supply of money would not warrant it and this - you're not only speaking for - for yourself and the Treasury but you're also speaking for me.

H.M.Jr: Ah-ha.

E: I mean you can say that.....

H.M.Jr: Well -

E: .....and - and if they will - you could refer to the statements that I've made.

H.M.Jr: Yes.

E: That this is not only contrary to what you believe but it's contrary to what I have said.....

H.M.Jr: Yes.

E: ..... in my statement of the 15th and in my statement of - ah - of - ah - the statement of the Board on the 30th.

H.M.Jr: Well I don't think I'm going to.....

E: Well I don't tell you to.....

H.M.Jr: I know but I'll most likely end up the way I always do with - just say nothing.

E: Well as a matter of fact what this - this - this United Press thing - ah - they said they would change it if they could and it doesn't have - it doesn't have very much circulation.

H.M.Jr: I still think, though, that Elliott Thurston wants to be damn more careful the impression he gives.

E: I think he will.

H.M.Jr: Yes.

E: I don't think (laughs) there's any question about that.

H.M.Jr: Yes and I know this is not the first time he has done it.



- 6 -

E: Well - ah - I've - I've had a real discussion on it  
to-day and I told him that.....

H.M.Jr: O.K. old man - well .....

E: I - I just wanted to get you straight on this.

H.M.Jr: All right, I'm glad you have.

E: All right then.

H.M.Jr: Thank you.

E: Goodbye.

MEMORANDUM

April 12, 1937

To: Secretary Morgenthau

From: Dr. Burgess

The government bond market was very quiet today and steady to firm for the most part. Quotations rose gradually and at their best were anywhere up to 1/8th higher than Saturday's close. A slight decline occurred in the final hour and at the close the long Treasury bonds were generally unchanged to 1/32 down relative to Saturday and the rest of the list was unchanged to 3/32 better. Guaranteed bonds were unchanged to slightly higher. Board turnover in governments amounted to only \$317,000. Treasury note market was dull. The 1939, 1940 and 1941 maturities, with the exception of the new 1 1/4s, were quoted at the close 1/32 to 2/32 better than last Saturday and the rest of the list was unchanged.

Domestic bonds were very dull all day and apart from indications of easiness in the forenoon in second grade bonds, prices held steady at Saturday's closing levels.

Foreigns were quiet and generally unchanged. Most Polish issues showed fractional gains while Japanese and Italian bonds were mixed.

No purchases for Treasury today.



LMS

GRAY

Paris

Dated April 12, 1937

Rec'd 3:10 p. m.

Secretary of State,

Washington.

475, April 12, 6 p. m.

FOR TREASURY.

The trend was against the franc in a dull market with a small turnover. The pound is quoted at 103.70 and the dollar at 22.39.

The security market was nervous and unsettled and rentes lost from 4 centimes to 1.10 francs.

AGENCE ECONOMIQUE of today's date carries a telegram from its New York office to the effect that the impression prevailed in well-informed circles in Washington that the Government contemplated the discontinuance of its policy of "sterilizing" incoming foreign gold but that at the same time other measures of a nature to halt a new expansion of the reserves of member banks by gold imports were envisaged.

The telegram continued that one alternative which is being favorably considered is the reestablishment of a free gold market in the United States and that the hope is entertained that under such circumstances there will be such a demand on the part of the public that the Government will be released from the embarrassing necessity to pay for substantial imports of gold. The message predicts, however,

in

LMS 2-From Paris, Dated April 12, rec'd 3:10 p. m.

in this respect that the public has probably not forgotten the nationalization measures of 1933 and may not be eager to enter the market.

In a telegram to this paper under today's date Parker Willis refers to the President's declaration of Friday and states that "without questioning the value of these denials financial quarters 'noted' the continuation of the 'day to day' policy of the Treasury and would not be surprised if rumors similar to those of last week did recur from time to time".

Willis added that it is clear that the administration "desires to render the foreign press responsible for the circulation of these rumors". He goes on to say that this explanation is not considered as sufficient cause in view of the attitude of certain banks regarding new shipments of gold to the United States and the fact that the administration has not officially abandoned its examination of ways and means likely to stop the inflow of foreign capital. He concludes that for this reason even if its is not thought that a decision of a nature to modify the price of gold will be taken in the near future "the possibility of such an action is far from being considered entirely out of the question".

BULLITT

CSB



RB

GRAY

London

Dated April 12, 1937

Rec'd 3:20 p. m.

Secretary of State

Washington.

210, April 12, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Dealers in the bullion market continue reluctant to undertake large commitments and it is probable that this attitude will undergo little change until some of the large gold shipments now en route have reached the United States. Likewise, the stock and commodities markets remain under the influence of last week's events which entailed a good deal of forced liquidation of speculative accounts. The only feature of the exchange market was that in mid afternoon the dollar became bid due to a ticker rumor that a free gold market would be established in the United States; this rumor, however, was not taken seriously by the important dealers.

BINGHAM

CSB

4.30

APR 12 1937

MORGENTHAU SAYS NO CHANGE IN ADMINISTRATION FISCAL OR MONETARY POLICY

WASHN - SECY MORGENTHAU SAID TODAY -TALKING FOR THE ADMINISTRATION - I HAVE THAT AUTHORITY - THERE HAS BEEN NO SHIFT IN EITHER OUR FISCAL OR MONETARY POLICY-

THE SECRETARY MADE THIS STATEMENT IN REPLY TO QUESTIONS ABOUT A CHANGE IN THE EASY MONEY POLICY LOWERING OF THE GOLD PRICE AND OTHER RUMORS OF GOLD POLICY REVISION - THE SECY SAID THAT DURING THE FLURRY OF GOLD RUMORS THE PRESIDENT AND HE HAD BEEN THE LEAST DISTURBED PEOPLE BECAUSE -WE HAVE NOTHING IN MIND ABOUT CHANGING THE PRICE OF GOLD - NOBODY BUT THE PRESIDENT AND I KNOWS WHAT WE ARE GOING TO DO AND NOBODY ELSE CAN TALK ABOUT THE PRICE OF GOLD-



*Press Conf -*

SECRETARY MORGENTHAU, ASSAILING "SILLY RUMORS" OF A POSSIBLE CHANGE IN THE ADMINISTRATION'S GOLD POLICY, DECLARED TODAY THAT PRESIDENT ROOSEVELT AND HE HAD "NOTHING IN MIND" AS REGARDS THE GOLD PRICE.

4/12--CS431P

ADD GOLD PRICE.

"THE PRESIDENT AND I WERE THE LEAST WORRIED OF ANYBODY ABOUT THE PRICE OF GOLD," HE SAID AT HIS PRESS CONFERENCE, "BECAUSE WE KNOW WHAT WE'VE BEEN DOING.

"THE ONLY TWO PEOPLE WHO HAVE ANYTHING TO SAY IN THIS MATTER--THE PRESIDENT AND I--HAVE BEEN CALM ABOUT THIS BECAUSE WE HAVE NOTHING IN MIND ABOUT CHANGING THE PRICE OF GOLD."

ASKED IF THERE HAD BEEN ANY CHANGE IN THE ADMINISTRATION'S EASY MONEY POLICY, MORGENTHAU REPLIED:

"TALKING FOR THE ADMINISTRATION, I CAN SAY THAT THERE HAS BEEN NO SHIFT IN EITHER OUR FISCAL OR MONETARY POLICIES."

4/12--CS433P

## Treasury Department

1937 APR 12 AM 11 01

TELEGRAPH OFFICE

24w M 13

NEW YORK NY 1042A APR 12 1937

R R REAGH  
GOVERNMENT AGENCYHAVE REVIEWED LETTER SIGNED BY ACTUARIES AND AUTHORIZE THE AFFIXATION  
OF MY SIGNATURE

G B BUCK

1102A



My dear Mr. Attorney General:

Reference is made to my telephone conversation with you on March 11, 1937, and the conference on March 19, 1937 among Mr. Keenan of your office, Mr. Igoe, United States Attorney at Chicago, Mr. Oliphant, General Counsel of the Treasury Department and Commissioner Helvering of the Bureau of Internal Revenue in connection with the office of the Alcohol Tax Unit at Chicago.

At the above conference, Mr. Igoe agreed to submit a written statement to your office for transmission to the Treasury containing all of his charges against, and complaints concerning, any and all Treasury representatives in his district. This report has not been received, and it would be appreciated if it could be submitted at an early date.

Very truly yours,

The Honorable

Attorney General of the United States.

TAM Jr./dhn  
ED/fm  
Typed 4/5/37

April 12, 1937. = not sent; material rec'd

# TREASURY DEPARTMENT

165

## INTER OFFICE COMMUNICATION

DATE

April 12, 1937

TO Secretary Morgenthau  
FROM Herman Oliphant

### For Your Information

There came to Morrison Shafroth from Tom Corcoran, by way of Mr. Morris in the Department of Justice, a request for information concerning the income tax returns of the Justices of the Supreme Court. Morrison called me and I advised him to reply that the information could not be disclosed.

*I approve your refusal.*  
*HBO*  
*1/11/37*

*File 18K105*



April 12, 1937

I had lunch with the President today. Kennedy came in to raise hell about the Budget and everything else, for 45 minutes. I tried several times to break in. The President said to Joe, "Now, Joe, just go away and stop worrying. Henry and I have another white rabbit to pull out of our hats. You will be perfectly satisfied." And he motioned to me not to say anything and not to tell Kennedy what I had in mind. But he said, Don't worry! The Joe said, "Mr. President, if you have got it, I am going to get drunk next Monday night." But he didn't want me to tip my hand.

Jimmie Roosevelt was there and asked me and I said, "Your father asked me not to tip my hand. You can get it from him."

I said to the President that Hopkins is the only relief agency that has cut down expenditures. Every other one has gone ahead, and why should we continue to take it out of the hide of the unemployment when Agriculture and all other agencies are going full blast, and let's take it out of the hide of those boys. Hopkins has actually cut down. Why should these other boys continue to go full blast, spending more money, when Hopkins has cut down? I think he has cut down as far as he can and I think we ought to save \$500,000,000 out of the other agencies and I say, start with Agriculture.

April 12, 1937

My dear Mr. President:

Complying with your request, I am jotting down the suggestions which I made to you today at lunch in regard to your Relief Message. They are the following:

1. In regard to expenditures for the balance of this fiscal year, I believe it would be helpful if you would make public the letter which you sent to the heads of Executive Departments, etc., on April 7.
2. That you raise the question in your Message of your agricultural program, particularly the benefit payments for so-called Soil Conservation. I believe at this time you could well consider suggesting that agricultural benefit payments beginning next Fall be curtailed. Also the possibility of rescinding the law which allocates to the Department of Agriculture 30 percent of Customs receipts.
3. In regard to 1937-1938, I suggest one billion dollars for Relief and Resettlement to last at least until February 1, 1938.
4. That, beginning July 1, each month, X percent of all funds other than Relief be impounded, the percentage to depend upon the amount necessary to make it possible to balance the Budget exclusive of Debt Retirement.
5. That you instruct the Treasury Department to make the necessary studies so that we would be prepared to present to the proper committees, next November, suggestions to correct inequalities in the present Federal tax system and also to be prepared to recommend additional revenues if necessary to balance the Budget. Furthermore, that you advise



-2-

Congress that you would like them to start hearings early next Fall on a tax bill.

6. That in your Message you restate your position that any appropriation bills which Congress passes which are in excess of your Budget will be vetoed unless Congress provides additional revenue.

I believe if you carry out approximately this program, we can continue to keep the Government's fiscal affairs on a sound basis.

Respectfully,

The President,

The White House.

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The President,

The White House.

1. Letter to all Report (Sunday April 11, 1938)  
on 1937 savings.

2. Stop 30% customs to  
agr.

3. Restrict agr. subsidies before  
any more contracts let.  
1937-8

4. 1 billion for relief and resettlement  
until Feb 1<sup>st</sup>

5. 10% impounding of all  
funds starting July 1<sup>st</sup>

6. New tax bill next congress  
start hearings next Nov.

7. Message to all appropriation  
bills passed outside Budget  
will be vetoed unless  
new revenue is provided



FOR THE PRESS

IMMEDIATE RELEASE

April 13, 1937

The President has addressed the following letter to the Heads of Executive Departments, Independent Establishments, and other Government agencies:

"It is my desire that the heads of the executive departments and independent establishments of the Government will immediately cause a survey to be made of the expenditure requirements of their departments and establishments for the remaining months of the fiscal year 1937. It is apparent at this time that the revenues of the Government for the present fiscal year will be materially less than the amount estimated in my budget message of last January; and, hence, the deficit will be far greater than was anticipated unless there is an immediate curtailment of expenditures.

"You will carefully examine the status of appropriations for your activities with a view to making a substantial saving by eliminating or deferring all expenditures which are not absolutely necessary at this time. You will report to me through the Acting Director of the Budget not later than May 1, 1937, the steps which you are undertaking to reduce expenditures and the amount of the estimated saving resulting therefrom."

April 12, 1937.  
5:20 p.m.

H.M.Jr: Hello

Yes.

H.M.Jr: Key?

Key  
Pittman: Yes.

H.M.Jr: Henry.

P: Yes.

H.M.Jr: I wanted to thank you for letting me go down to the Jefferson Island Club.

P: Did you go?

H.M.Jr: Oh I had a grand time.

P: Well you didn't have very good weather, did you?

H.M.Jr: Oh it was beautiful.

P: Is that so.

H.M.Jr: It was cold but it was like to-day - only a little colder.

P: Well you were lucky.

H.M.Jr: And I had the best rest that I had any place I've been and Mr. and Mrs. Jones couldn't have been nicer.

P: Well that's fine - they're good old people.

H.M.Jr: They're lovely people and they treated me beautifully and I want to thank you very much.

P: I'm very glad to - anytime you want to run down there let me know.

H.M.Jr: Well that's very kind.

P: Very few people go down there except week-ends.



- 2 -

H.M.Jr: Well this was during the middle of the week.

P: Well that's the time to go down Henry because then you'll get a rest.

H.M.Jr: And it was just what I needed.

P: Well that's bully.

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

P: I'm delighted.

H.M.Jr: Thank you. Goodbye.

April 12, 1937.  
5:22 p.m.

H.M.Jr: Hello

Operator: Senator Robinson is gone but his Secretary is there.

H.M.Jr: Let me talk to him will you.

O: All right. Go ahead.

H.M.Jr: Hello

Robinson's Secretary: Hello Mr. Morgenthau.

H.M.Jr: Who is this?

Brewer speaking.

H.M.Jr: Oh hello Mr. Brewer. I just wanted to tell the Senator this and will you tell it to him for me.

Brewer: Be glad to.

H.M.Jr: That I was - wanted to congratulate him on the statement he made in the Senate about expenditures to-day and about saving money.

B: Ah-ha (laughs)

H.M.Jr: And I only wanted to wish him more power.

B: More power to him.

H.M.Jr: More power to him and it was most helpful to us.

B: Most helpful to you. I'll take - give that to him verbatim Mr. Morgenthau.

H.M.Jr: Well I - it's the most constructive statement that's been made in the Senate that affects the Treasury since I've been here.

B: Well that's lovely of you to say that and I know it will encourage him.



- 2 -

H.M.Jr: That's absolutely true - the most constructive statement that's been made since I've been in Washington that affects the Treasury.

B: Thank you so much.

H.M.Jr: All right sir. Thank you.

## GROUP MEETING

April 13, 1937  
9:45 A.M.

Present: Mrs Klotz  
Mr. McReynolds  
Mr. Oliphant  
Mr. Taylor  
Mr. Gaston  
Mr. Haas  
Mr. Lochhead

H.M.Jr: Let's make this snappy, huh? Mac?

McR: Nothing.

H.M.Jr: Did you get the thing from Mayor LaGuardia I sent you?

McR: (Nods yes)

H.M.Jr: He says he's cleared it with the President and Peoples. I can see what he wants to do. What he wants to do is to make it possible for any state or city that wishes to to use the Procurement Division as a purchasing agent.

McR: What about the Sand and Gravel Board?

H.M.Jr: He said that's just it. It's a swell idea.

McR: Of course, the way he had that thing worded, the state people could come in on contracts that Procurement has already made. Now, of course, we can't modify contracts.

H.M.Jr: He's got an idea.

McR: The idea can be worked out. I gave it to Hester yesterday to redraft it.

H.M.Jr: I said, "How you going to raise your political contribution this year?" He said, "We're not."

All right, what else you got? Did you get Ihlder started?

McR: Yes



- 2 -

H.M.Jr: Like him?

McR: Nice boy.

H.M.Jr: How much does he get?

McR: Sixty-five.

H.M.Jr: Take him on at half.

McR: We can't take him on at half. We have to pay him one day and they pay him the next day.

H.M.Jr: Just like a lawyer - "We pay him one day and you pay him the next day."

McR: Well, there's a statute on it.

H.M.Jr: I didn't mean to insult you, Herman. You can't pay half; just alternate days - that's all.

Mrs Klotz: You know, he (McR) studied law.

H.M.Jr: Is that what's the matter with him?

Oliphant: He's found a Roberts distinction that takes care of it.

H.M.Jr: All right, we don't pay him half.

McR: He's taken care of.

H.M.Jr: All right, what else? When he gets along a little way, as soon as he's got something, let me know, will you?

I had a nice talk with the Mayor and I said, "Well, Ihlder's got something and I'm going to send it up to you." The Mayor said he'd call a group together and let Ihlder submit to the group what he's got, see if it will fit the requirements of New York. I may send him to a couple other places.

And incidentally, the Secretary of the Mayors' Conference is very enthusiastic about this Ihlder.

This happened since you (Mrs Klotz) have been away. I went out and looked at this slum clearance work of this man on half-time - going to pay him alternate

- 3 -

days.

All right, Mac?

Am I correct - I didn't want to tell Wallace that these boys sold this land before Resettlement purchasing came into the Treasury.

McR: The land that they sold before they came into Treasury was the land they sold to the boys in Procurement. But they kept on after they moved over into Procurement - they kept on selling it to everybody they could. They're out - those fellows. They're out.

H.M.Jr: All right. Otherwise you're all right? All right.

McR: I had a very unpleasant conference this morning. One of the clerks down in the Treasurer's office that we caught with a little money on her that she hadn't turned in, is the wife of a police captain here, and the police captain was in to see me this morning - felt very badly.

H.M.Jr: What did he do, threaten to arrest you?

McR: No, no, but he felt very badly. I told him we had to go on record, as much as we didn't like to. Police captain's wife.

H.M.Jr: Keeping some of the money?

McR: Yes

H.M.Jr: Are they doing anything on this switching business?

Lochhead: Did a million last night after the bills were apportioned. They sold out a million of the bills and bought a million of the 2-7/8's.

H.M.Jr: For us?

Lochhead: Yes, against that Postal Savings loan. See, they held up, they were afraid if they dumped ten million dollars worth of bills on the market last night....

H.M.Jr: And did a million?

Lochhead: And they did a million late in the afternoon.



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H.M.Jr: Tell me, what was the net figure on the bills? Who knows?

Taylor: 0.66

H.M.Jr: What?

Lochhead: Well, that was the New York; I haven't got the general figure.

Taylor: No, New York was 0.68 and that was 0.66, 0.67.

Lochhead: Little higher than last night.

H.M.Jr: It was 0.62 the week before, wasn't it?

Lochhead: Yes

Haas: I have nothing important. Sachs gave me a talk.

H.M.Jr: Who?

Haas: Alexander Sachs. About the inflation of prices and interest rates. You might be interested in listening to it - I mean tell it to you sometime.

H.M.Jr: Want to walk down with me tomorrow morning?

Haas: Fine.

H.M.Jr: Can you get up, or do you want to be woke up?

Haas: I'll do the best I can.

H.M.Jr: All right.

Taylor: I thought he was very good yesterday. He arrived at a peculiar figure for long-term interest rates, which is  $2\frac{1}{2}\%$ , and he builds it back in a very interesting fashion.

H.M.Jr: Now, I walked down with Henry Wallace and I told him that I was serving notice on him that I was going to challenge the whole agricultural program, and he's tremendously worried. He's put his boys to work on the thing and he gave me the figures this morning, and they're even worse than I thought. Now, in '36 his

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actual expenditures - he spent a billion one; in '37 he figures on spending practically a billion three, '38 a billion one, and in '39 a billion one. In other words, he's getting over one-seventh of the entire money, and no one.... He said, "You don't understand." I said, "Henry, I understand more than you think." "Well, look what the farm organization does." I said, "I know, that's your worry."

And so he's called all his boys together and he's putting them on it, and when he gets ready I told him that Taylor, Haas, Bell and I would meet with his crowd. But I said, "When everybody's talked about the unemployment and all that and they've put the heat on Harry and he's come through - and you just got away with murder." "Well, you don't understand." I said, "Henry, I understand more than you think." One-seventh - one dollar out of every seven is going to agriculture out of the Federal expenditures.

Gaston: Should have been cut in two a year ago.

H.M.Jr: Crazy! Much harder to cut now.

Haas: They'll probably line up and drive somewhat like this: Put in something which is comparable to the processing tax. Then they'll say, "We're self-supporting." That'll be their story. But they aren't self-supporting.

H.M.Jr: Let them bring this tariff thing out in the open. Let me get Hull on this thing. I'm going to smoke this thing out. This costs too much money. This thing is very - I never saw Henry so interested, so worried. I wish you'd see the look on his face. This boy has just gotten away with murder. I'm going to smoke it out.

McR: I knew what you were talking about, but you didn't see me across the street.

H.M.Jr: Did you see me?

McR: I saw you. And Wallace had his head down.

H.M.Jr: We stood by that picket fence for ten minutes, and he was shaking his finger at me. I said, "Henry, we're



- 6 -

just going to go to the bottom of this thing, when you boys are ready." "You going to do this publicly?" I said, "No."

And also, in the room, this is - you know this town. As long as the group is so small, I'll take a couple minutes to gossip, because you'll enjoy it. We called a meeting at our house a couple Thursdays ago and George prepared a memorandum on what I call "Selective Spending," and you know, we had these various people in - Miss Perkins and Hopkins and Eccles, and different people, and their economists. They spent three hours. Got a lot of stuff from Lubin. It was a good paper.

Was it that afternoon that Harry had to see me - the afternoon of that meeting?

McR: Yes

H.M.Jr: The afternoon of that meeting Harry just had to see me, ride home with me. He had just gotten this idea of an Executive Council, General Staff, and he had a letter in his - under his arm to write the President, and he was going to suggest me as Chairman of this group. So I said, well, I had all I wanted, I didn't want to be Chairman.

Then I said, "Well, what are we doing tonight?" "Oh, is that what we're doing tonight? I didn't know what the purpose of that was." I had written a letter, practically the same thing, out to the President. He said, "Send it if you want, but we've got you down as Chairman." I said, "I don't want to be Chairman."

Well then, I heard this gossip - this all ties in to some of the stuff you (Taylor) heard - very interesting and very significant, but kind of a mess. Bullitt was here with an idea for a General Staff on taxes and spending, to be tied in with some of the things the Treasury was doing. And now, whether he got it from Feis or whether Feis got it from him, I don't know, but Feis got it and he's going to have a group, and that's what Bullitt - one of the things he was talking with the President.

Well then, Feis and Wallace and Hopkins got together, see, and the meeting was to have taken place this

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afternoon. In the meantime, Mr. Merriam comes along, of the National Resources, and he springs a meeting. And the President called people together and nobody knows what it is. But his thing turns out now that it is a long distance planning, see, and that group is going to go ahead and work up toward a big meeting, the thing to be production and consumption - that's what it all boils down to.

Now, Wallace walks down with me this morning and he saw Feis yesterday, and they've had another talk about this Council - Agriculture, Treasury, Commerce, Eccles, Hopkins, and Feis of the State Department; they think Mr. Hull would come. And who do you suppose is to be Chairman of this group? Hopkins. And Executive Secretary, Corrington Gill.

(Hearty laughter)

Which all goes back to the thing - just as soon as that crowd hears that anything new is on, they go and put their own boys on it. Isn't it amusing?

So I told Wallace - I said, "Now listen, Henry, have you ever seen a good economic paper come out of Hopkins' shop?" "No," he said, "I haven't seen any." I said, "Well now, any group which has to rely on their staff work, what can they do?" He said, "Well, look at Gill." I said, "Well, he's the best slide-rule fudger in town." I said, "He can take a slide-rule and make it talk."

Haas: That's the best I've heard in a long time.

H.M.Jr: Well, I didn't also say - wanted to tell him that one who could equal him was Ezekiel, but I didn't say that. Bill Myers said Ezekiel was the only man he knew that could give him what he wanted from a slide-rule.

McR: I didn't know that Corry got up to Ezekiel's level.

Taylor: That's pretty high praise, isn't it?

H.M.Jr: That shows just how these people plot and scheme and go on. So then they've all boiled down that they were going to go ahead and I said, "Don't have a Chairman. Just rotate, go to different persons' offices or house. Just go around and have a meeting at your office once, and then Miss Perkins, Mr. Roper, at my office. Just



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rotate. But have an Executive Secretary." "All right, we'll make Feis Executive Secretary." I said, "It's all right with me, but don't make Corrington Gill, and don't make Hopkins Chairman." I don't see really where Hopkins fits in anyway, but I said, "Have him there."

Then what I can't understand is that when we want to get Wallace together - to come back - the last thing he said is that when he's going to explain his program he wants Hopkins present, and that just doesn't make sense.

But it's interesting. I wanted to tell it to you, because you people pick up things around town, and you get a little bit of this. And I'm rather kind of pleased with myself because I've still managed to say, including Mr. Gaston's personal friend, Elliot Thurston.....

Gaston: My protege.

Oliphant: What is this to be, a circulating Cabinet? Is that it?

H.M.Jr: I said, "Anyway, before you....." No, they'll call it a "Super Cabinet" - that's what the press would call it - Hopkins as Chairman. I said, "Before you do anything, my suggestion is you better check with the President."

Taylor: Reminds me very much of 1933. Remember that?

H.M.Jr: Well, I wasn't in on that. We were tending strictly to our own knitting.

Gaston: If they make it formal and have an Executive Secretary that's going to call it, it can't be any good.

H.M.Jr: I told them, "Make it informal. Take this problem we've got. Why don't you give us a paper on it. We want to know and we want you to justify your program. I think it's the most wasteful, extravagant thing in town. I'd like you to justify it."

Gaston: Hasn't the time arrived when you can kill off the National Emergency Council and all their state officers? Perfectly useless.

H.M.Jr: It only costs a couple million and right now it might

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get the President a couple votes. I mean the price they're paying for votes - why, that's cheap.

Mrs Klotz: That's being frank.

Oliphant: I move that we always meet at 9:45.

Taylor: Compared to a billion three.

H.M.Jr: Oh, compared to a lot of things. So that's that. That's the way it goes. If you fellows hear anything - I thought you might like to know. But I still thought you might also know that your boss still - that they hadn't jumped him. But this Hopkins-Gill crowd - they're not quite as smart as they think they are.

Mrs Klotz: You're pretty frank, though.

H.M.Jr: Well, let's clear your (Magill) letters, as long as you are here. This side of the room is interested. No, Haas is interested too. Mac, you stay.

Oliphant: Is Graves about ready on that stuff, Mac - his Igoe stuff?

McR: He had it done last night, but he said he wanted your man and the Alcohol Tax man and Irely to go over it with him this morning critically. He's sitting down this morning with them with the idea of having them punch holes in his material.

Oliphant: Something strange happened Friday. Joe Keenan's office called me up. I talked to his secretary personally. Asked me if I got the fourth letter.

H.M.Jr: What letter?

Oliphant: The fourth letter from him - Igoe. Three came over in a bunch. I said, "No." "Well," he says, "Keenan asked me to call you up to be sure that you got it. I've already sent it over." It's never come yet. I said, "Did you address it to me?"

H.M.Jr: Well look,..... (To Kieley) No, bring him in. Mrs. Klotz will hold four o'clock for that if you want it. Let her know, will you? She'll hold four o'clock.



- 10 -

McR: Well, his boys will be ready by then. They will have made all the review.

H.M.Jr: Send word to Keenan that they're going to hold four o'clock.

April 12, 1937.

Dear Mr. Secretary:

At your request, the undersigned group of actuaries conferred on April 8, 1937, to discuss the adequacy of the tax rates contained in the proposed railroad retirement legislation. During the course of the conference there was placed before the group a letter dated April 7, 1937, addressed to you and signed jointly by George M. Harrison, chairman of the Railway Labor Executives Association, and J. J. Pelley, president of the Association of American Railroads. This letter requested that the actuarial group consider three specific queries relating to the cost calculations made by the Railroad Retirement Board.

We have undertaken to comply with the request made by Messrs. Pelley and Harrison, and have agreed upon answers to the three queries as follows:

1. On the assumptions used by the Railroad Retirement Board in making cost calculations, are the figures arrived at by the actuaries of the Board correct? We are particularly interested in the retirement age assumptions, which when combined produce an average retirement of 67.2 years. We regard those estimates as most conservative. . . .

We have not attempted to develop our own figures of cost, but have reviewed the figures prepared by the Railroad Retirement Board and figures derived therefrom by the Treasury actuaries. The conclusions of the Treasury actuaries and also of the Federal Board of Actuaries were based entirely on figures calculated by the Railroad Retirement Board, without change in the retirement age assumptions, and it was assumed that the calculations of the Railroad Retirement Board were correct on the basis of the assumptions stated.

We are unanimously of the opinion that the retirement age assumptions used by the Railroad Retirement Board are not conservative.

2. If railroad employees were affected by Titles II and VIII of the Social Security Act, individual railroad employees retiring for many years in the future would receive old-age benefits in excess of the value of the taxes paid by themselves and their employers. Using assumptions comparable to those employed by the Railroad Retirement Board in cost calculations, what is the average value of such excess benefits during the period from 1937 to 1970 expressed as a percentage of the railroad payroll?



- 2 -

The excess benefits referred to herein were set forth in a letter dated March 31, 1937, from Mr. Latimer to Mr. Magill. The calculations show that employees retired under the Social Security Act in the early years will receive benefits worth far more than the taxes paid by them and by their employers. If similar calculations had been made in respect to the taxes and benefits of the proposed legislation, it is quite apparent that such excesses would appear for many years as they always do during the early years of operation of any pension plan. In fact, these excesses would be far greater in the case of the proposed railroad legislation than under the Social Security plan, because the benefits in the early years are far greater in relation to the tax rates. When the cost of Social Security benefits to railroad employees is determined on a basis comparable to the basis employed by the Railroad Retirement Board in its cost calculations for the proposed railroad benefit plan, the results indicate clearly that the excesses referred to in the above query are not available as an offset to admitted deficits in the proposed scale of tax rates. On the contrary, the results indicate that the additional benefits of the proposed bill over and above the Social Security benefits could not be provided by the additional taxes over and above the Social Security taxes.

3. Given the assumptions of the Retirement Board, and assuming the availability of the excesses referred to in the preceding question, would the actuaries advise proceeding on the basis of the proposed agreement, with the understanding that both the labor organizations and carriers will agree to adjustments if and when actual experience shows such to be necessary?

We are unanimously of the opinion that the proposed scale of tax rates is inadequate. We therefore advise against proceeding on the basis of the proposed agreement.

Respectfully submitted,

sup. 163  
for authorization  
of signature

George B. Buck p. R.R.

Joseph B. Glenn

Wm. Williamson

R. R. Reagh

The Honorable,

The Secretary of the Treasury,

Washington, D. C.

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The Honorable,

The Secretary of the Treasury,

Washington, D. C.

MEETING RE SHORTAGE BELOW EXPECTATIONS IN  
INCOME TAX RETURNS

April 13, 1937  
10:15 A.M.

Present: Mrs Klotz  
Mr. Magill  
Mr. Haas  
Mr. Taylor  
Mr. McReynolds  
Mr. Gaston  
Mr. Oliphant  
Mr. Helvering  
Mr. Reed (Int. Revenue)

Magill: Well, the background on this is this. We made this check of some of the larger returns right after March 15 in order to see if we could why it was that the revenue, particularly from individual tax returns, had not gone up as anticipated; and among other things a check was made of the individual returns of 193 largest taxpayers, I guess it is, in the six big Eastern districts - three in New York, then Newark, Philadelphia, and Boston.

Well, in going over those figures yesterday, I found in a surprisingly large number of instances that the dividends reported in 1936 are less than those reported in 1935, and in some cases very much less. For instance, the most striking case is that of Mr. Hartford, of the A & P, who reported three million four of dividends in 1935 and three hundred now in 1936. Then the Rockefeller children all had an income in '35 of very much the same amount of dividends, about four hundred fifty thousand, and in 1936 they each of them reduced it down to a - well, one was ten thousand and the highest was one hundred fifty-seven thousand; in other words, they cut it anywhere from to one tenth to a half, or something of the kind. So that it is evident that there is something funny going on, and just what it is is hard to tell.

Well, it occurred to me yesterday that it might be that a smart thing to do would be to send them out a letter signed by the Commissioner along these lines - and then I'll tell you why I think - what I'm trying to get at. "Dear Sir: Beginning the examination of your income tax return for 1936, I note that you have reported dividends received in the total amount of \$\_\_\_\_\_. Your income tax return for 1935 reported dividends received in the total amount of \$\_\_\_\_\_. I should



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appreciate it if you would forward to this office your explanation of the decline in your report of receipts from this source. Very truly yours, .... Commissioner."

H.M.Jr: You give them 30 days?

Magill: I put 30 days in here. I don't know whether you want to put that in or whether it would be better to leave that out and write them a follow-up letter.

Helvering: Did you see this whole report?

Magill: Yes.

H.M.Jr: Why?

Helvering: Well, let me explain. Now, take the Rockefeller family. You see, the net income reported for Augusta Rockefeller was \$766,000 this year and \$490,000 last year. But straight dividends were \$571,000 last year and \$10,000 this year. But she received \$931,000 from trust this year. They didn't want to be in that trust last year, because last year they could report the dividends non-payable, and this year they report them payable.

Reed: We found that in one or two - one large tax return they dropped from \$600,000 to practically nothing this year; when we got the returns and compared them, we saw that last year there was a report of \$600,000 received from the trust, and this year he reports nothing.

H.M.Jr: Well, how do you explain that?

Reed: I don't just know why the reduction of the trust income. But the reason - the three hundred that he does report he reports as income flat; he doesn't bother to segregate it as dividends, because nothing is accomplished.

H.M.Jr: That's what caused it.

Magill: Of course, it's that sort of thing that I have in mind by this letter.

H.M.Jr: Well, let's just do one thing at a time. Is there anything you've heard since last night why you

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shouldn't send that letter?

Helvering: It seems to me very foolish to write a letter when the return shows on its face that the total net income reported is greater by \$276,000 than it was last year.

Magill: Well, but the falling in - what do you have, Abbie Aldrich? - but her falling off in dividends was \$560,000.

Helvering: Yes, but the total income - total net income includes \$591,000 from this trust this year.

Reed: Where last year she reported nothing from the trust - all dividends.

Magill: Last year she reported \$571,000. Now, if her dividends went up as other people's did, she should have reported three-quarters of a million.

Helvering: We think she reported \$971,000.

Magill: Why not ask her?

Helvering: We think we've got a better way and a quicker way.

H.M.Jr: All right.

Helvering: Now, I'm taking this 143 or 193, whatever it is, and making - Mr. Reed is taking direct charge of this in the Bureau, and we're sending these out to the agents and telling them to go themselves and investigate and report back to us in ten days.

Oliphant: Call on the taxpayer?

Helvering: Yes, call right on them. And if the return itself doesn't show that there is a discrepancy....

Magill: What are you taking to the taxpayer, your information returns of dividends or what?

Reed: No, his 1936 income tax return. We're sending it to the field for the regular investigation, but asking that a tentative investigation be made immediately, or this month, and to hold it there for the regular



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investigation at an early date; but that he call on the taxpayer immediately and report back in here in ten days why the discrepancy in dividends. Now, if they can report - for instance, that one particular case - and show that of the income from trusts \$970,000 some odd was dividends that was reported as dividends last year, that would satisfy us in that particular case.

Magill: Well now, of course, what you're going to run into then is that the next time you go around and see them, two or three months from now, you're going to get a good deal of hue and cry about excessive examination.

Reed: Well, at this time we won't conduct the regular examination.

Magill: I mean the taxpayer doesn't understand that technical distinction very well. If there's a discrepancy, here he's going to have to run to his lawyer to prepare some kind of an explanation for it. Now, you come around again to make a complete audit in two or three months and he says, "What is this, anyway? You going to try to harass me?" And that will get in the papers.

Reed: We didn't feel he would take it that way if the agent just walked in and said, "There's this difference between '35 and '36 on that one item. Can you explain it?" And if they explain, "I made a gift of a large block of securities this year. I didn't receive those dividends. I gave the property to certain sons and daughters or certain trusts," and say who it was given to, why, that would explain it.

Helfering: This first investigation is only to ascertain just what we're asking in this letter.

H.M.Jr: I personally think that their way is more effective. It would be much quicker.

Helfering: I thought it would be much quicker, because this letter goes out and....

H.M.Jr: I arrived at it a little different way. I was going

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to ask that in the case of the Hartfords we get hold of the return of the A & P and see what they did with their dividends.

Magill: What have you got on that?

H.M.Jr: See, I wasn't going to take...

Helvering: There's a different situation. A & P made very much less money in '36 than they did in '35.

Magill: They just didn't declare it out.

Helvering: I don't know what's the answer.

Reed: We're going to attempt to gather from our own statistics down there just what dividends they paid. If that doesn't answer the question....

H.M.Jr: Does that also take salaries? They had to report salaries through Mr. Doughton. I was going to make two suggestions - A & P, and also Singer Sewing Machine, on account of the two parts. I was going to suggest you take a look at the A & P and also the Singer Sewing Machine.

Helvering: Ros, if I write that letter, won't they just refer that to an attorney?

Magill: Yes, and that is, as a matter of fact, part of what I have in mind. It seems to me one of the most important things we can accomplish here is to put these people on notice that we're making a quick audit of these returns. Now, that is accomplished by your method as well as by the letter. What I'm really worried about is not so much this year as next. That's what I want to do, is to find out what they've been up to, so that we can get the law changed before more money goes down the same rathole. Now if, as you say, it is that the company didn't make the money and didn't declare the dividends, all right. But you can see - well, it's conceivable they may have used trusts, they may have used personal holding companies, they may have used various devices.

H.M.Jr: If you don't want to decide it now, let's - but my



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own curbstone opinion is you'd get more information, much more quickly - I think - I mean these boys will get us something in ten days.

Taylor: I think absolutely that they'll get it much quicker, Ros.

Magill: My only curbstone objection is the one I've indicated.

H.M.Jr: Well, do you want time to think it over?

Helvering: Well, of course, I think maybe that Mr. Reed's instructions in connection - he's going to handle this thing; he's going to get this stuff - that is, if this is approved, I think his letter of instructions should tell the agent we want to find out about this particular item so as to prevent them thinking this is the thorough audit.

Magill: Yes, I think you should do that.

H.M.Jr: Think it over for a couple minutes. Let's settle it right now. Talk it over. Let's settle it right now.

Magill: Let me throw another thing into the arena. I notice in the case of a lot of these fellows that they did not give the detailed report of the source of their dividends.

Reed: That is usual.

Magill: I imagine that you're right. At the same time, as long as you demand it on the return, we either ought to get it or else take it off the return.

Reed: We can get it, of course, when we go in for investigation, and that could be one thing they go in for now. "You did not fill out the schedule. We want this information." Then, if there is a discrepancy.... However, I don't suppose it would be necessary to go to the taxpayers who reported, we'll say, four hundred thousand in dividends last year and 600 or 650 this year; even though he gave us no schedule, we ought to be satisfied that there....

Magill: Say that again.

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- Reed: Where they report, we'll say, four hundred thousand last year and this year 600 or 650, even though they don't itemize it, I wouldn't deem it advisable to even make an investigation of that, because his increase there is 55 or 60 percent in dividends.
- Magill: I don't know; on this particular matter, in the case of these particular people, I would personally be in favor of going right down to the ground in the case of every one of them. Now, I think you want to avoid this harassing them by repeated examinations. That is, I don't - I would think it would be bad administration to send a man out now and let him spend a day with Mr. Hartford and then let him a couple months from now spend a couple more days and then in another month send him out again.
- H.M.Jr: All right, I've got an answer. Let them start on this thing now and go through with it and finish it.
- Reed: That would delay us some time, Mr. Secretary, in getting the information that you want.
- H.M.Jr: It's all right; pull your men off something else. This is particularly important for the whole fiscal policy, so....
- Helvering: Let me ask, isn't the objective here to get an answer to this question?
- H.M.Jr: Yes.
- Helvering: With these 143 we've got listed as showing reduced dividends, maybe we can find the answer.
- H.M.Jr: Right.
- Helvering: That will follow up, then, with a check of all those I am having sent in from the field of a hundred thousand or more - that we can apply this answer to those in many cases.
- Magill: Well, I think that's all right, but if.... In other words, your idea is this. Supposing we take these 193 and get the information from them as to the dividends, why the falling off in dividends; and I would say also why, in cases where there is a slight increase -



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why wasn't the increase more, along the lines of other taxpayers of the country. And then I think, at the earliest possible time you can do it without disrupting the whole organization, you ought to audit very carefully the five thousand reports of people with a hundred thousand or more. And incidentally, I think you ought to make a check of people who in 1935 reported a hundred thousand dollars in and in '36 didn't.

Now, for instance, I'm - my grapevine says that Vincent Astor has gone down to Bermuda or some place and piped his income out of the country. As far as I could see on a check, he wasn't in this list. Now, if... ..

Reed: Our office in New York feels that there's been a great deal of that this year because of our change in the Act. They can form foreign corporations, trade on the Europe open market, and pay no tax.

Magill: I'd like to get page and verse on that for as many of these people as we can get, because I've heard it - Panama, Bermuda, etc. But let's get actual cases. Every lawyer I talk to says it hasn't been done since 1929. Now let's see who's lying.

Oliphant: Well, couldn't you attain both objectives and meet Magill's objection, Mr. Secretary, by adopting your idea and then let the fellow make inter-reports the minute he's got the answer to this first question. That is, pull men off '35 and go right now for a full examination right down to the bottom of all these five thousand, and the moment he gets the answer to this first question about dividends, let him phone it in.

Helvering: We can't do that, Mr. Oliphant; that is, unless we - that is, this would disrupt the whole procedure - unless this is more important than the whole tax problem, because if we do that we're going to - for the next two months I don't know how many thousand - I don't know how to estimate how many '35's we've got to finish, and in order to get started on the regular examinations of '36 by July 1, we've got to finish those '35's.

Magill: Of course, you could - how many accountants would it

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take to make a complete audit of these 190 returns?

Reed: Oh, to make a complete audit, to do it within 30 days, about 30.

McR: Aren't some of those unaudited for '35? You couldn't jump into your '36 without '35.

Reed: What would you think of this suggestion? The men who went out into the field to gather these data were unusually high type men; they were hand-picked. Let me send those men right back to the divisions they worked in, with their instructions to the agent to get the information, and he work with them and let them see that the right type of men are picked that will go in there and not harass these people and not leave the impression of another investigation going to follow; that they just want to get the one statement, verify this - not the correctness of the return, but something that isn't explained there; that is, it is not self-explanatory. And that would only take possibly 10 or 20 minutes in each office; wouldn't even have to check his records.

Magill: Well, I think it will have to take more than that. You see, what I am looking to mainly is legislation on this thing. Now let's have that agent report quite in detail as to what they have done.

H.M.Jr: Well, I've listened to this thing, and I think the thing to do is to take your 30 picked men and take - whatever this number is, 190 - and pick up these people's returns; if they haven't done '35, start with '35 and just let them concentrate on these people and stay on these particular returns. Out of these 190, we'll get the answer.

Magill: I'm inclined to think that...

H.M.Jr: I mean I wouldn't let them drop in - "How do you do? Why didn't you....." - I think that would be making a joke out of it. I'd rather call on these 190 people and just let our boys stay there and go through their records.

Helvering: Don't expect us, then, to have this report in.



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H.M.Jr: My dear Guy, if this letter went out I wouldn't have anything much under two or three months, but I think this thing - you begin - somebody is going to begin to break. In a couple of weeks, just as soon as you find that thing, telephone this man here; then he telephones you (Helvering), and you get it in. You say - you give these men verbal instructions as to what we are looking for, and say that as soon as they've got an answer to that, they can phone it in.

But rather than to go in - "How do you do. Why didn't you get so many dividends? Thank you" - and go out, I'd pick up these particular returns and make a complete audit.

Magill: I think that's right.

Reed: Well then, we can have the agent make a supplemental - not a supplemental report, but a tentative report as to our information that we want, as he gets to it.

Magill: That's right, have him make inter-reports. But you'd have him make a complete audit of these doubtful cases both for '35 and '36 if '35 hasn't yet been examined.

Helvering: Many of them will and some won't. We can find that, though, and check that, and get the two years together in one report.

H.M.Jr: And you might just add the name of Vincent Astor to that list, tentative. He's on there.

Haas: Last year during the hearings, Hearst's figure - paid three million dollars.

H.M.Jr: Who?

Haas: Hearst.

Reed: We have him on; don't we have him on here?

Taylor: He'd be California, wouldn't he?

Magill: He may be California.

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Haas: He reports through Star Publishing Company.

H.M.Jr: Of course, you've got in Chicago - they've got one family, the salt company.....

Taylor: Morton?

H.M.Jr: Yes

Magill: In Chicago? You're not going to do - we haven't done Chicago.

H.M.Jr: I know what he used to show. Used to show seven hundred thousand. What?

Reed: Hearst isn't on there - on the New York figure.

H.M.Jr: But Astor should be.

Helvering: Well, we'll get Hearst's name from the field.

Reed: I wouldn't be surprised that Mr. Sherwood has them.

H.M.Jr: Has everybody agreed? Have you agreed? Do we understand each other?

Helvering: Well, I just thought that what we have in mind would be a better procedure than just the letter.

H.M.Jr: Well, the letter's out. Is that right?

Magill: That's right.

H.M.Jr: But you're going to take these names and go in and examine all of their returns.

Helvering: Just as though it's a complete audit of everything.

McR: Will be for the 193; it will be a big job.

H.M.Jr: And with special instructions to look for that, and if they find it send it in right away. How soon can you get these boys started?

Reed: We can get them started out not later than tomorrow, beginning tomorrow.

H.M.Jr: Fine.



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Reed: The Statistical Section is calling all hundred thousand dollar income returns. Now, they have our bunch of 193, but they release those to us some time today.

Helvering: Send them out by evening.

Magill: I take it you can put your 30 men to work first on such cases as seem to be inexplicable on the face of the return.

Reed: That's right.

Magill: And let them get that information and send it to us as fast as they can get it - as to what the examination shows.

H.M.Jr: Is that entirely agreeable to you (Magill)?

Magill: Entirely, yes. I think that's better.