DIARY

Book 3

January 1 - February 28, 1935

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- N - (Continued)

In discussing the proposed visit of T. V. Soong with Senator Pittman the Senator has pointed out to me:

(1) That it is important that he should come on the invitation of the Treasury rather than the Federal Reserve.

(2) That it should be understood that he is not coming here to discuss our silver policy but rather foreign exchange problems as it affects commercial transactions between the two countries.

And, if possible, have it be understood he is coming to this country to discuss reciprocal trade agreements with the proper departments. If this is made clear it can be given out in a formal statement after his arrival. Senator Pittman would be glad to see him come.

January 9, 1935.

Note: H.M. Jr. gave the attached to the President sometime the early part of 1935.

If you like this idea please take it and spring it here. Henry

In order to check up on the various recovery agencies, I suggest that we carefully select a medium-size city in which to make an intensive study as to the activities of the various recovery agencies.

After this study has been made, my suggestion is that you appoint one representative from each agency to go down to this city and put on a recovery drive. Out of this drive we will find which agencies are doing their work well, which are competing with each other and which have fallen down on their job. Every large manufacturing company before it puts a new product on the market first tests it out in a locality. You did not have time to do this. I am, therefore, suggesting that we now make this test announcing that whatever mistakes are uncovered will be corrected. I think that we would learn a lot and that a test of this kind would give the public confidence in your sincere effort to not leave a stone unturned to re-establish good business conditions.

January 1, 1935

Wednesday, December 26th, Bell and I started to work with the President at 2 o'clock and continued through until after five on the budget. It was the first time that the President had really thought about how he was going to finance the fiscal year beginning July 1, 1935. We started in by showing him the list of the unobligated funds from the various emergency agencies. He took out his pencil and went over the list himself and took money away from the various agencies amounting to about nine hundred and thirty seven million dollars. I wanted him to do this himself as I felt he would feel much better about it than if we had plunked down the list which Bell and I had done before lunch. By letting the President do it himself he got quite a kick out of it. I then suggested that he immediately dictate letters to all the agencies telling them to stop obligating funds until further notice. Originally the President said he would only stop their contracting until the 15th of January but in dictating the letter he took my original suggestion and let it read until further notice. (Copy of one of these letters attached herewith).

He then told Bell that he should see these people and between Wednesday afternoon and Friday at 12 o'clock they would have an opportunity to explain why this money should not be taken away from them.

I next pointed out what seemed to be most important that the deficit for the next fiscal year should be less than the deficit for the present fiscal year. I stressed this point greatly because I told him I felt that if we could point out that this year would be the peak of expenditures and that if next year would be less we could then say we have broken the back of the depression. I pointed out that if each year's deficit continued to increase that I did not see how we could stop Congress from forcing us to use paper money with which to meet the deficit. If, on the contrary, this year would be the peak of the expenditures I thought that we had nothing to fear from Congress.

The President then took a pencil and paper and tried to figure from every angle how we could make it appear that this year's expenditures would be the highest. After figuring it from every angle he decided to take the departmental estimated figures rather than Bell's figures which are much nearer to being right, and by taking the departmental estimates we could show a bigger deficit.

When Bell and I left him Bell particularly was very much upset at the thought of having to use the departmental estimates as he felt we would just be faking. When I left the President after this meeting I was very much pleased because I felt that I had made real headway and that I made the President face the issue of financing as I told him in the course of the conversation that I had waited for two months to get a plan from Ickes and Hopkins on which I could base our financing for the coming year and of course I had never received such a plan, and lacking that I felt that I had to have figures which would show that we had passed the peak of our expenditures this year.

Thursday - December 27th I had Bell and Merz, of the New York Times, for lunch and we went over the budget situation. Merz stressed the point that he thought that the most important thing would be to be able to say that the budget was balanced except for one item "Relief". He stressed this so strongly that it made a big impression on me so when Bell and I went back to see the President at two I began to work on the President along those lines, not forgetting of course my other premises that this year should be the peak of the expenditures.

The first part of the meeting with the President was spent with Ickes and Hopkins and I could not imagine at first why the President had them there but as the meeting progressed I got on to what he was trying to do, namely, that he wanted to placate Ickes and had not wanted to do it with him alone. The President proceeded to sketch rather vaguely what our objectives were; mentioned the fact that we needed nine hundred million dollars to carry on relief and CCC camps from the 15th of February, 1935, until June 30th, 1935. Ickes, not knowing anything about the budget picture, naturally was in the dark and he started to ask the President what would happen to his PWA projects. When I thought that the President was weakening a little bit I made a stump speech about balancing the budget except for relief, my fears of paper inflation and that this was a much bigger problem than any individual realized. I think I made it sound quite dramatic and I know that I was very emphatic about it. Between the President and myself we just swept Ickes off his feet and just left him gurgling and murmuring to himself. After Hopkins and Ickes left the President turned to Bell grinning all over and said: "I made your job much easier" - meaning that when Bell had to see Ickes and take the money away from him it would be less difficult for Bell. But what I said to myself was Franklin, old boy, you had Bell and me here to help hold your hand while you performed the most difficult operation on Ickes and thank God that I was there to back you up, otherwise we might have had a repetition of what happened just a year ago when you signed an Executive Order for Lew Douglas bringing all of the independent agencies under the Director of the Budget and Ickes raised such hell that you withdrew your Executive Order. As a matter of fact I am going to accomplish just what Douglas wanted a year ago only I am going about it in a roundabout way and am sugar-coating it so that I hope they will not recognize it.

I told him I didn't think he would have a chance because the President had stressed his 500 million dollar figure so often. As a matter of fact, when we first started he had two 500 million dollars in mind - one for PWA and one for Natural Resources. Just before we left, Bell brought up this 500 million dollar figure and pointed out to the President that the extra amount of money for Army and Navy was taken care of in the regular budget and would not have to go into the 500 million dollar, so the President agreed to cut the 500 million to 300 million provided that we pointed out that the extra figure for Army and Navy would be taken care of out of the regular budget. The President seemed very much pleased with the financial setup. Went through the Message very carefully and accepted the page which had been entirely written by Merz which is as follows:

The Fiscal Year 1936

"In the Budget message of last year I said, speaking of the fiscal year 1936, that we should plan to have a definitely balanced Budget for the third year of recovery and from that time on to seek a continued reduction of the national debt.

Despite the substantial measure of recovery achieved since that statement was made, unemployment is still large. The States and local units now provide a smaller proportionate share of relief than a year ago and the Federal Government is therefore called upon to continue to aid in this necessary work.

For this reason it is evident that we have not yet reached a point at which a complete balance of the Budget can be obtained. I am, however, submitting to the Congress a Budget for the fiscal year 1936 which balances except for expenditures to give work to the unemployed. If this Budget receives the approval of the Congress, the country will henceforth have the assurance that, with the single exception of this item, every current expenditure of whatever nature will be fully covered by our estimates of current receipts. Such deficit as occurs will be due solely to this cause, and it may be expected to decline as rapidly as private industry is able to reemploy those who are now without work."

The President, Bell and I then settled down and Bell had a new set of figures which were his figures and not the departmental estimates, and using his figures we were able to show:

1. A deficit less in 1936 than in 1935.

2. The possibility of balancing the budget except for relief.

Bell's figures were still sketchy because he didn't know which year the 900 million dollar fund would fall into. As a matter of fact the figures that Bell had were still in pencil and had only been handed to him while he, Merz and I were at lunch. I then stressed the fact how important it was to have a balanced budget except for relief and the President listened sympathetically and attentively.

During the conversation with Ickes and Hopkins I mentioned the fact that the money for the CCC camps would have to come out of the 4 billion dollar fund for relief. Hopkins frowned at me. This is important because from that time on I didn't mention it again because I was fearful that the President might want to set up a separate fund for the CCC camps and if he did we could not balance the budget, but I felt that having mentioned it once I didn't have to rub the President's nose in it and after all CCC is a hundred percent relief work and should come out of the 4 billion dollar fund. Also during our conversation with Ickes and Hopkins the President turned to me and said do you think we could spend the 4 billion on these various projects in one year and I said emphatically no and he got quite annoyed at me. He said why let me send a message to Congress saying I can spend 4 billion dollars if you do not think I can do it and I came back and said after all, Mr. President, you have asked me a question and I am giving you an honest answer and whether that money can be spent or not is not my job but is Ickes' and Hopkins' job - so he turned to them and asked them and of course they both said surely we can spend it - but I still do not believe it.

The President during these first two meetings had read Bell's preparation of the President's Budget Message to Congress. We went to see the President again on Saturday at 10:30 and stayed with him until one. At this meeting Bell had his figures in good shape and allocated the 900 million dollars where it belonged and the figures showed up the way I wanted them. In walking over, Bell said that he wished he could get the President to cut the 500 million dollar figure in the regular budget for PWA to 300 million.

I consider what Merz wrote is really about the most important part of the message and ties up his message of last year with this year on an understandable basis. The President thanked Bell most heartily for what he had done and Bell certainly deserved this thanks as he had done a remarkably fine job. I whispered to the President that Bell was on the verge of a break-down and I wished he would urge him to go away. (I had already arranged for Bell's trip). The President took my suggestion and urged Bell to go on a vacation.

Coolidge had made three suggestions - one of which I did not show the President at all. The second one Bell read and the President just brushed it aside. The third suggestion - that we show separately the total amount of money spent by the government for war veterans - the President thought a good idea and told Bell to set them up in that manner.

We have completed three sessions with the President on his message. During the time that Bell and I were with him alone he never raised his voice once, he never got irritated and we were able to get everything over that we wanted. As we left he said to me well my Budget Message is so tory that I will have to put in all of my radical suggestions in my message to Congress. I left and told him to go as far as he liked and to please remember my suggestion on taxing Holding Companies and Corporations would most likely be as radical as anything he might suggest. I also said Mr. President, you have made me very happy and I want to tell you the reaction your message has had on Coolidge who says enthusiastically I can go out and refund 5 billion dollars worth of government obligations as a result of this message.

I feel that I will most likely never again have to face as serious a financial problem as the one I had just gone through with the President and I now feel that I have nothing to worry about from Congress as I do not believe that any group would have the nerve or the backing to try to bust this budget which is balanced except for relief. The future will tell whether I have passed the worst financial crisis as Secretary.

Drought Relief

From
1. Farm Relief 39,000
2. FERA 88,000,
3. Agric 35,000,000

(156)

R.F.C.

R.F.C. Direct Loans 400,000,000

(400)

Spec. Approp.

Civil Works – 31,000,000

(31)

P.W. Fund.

F.E.R.A 25,000,000
P.W. Loans & Grants to States 60,000,000
P.W. Rivers & Harbors 30,000,000
All other – Interior 40,000,000
Admin. Public 9,000,000
Reserve Federal & Non-Fed 38,000,000
Emerg. Housing 1,00 000
Subsist. Homes 35,000
Non-Federal 13

(350)

937,000

C.C.C.

300,000,000

25,000,000 April 5,000,000

May 15,000,000

June 20,000,000

Total now to July 1 140,000,000

Harry –

½ Feb. 70,000,000

Mar. 125

April 170

May 215

June 260

Total now to HH to July 1 840,000,000.

Grand Total 880 000 000

January 2d

Coolidge, Eccles, Crowley, Oliphant and O'Connor were called in to the Secretary's office. While the Secretary was away Mr. O'Connor told Mr. Coolidge that he had received information about Mr. Crowley which was serious enough to force Mr. Crowley to resign. Mr. Coolidge suggested that all action be withheld until the Secretary returned. This meeting to-day was called so that Mr. O'Connor could make directly to Mr. Crowley what accusations he had to make.

Mr. O'Connor explained that when Crowley's name went up to the Senate Vandenberg got in touch with him and asked for a recent check-up of Crowley's loans because he felt that Crowley's indebtedness was too great to permit him to have anything to do with National debts. O'Connor immediately got in touch with Crowley and Crowley said he was delighted to have a check-up made and suggested a man by the name of Hopkins who he said was a good examiner and O'Connor gave Hopkins permission to go ahead with the examination. Vandenberg was not quite satisfied with the facts and O'Connor told Vandenberg to withdraw his objections, make no further check-up and confirm Crowley. This Vandenberg did and Crowley was confirmed. O'Connor further explained that recently statements were made at the Capitol that an investigation was going to be made about Crowley's activities. O'Connor immediately, after this gossip was spilled, began to look into Hopkins' report and found many facts and figures untrue.

Mr. Crowley was then called upon and gave the following story about himself. (This is the same story that he gave Secretary Morgenthau on October 11th when the Secretary asked Crowley for a record of Crowley's activities for his files.

"For your record, I am pleased to submit to you a brief history of my activities during the past few years.

For a great many years I have been associated in many business activities in Wisconsin largely with my four brothers. I have never been associated with any promotion development nor any corporation which offered stock to the public. In the early part of 1928 two of our banks became seriously involved, both of which were institutions that I was not in any way associated with, my connection always being with other institutions and I had no financial interest in these. I was drafted to try and save these institutions and one of my first acts was to put in $600,000 with some of my friends in one of these banks and sold it to another banking corporation with the understanding that I was to remain with them for two years while they were working out plans of a merger. This I did. I completed this contract and withdrew from the banking field at that time which was in 1932, and I have never been associated actively with banking since.

My self and brothers had very large interests in paper, lumber, oil and other interests, and two of my brothers were in the market quite heavily and had some heavy current obligations. In order to avoid any unnecessary loss to them I offered to endorse their obligations, and it was arranged for a long term extension and their notes are not due for several years yet. I did this on account of our family pride and my desire to see that they were given an opportunity to meet these obligations in a perfectly normal way. My attorney and the president of the bank both advised that it was not necessary to endorse this paper, but I told them I much preferred to do that and when I endorsed these notes it was with the understanding that I was not to put up any of my personal collateral.

Personally, I was never in the market, have always been extremely conservative and none of my connections in the past or at present can be in any way embarrassing to me. Neither my family nor myself own any bank stock or have any connection with banks either directly or indirectly. I have no bonded indebtedness, mortgage indebtedness nor current indebtedness. The only obligation I have is this indirect obligation."

Many questions and answers were flung back and forth between Crowley and O'Connor. Finally Crowley broke down and cried. He became quite hysterical. The Secretary then sent O'Connor and Crowley out of the office and those present in the Secretary's office decided that Coolidge would make a further investigation and question O'Connor and Crowley at great length. The Secretary had his doubts about Crowley's honesty while the rest of us felt that Crowley was telling the truth but it was impossible to get Crowley to make any definite statements. He merely generalized.

On or about December 31st Mr. Crowley gave the Secretary a sworn affidavit showing his obligations. It is as follows:

"Leo T. Crowley, being first duly sworn, on oath deposes and says:

1. That he does not own or control any stock or have any proprietary interest whatsoever in any State or National bank, mutual savings bank or trust company, or in any company that owns or controls any such stock, and

2. That he does not own or control any stock or have any proprietary interest whatsoever in any company that either operates, manages or controls a public utility, and

3. That he does not own or control any stock or have any proprietary interest whatsoever in any corporation, association or partnership the business or activities of which would be incompatible with his duties as a public servant, and

4. That a written agreement has been made whereby his brothers have so arranged their bank obligations, to which he was a party, that he is relieved of any liability, direct or indirect, to any State or National bank, mutual savings bank or trust company, and

5. That he is not otherwise indebted, directly or indirectly, to any State or National bank, mutual savings bank or trust company.

(Signed) Leo T. Crowley

Sworn to and subscribed before me this 31st day of December, 1934 in the city of Washington, D. C.

My commission expires August 10, 1939.

Henry T. Irey Notary Public

January 2d

Senator Vandenberg told Mr. Morgenthau when he went to see him the afternoon of January 2d in regard to Leo Crowley that the information which came out of O'Connor's office was given to him by Senator Couzens' Secretary. Vandenberg told Mr. Morgenthau that Crowley was not confirmed until O'Connor cleared him and it was, therefore, understood that Crowley was O'Connor's man. Vandenberg knows all about Crowley's having gone to see Senator Glass and Vandenberg also said that Glass thinks O'Connor is the only honest man in the Treasury. Mr. Morgenthau told Senator Vandenberg that in a matter of this kind he had no friends and that he was going into this thing thoroughly. Either O'Connor will have to substantiate his statements or he will have to withdraw them.

On January 7th, Mr. Coolidge handed in a statement to the Secretary in regard to the investigation on Leo Crowley. This statement is attached herewith. I am also attaching a statement prepared by Mr. Crowley's lawyers.

The information contained in Mr. Coolidge's statement about Crowley do not agree with the facts contained in the sworn affidavit given the Secretary by Crowley.

About a week later, I believe,the Secretary again called in Mr. Crowley and Mr. O'Connor. Mr. O'Connor took the statement prepared by Mr. Crowley's lawyers and said that he wanted to make a further investigation. At this meeting Mr. O'Connor accused Mr. Crowley of having a man in his organization by the name of Owens who did the purchasing for the FDIC, who accepted graft. Mr. O'Connor said that he had called this to Mr. Crowley's attention and up to date Mr. Crowley had done nothing about it - implying that Mr. Crowley shared in the graft received by Owens.

Attached

MEMORANDUM RE: LEO T. CROWLEY

In 1927, Mr. Leo T. Crowley and his four brothers were prominent citizens of Madison, Wisconsin; active in business and in no sense forming a partnership, each having his own interests. In 1928, Mr. Leo T. Crowley was asked to take charge of the Wisconsin State Bank, one of the two large banks in the city, as the bank was not in a satisfactory condition. From that time on he was closely identified with the banking situation and became interested in the Wisconsin Bank Shares, Inc., at a period after its formation.

He and his brothers owned together several companies which might be termed as family companies. As the depression deepened the individuals and the companies had difficulties in meeting their obligations. In September 1932, a general reoganization of the family affairs was arranged to the mutual satisfaction of the family and the creditors as the best way out of the situation. All the existing short-term indebtedness was paid off and the following obligations were issued:

$510,000 - 2 per cent - due December 31, 1938.

Note signed by . T. Crowley and endorsed by his four brothers to the extent of $50,000 individually.

$100,000 - amount of Goodall Lumber Company 5 per cent, due 1937
$275,000 - amount of General Paper Company 3-5 per cent, due 1937.

(The brothers continue to hold their real estate unpledged)

It would be difficult without an exhaustive analysis to determine the value of the various securities pledged, but a list is attached. It is Mr. Crowley's belief that the companies are good for considerably more than their indebtedness, and his personal debts will be repaid if business is fair and values improve. It is probably impossible to judge fairly the value of the securities under present conditions.

The personal and company obligations are held by the Wisconsin Bank Shares, Inc., or subsidiaries.

The Wisconsin Bank Shares, Inc., controlled banks with deposits of about $200,000,000. In September 1934 the Reconstruction Finance Corporation bought preferred stock in their banks to the extent of $14,000,000 and has loaned the Wisconsin Bank Shares, Inc. $4,000,000 on assets they withdrew from the banks. $10,000,000 of the $14,000,000 was in the First Wisconsin National Bank, a bank which at no time did Mr. Crowley have any interest in.

The amount of Leo T. Crowley's personal indebtedness which was paid off at the time of the reorganization of the family affairs amounted to $132,000.

Mr. Crowley has $1,000,000 insurance of $50,000 to $75,000 surrender value.

I would say that events caused the formation of a close business relationship between the five Crowley brothers; that they owe the Wisconsin Bank Shares, Inc. and subsidiaries $510,000 directly and that their holdings are pledged for this loan; that the companies owned by this group owed another $375,000 to this Corporation and subsidiaries.

It was entirely known that Mr. Crowley was interested in this Wisconsin banking situation. As far as his affairs were concerned they were definitely settled before he came to Washington. Mr. Crowley took no part in the activities of theReconstruction Finance Corporation with the Wisconsin Bank Shares, Inc. and subsidiaries. The family's joint obligation is fixed for a period of time and his brothers are taking care of the family interests.

At the time of my confirmation as Chairman of the Federal Deposit Insurance Corporation a year ago, the relation of my brothers, myself, and our company was the subject of a special investigation by the Comptroller's office, and the result of such investigation was apparently satisfactory, but because of a report made by another national bank examiner some two months later a misunderstanding has arisen which I desire to explain.

For many years prior to 1928, my four brothers and myself were actively engaged in business, first in the operation of a Wisconsin corporation known as the General Paper and Supply Company (later known as General Paper and Crowley Wholesale Grocery following acquisition of a wholesale grocery business at Beloit, Wisconsin, and later on the Goodall Crowley Oil Company with some thirty-five service stations located in the City of Beloit. These corporations are what are commonly called family companies as the common stock in both is exclusively owned by us and we have at all times managed and operated them.

In addition to the above named corporation, we invested in Wisconsin corporations located at Madison, Wisconsin, which were engaged in owning, improving and developing real estate in Madison and vicinity. I was thus engaged until 1928 when I became President of the Bank of Wisconsin, Madison, Wisconsin.

This bank had been established some twenty years prior to 1928, and for reasons for which I was in no wise responsible, it was in a very unsatisfactory condition, and at the solicitation of the bank's stock-holders I accepted the presidency and thereafter devoted most of my time to its affairs. In order to strengthen the cash position of the bank, additional stock was issued and sold with the approval of the State Banking Commission, whereby the bank received $600,000 in cash and approximately one-fourth of this sum was paid in directly or indirectly by myself and brothers. In 1929 the bank was acquired by the Wisconsin Bankshares Corporation, but I continued as President until February 2, 1932, when the bank was taken over by the First National Bank of Madison, Wisconsin, which was another Bankshares' bank. Before this merger I was asked by Bankshares to take the presidency following completion of the merger but I declined. Immediately after leaving the bank in the spring of 1932, I was appointed Chairman of the Wisconsin Review Board by Governor LaFollette and assisted in organizing the Board, represented the Banking Department in legislative matters, and was active in banking affairs throughout the State until I became Chairman of the Federal Deposit Insurance Corporation a year ago.

In the operation of our two companies it had been our practice for years for us to borrow individually for the benefit of the companies and likewise to borrow from the companies in order to purchase property for their benefit. Thus in the past property has been acquired by one of us and held for several years and sold, or conveyed to the companies which had loaned the purchase price.

Unfortunately, the depression found us indebted as individuals and our companies as well. Our condition was the subject of a special investigation through the Comptroller's office by Special Examiner Hopkins. Preceeding my appointment as Chairman of the F.D. I. C. Hopkins reported to the Comptroller on February 12, 1934, and I am informed that on April 6th following another bank examiner commented on our relations to the banks, and without some explanation, these two reports might be deemed at variance.

In the Hopkins' report it is stated that on February 2, 1932, Leo T. Crowley was personally indebted to the State Bank ofWisconsin in the sum of $99,966.60, and to First Wisconsin National Bank of Milwaukee in the sum of $32,500. This report shows that between February 2, 1932, and February 12, 134 (the date of the report) that $79,741.59 was paid on such indebtedness to State Bank of Wisconsin which would have reduced the amount personally owing by him to both banks to the sum of $52,725.01, but for the fact that in the meantime an agreement was negotiated with the banks whereby Leo T. Crowley voluntarily assumed the obligations of his brothers, guaranteed by them, amounting to $330,251.37 to State Bank of Wisconsin and $127,795.58 to First Wisconsin National Bank of Milwaukee. The foregoing facts are set forth in detail in the Hopkins report to the Comptroller and is a part of the Department's files. In the report made by some national bank examiner on April 6, 1934, my indebtedness to the First Wisconsin National Bank of Milwaukee, including that which I voluntarily assumed, is stated to be $274,295.58, whereas the Hopkins report shows the amount to be $160,295.58. The discrepancy is accounted for by the inclusion in the first report above mentioned of $108,500 evidenced by note to First Wisconsin National Bank signed by myself and A. W. Schulkamp. This note represents a balance on a note which we gave for money borred for our banks as explained in the letter of Mr. Thomas hereto attached. Neither of us received any benefit therefrom, and have since been released from all obligation thereon.

In view of the conditions accompanying the depression, although we had operated our companies on a small profit, I deemed it wise to obtain an extension of time for the payment of my personal as well as our company indebtedness in the hope that business conditions would improve and values would again become normal, and with this idea in mind, negotiations were commenced in the spring of 1932 with the representatives of two creditor banks and an agreement was reached and became effective September 8, 1932. Under this agreement Leo T. Crowley personally assumed the indebtedness above mentioned, giving his personal notes therefor, guaranteed by his brothers, dated March 1, 1933, at 2% due on or before five years after date, payment being secured by certain stocks, bonds, and other collateral of some twenty-three different corporations, all of which except six were Wisconsin corporations operating in Madison and vicinity. Amongst other collateral was a mechanics lien against an office building in Madison for the sum of $78,277.59 which was subsequently taken over by Wisconsin Bankshares at face and applied upon my note indebtedness. I am advised that the examiner who made the report on April 6, 1934, indicates that the only collateral back of my notes consists of some common stock in the General Paper and Supply Company and stock in a closed bank of Madison, Wisconsin. This is evidently a mistake. Some of the collateral consists of common stock in the General Paper and Supply Company, but there has never been any stock in any bank in Madison placed as collateral to either of my notes. Some of the collateral consisted of Bankshares stock which I ordered sold and the proceeds applied on the notes.

Under the contract of September 6, 1932, the Goodall Crowley Oil Company debt of $100,000 was extended five years payable in annual installments ranging from $10,000 a year to $35,000 per year and the interest rate was reduced from 5½% to 5%. In consideration of this extension I pledged a life policy in the principal sum of $100,000. Pursuant to this agreement of September 8, 1932, General Paper and Supply Company was granted an extension of five years on its obligations, with interest rate reduced from 5% to 3% the first year, 4% the second year, and 5% thereafter. I also secured payment of this company's obligation with insurance on my life in the aggregate principal sum of $275,000. In neither case was the principal of any obligation in any wise reduced. The only concession was in the interest rate and extension of time of payment as above set forth which I feel was amply compensated by posting collateral consisting of life insurance.

Apparently there is some statement in the report of the examiner of April 6, 1934, to the effect that some four year plan had been agreed upon between ourselves and the banks which had failed and the result was the giving of my notes dated March 1, 1933. There never was any four year plan. These notes were given March 1, 1933, in accordance with the terms of the contract of September 8, 1932.

My personal notes, above mentioned, and the collateral securing the payment of same, are now held by the First Wisconsin Mortgage Company of Milwaukee, Wisconsin, whose stock is owned by the Wisconsin Bankshares Corporation.

Our two corporations have no indebtedness except to the banks and there is no mortgage or other lien against their properties. What the assets of these companies will be worth at the end of the extension period in 1937 is, of course, impossible of ascertainment, but I was somewhat encouraged by an offer received since 1932 in excess of a little over $200,000 for the property of Goodall Crowley Oil Company which property we could have sold before the depression for nearly twice that amount.

I am still carrying life insurance in the aggregate principal amount of $

I am in no wise concerned with any loan obtained by either of these banks or by Wisconsin Bankshares from the Reconstruction Finance Corporation and as far as the Federal Deposit Insurance Corporation is concerned, neither of these banks has ever sought a favor and nothing has ever developed which indicates that I cannot act fairly and impartially in my official contacts with them.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Thursday, January 3, 1935.

Press Service
No. 4-2

Secretary of the Treasury Morgenthau today announced that the additional issue of 3-1/4 percent Treasury bonds of 1944-46, as a result of the exchange of second-called Fourth Liberty Loan bonds, amounted to $456,897,300. The subscription books for this issue were closed on October 11, 1934. Subscriptions and allotments were divided among the several Federal reserve districts and the Treasury as follows:

Federal Reserve District	Total Subscriptions Received and Allotted
Boston	$ 20,098,800
New York	134,381,300
Philadelphia	24,179,600
Cleveland	62,271,900
Richmond	21,968,150
Atlanta	10,842,300
Chicago	65,578,400
St. Louis	28,372,400
Minneapolis	12,235,400
Kansas City	25,946,550
Dallas	9,010,450
San Francisco	20,886,500
Treasury	21,125,550
Total	$456,897,300

January 3d

Mr. Morgenthau called in Professor Williams of Harvard and talked to him about his going to work on getting together various information on gold. The following things are troubling me:

Why should we let all of this gold pile up in the United States? The answer that is given is that we have to buy gold at $35 in order to stabilize the exchange. Sooner or later we will have to make some decision unless by letting gold come into this country we force the other countries off the gold standard. Is that good or bad for us? Should we try to direct this thing?

I want an explanation of the British currency. I want this set down in laymen's language.

Do we want to have the right to buy gold only when we want to do so - the way we are doing with silver?

Professor Williams asked whether Mr. Morgenthau wanted to explore the possibilities of stabilization with the other countries. The answer was yes.

Should we review the relation between gold and prices. The answer was yes.

Professor Williams also suggested exploring the sentiment abroad.

Professor Williams said that he had heard that England feels we ought to take a step forward and, of course, we feel that it is up to England.

Mr. Morgenthau then told Professor Williams that if he got all the facts together Mr. Morgenthau would then be in a position to make recommendations to the President. Mr. Morgenthau asked Professor Williams to review what devaluation of gold has done. What were our reasons for doing it and did we realize what we set out to accomplish? The President had told Mr. Morgenthau that it had not worked and Mr. Morgenthau does not agree with the President.

Professor Williams said he would get started on gathering together all this information and will have a report for Mr. Morgenthau before long.

January 3, 1935.

The sub-committee on Housing of the Interdepartmental Loan Committee met in the Federal Reserve Board room at 2:15 P.M.

Those present were:

Mr. Fahey, Chairman, FHLBB,

Mr. Eccles, Governor, FRB,

Mr. Moffett, Administrator, FHA,

Mr. Jones, Chairman, RFC,

Mr. Ickes, Secretary of Interior,

Col. Horatio B. Hackett, Division of Housing, PWA,

Mr. Upham.

Mr. Fahey stated that the purpose of the sub-committee and of the meeting was to develop ideas for a unified housing program to present to the Interdepartmental Loan Committee and to the President. He mentioned specifically the problems of building and repairing urban homes, rural home development, and considerations now prevalent in the general real estate field as a whole. Matters in which the HOLC, FHA, PWA, and RFC are concerned should be taken into account.

So far as the HOLC and the FHA are concerned, Mr. Fahey said, the broad problem is the question of how much further they should be provided with Government funds, and to what extent private institutions (with aid) can take over the burden.

The HOLC has $5,800,000,000 of applications, and $3,000,000,000 to meet them. $2 billion 4 has been paid out and the rest of the $3 billion committed. This leaves $2 billion 8 of applications left over. Lending institutions will have received by March $3 billion. Ninety per cent of them will be in shape to take their share of the burden. But there will be $1 billion 5 to $1 billion 8 of mortgages of the type HOLC was intended to take which the lending institution either can't or won't take.

25

Members of the HLBS can take some. There are 3,000 members with assets of $3 billion 5 and $90 million borrowings, The chief barrier in getting them to borrow from the FHLBs and to lend the proceeds is the interest rate they have to pay, which is four per cent.

Mr. Fahey suggested that the joint-obligation debentures of the FHLBs be made rediscountable at the FRBs at a low rate or that the Government appropriate $500 million to buy these debentures or that the RFC buy $500 million. That is all the FHLBs can use in the next year and a half and maybe then the member institutions can take care of things themselves. It was suggested that there are difficulties in the way of membership in the FRS for mortgage lending institutions, although some sort of associate membership might be worked out or it might be accomplished through membership of the FHLBs in the FRS. Even then only short-term rediscounts are available. Mr. Eccles suggested that the problem is to refinance existing mortgages and get some new construction. The banks have plenty of funds, but they stress liquidity. If the FRB were given broad authority to determine eligibility of paper for rediscount, the mortgages in the banks might be given the liquidity needed. The rate is the main difficulty, he said, and added that if mortgage institutions could get funds at three per cent to loan at five it would help.

Mr. Jones suggested that the B&LA's do not like to make new loans until their old ones are in better shape.

Mr. Fahey responded that some of them are in good shape but those that are not spoil the whole community. He cited Dayton, Ohio as an example. There are 18 associations in Dayton, with $160 million of assets. Elven of them were taken over by the State and the community paralyzed.

There are 1000 Federal savings and loan associations in operation, with $139 million of capital, only $11 million of which is Government money.

Mr. Jones suggested that the sub-committee recommend that cheap money be provided for the FHLBs and to ask Congress for just as little as possible.

Mr. Moffett said that such a program would put the national mortgage associations out of business. Mr. Eccles answered that they are not in business. Mr. Moffett said they could not start unless the law was amended to permit banks to buy their stock. Mr. Eccles stated that the banks wouldn't if they could, that Title III would never work and he had always thought so. Mr. Moffett said that he thought the banks would buy stock, and that Mr. Ardrey had told him he had assurances from banks in New York City and elsewhere that they would and that the chances were good for the establishment of five or six national mortgage associations. Mr. Jones interposed to suggest that that question be disregarded for the moment, and asked if the committee should recommend that the FHLBs be permitted to rediscount at the FRBs or that they be permitted to borrow from the RFC.

Mr. Fahey then brought forward for consideration the Federal savings and loan associations. $100 million has been authorized for them. $50 million has been appropriated. $11 million has been spent. $20 million more is committed. Where to get the other $50 million which has been authorhized but not appropriated? Mr. Eccles suggested that that problem would not be acute for several months, and Congress would still be in session.

Mr. Fahey said that he was interested in two other matters, one a direct interest in possible action by Congress to give the HOLC another $billion or so to spend; the other a contingent interest in action with respect to the FHA and the extent the insured mortgage can be relied upon to take over the burden now resting on the HOLC.

Mr. Ickes stated that he was depending on the PWA to take care of the housing program in which he is interested. It will be confined to slum clearance and low price housing, some rural home development and subsistence homestead development. He expected a lump sum in the budget for these purposes, he said.

Mr. Moffett reported that action under Title I of the Federal Housing Act providing for renovization and modernization of houses is getting under way. So far as Title II is concerned, providing for mutual mortgage insurance, the chief difficulty is in getting state laws changed to permit lending institutions to lend up to 80 per cent of appraised values. Title II will function only about 20 per cent efficient, however, he said, unless Title III is cleared up by letting financial instititutions buy stock in the national mortgage associations the same as they buy stock in the Federal Reserve banks. If that is done, Mr. Moffett thinks, then mortgage associations will be formed. He thinks the public should buy the debentures of the national mortgage associations instead of buying the insured mortgages directly. Mr. Jones asked about amending the National Bank Act as suggested. Mr. Eccles said that it would be going counter to the idea that national banks should have no security affiliates and should not deal in securities. Mr. Jones asked what the Federal Reserve Board would say, and Mr. Eccles replied that it had not been discussed in the Board.

Mr. Eccles was of the opinion that banks will not engage in the business of lending money, insuring the mortgages, and then selling them at a discount. He regards the National Mortgage Associations as an unnecessary link in the chain. They have to get their funds from the public. The institutions with funds are the ones that should lend. The Federal Reserve Act should be amended, in his opinion, so that mortgages can be made eligible for rediscount, and thus the lending be done directly.

Mr. Moffett reported that the FHA has 2000 firms signed up for insuring mortgages, but no National Mortgage Associations formed.

Mr. Jones suggested that Senators Fletcher and Glass be consulted before any legislation is agreed upon.

Mr. Eccles stated that amending the Banking Act to permit banks to buy stock on National Mortgage Associations will not do any good and is unnecessary. If the stock is good enough for the banks with legislation it is good enough for the insurance companies and other lending agencies without legislation, and they can buy without legislation but have not done so. It will not mean a thing to amend the National Bank Act.

Mr. Moffett said there must be a rediscount agency.

Mr. Jones was of the opinion that the banks would not buy, and suggested a reduction in the capital requirement for National Mortgage Associations.

Mr. Eccles remarked that there are no insured mortgages in existence, and Mr. Moffett replied that they are getting some and that there are lots of applications. The FHA can't get started overnight, he said. 29

Mr. Eccles said that the regulations under Title II were too strict and would have to be changed.

Mr. Moffett was of the opinion that they could market four per cent 10-year debentures and two per cent short terms. He added that publicity with respect to a proposed provision of three per cent money and a twenty per cent subsidy by the PWA had made it next to impossible for FHA to do anything. Everyone is waiting to see if it is true and what it is all about.

Mr. Jones suggested that Mr. Moffett visit Fletcher and Steagall and "plow the ground".

Mr. Moffett remarked that either the National Mortgage Associations must be set up as a rediscount agency or that some other agency must be set up.

Mr. Eccles stated the problem as one of getting costs down and rents up and providing a subsidy for the gap in the meantime. It would be political suicide, he said, to tell the homeowners and financial institutions that values and rents must come down and losses taken. That process has not stopped, he said, but HOLC is carrying the burden. Old homes are a better buy than new ones, he said.

Mr. Moffett said he looked on it as the HOLC stopping foreclosures, taking care of the distress, and giving FHA a chance to restore values, on a long range plan.

He suggested the continuance of the long range plan, giving both Title II and Title III a trial. He asked that the door not be shut on the "private enterprise" show. There must be a market for the insured mortgage. The public cannot buy them.

Mr. Jones stated the position of the RFC as being that of wanting to cooperate with all of the agencies as long as they were in operation. Mr. Eccles suggested that the RFC might buy stock in the National Mortgage Associations. Mr. Moffett replied that that would be Government in private business, and that what the associations need is standing, not capital.

Mr. Moffett suggested that both Rieffler and Harrison were of the opinion that the banks would buy stock in the National Mortgage Associations. Mr. Jones said that they either did not know or they were not frank. Mr. Fahey said that Rieffler did not know--they took him in. The Real Estate Board people wanted a place to sell their mortgages, not to borrow against them. Congress would not stand for that. They insisted that it be done on a sound basis. The builders get profits and commissions and want the Government to insure and take the loss.

Mr. Eccles suggested that the legislation needed is for the RFC to purchase stock in the National Mortgage Association and purchase debentures of the Home Loan Banks. Congress will not approve the purchase of mortgage association stock by National banks and the banks would not buy it anyway. The mortgage association would be a security affiliate, which Congress has gone to great pains to eliminate. The way to open the mortgage field is to get cheap money from the Federal Savings and Loan Associations and then get the commercial banks to use their excess funds in acquiring and holding mortgages.

Mr. Fahey said it is impossible to get out of the difficulty unless the private lenders can be stimulated. Three per cent funds for slum clearance is alright, but it should be made clear that there will be no three per cent money for individual homes.

Mr. Eccles said that rents are too low to bring private capital in. Low cost housing pulls down the rent structure in the whole area. He suggested that the Government clean the slum out and then let the private interest build it up, with a subsidy. Short circuit the money from where it is to where it is needed, without going through a Government bond, as is being done now. Make the mortgage in the banks as good as a Government bond in the bank.

It was agreed to meet again at 2:30 P.M. on Monday, January 7.

January 3, 1935.

A sub-committee on Farm Credit legislation of the Interdepartmental Loan Committee met at 2:00 P.M. in the office of Undersecretary Coolidge.

Those present were:

Mr. Coolidge, Undersecretary of the Treasury,

Mr. Myers, Governor, Farm Credit Administration,

Mr. Hill, Deputy Governor, Farm Credit Administration,

Mr. Hovey, General Counsel, Farm Credit Administration,

Mr. Talley, President, Commodity Credit Corporation,

Mr. Buckles, Agricultural Adjustment Administration,

Mr. Gaston, Assistant to the Secretary.

Mr. Upham.

A summary of legislation proposed by the Farm Credit Administration was presented. It was informally approved by the subcommittee and Governor Myers was asked to prepare a more concise memorandum for submission to the Secretary and the main committee.

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Later a digest of the Amendatory Sections was received.

January 4th

Senator Duffy called Mr. Morgenthau to-day and said that he wanted to withdraw his endorsement of John McKee. He told the Secretary that he was at a meeting and could not tell him why but that the next time he saw him he would. The Secretary then told Senator Duffy that he too withdrew his endorsement of Mc K ee.

F. Ryan
Wisconsin

Should be ans.

DEMOCRATIC NATIONAL COMMITTEE
NATIONAL PRESS BUILDING
WASHINGTON

JAMES A. FARLEY
CHAIRMAN

This letter should be given to Coolidge to be added to the Crowley file. HM

January 4, 1935.

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

Dear Henry:

The attached letter came to me today and I am passing it along to you for whatever consideration you feel it merits. So you will not misunderstand, Henry, I want you to know that it came to me wholly unsolicited; as a matter of fact, I do not know the Mr. Coffey who wrote the letter.

Sincerely,

Jim

JAF:MCD
Enc.

Madison, Wisconsin
Dec. 31, 1934.

Hon. James A. Farley,
Washington, D. C.

Dear General Farley;

Following is a report on Leo T. Crowley-
Mr. Crowley made his first money of any importance on a rising market during war time. His success continued through the years until the depression.

He acquired the General Paper Co. of this city, then oil stations and other properties, finally taking over The State Bank of Wisconsin of this city of which he assumed the management in, I think, 1928 or '29.

About that time he was mainly responsible for the election of A. G. Schmedeman to the office of Mayor of Madison. Mr. Schmedeman Growing old and never a strong character, has been dominated by Mr. Crowley for years.

Because of Mr. Crowley's penchant for speculation he was always considered unsafe by careful bankers. With the depression money trouble came to him from all sides. He then put his bank into The Wisconsin Chain Bank System continuing as manager. He also travelled over this territory and urged other banks to join the chain. Much success attended ed his efforts, and one lawsuit that I recall at Portage, Wisconsin

Finally late in 1931 he acted to save himself. He satisfied a mortgage of $30,000. on his home, replacing it with a mortgage for $60,000 out of the bank. Property in Wisconsin is assessed at 100% by state law. Mr. Crowley's home was assessed for $32,850.00. He also paid two mortgages on his paper company building totalling $48,000. replacing them with one to the Bank for $75,000. due $5000. in one year, $5000. in two years, and $65,000 in three years. Assessed value of this property is $49,900. Public records show the above. I am informed, and believe, he put in his unsecured note and took out another $75,000.

During 1932 his bank was forced to liquidate. The chain bank people forced him to make a partial adjustment of the above at that time.

While matters were apparently O.K. with Mr. Crowley, Phil La-Follette made him a member of The State Banking Board of Review. Next came Mayor Scdmedeman's election to the Governorship in the 1932 Roosevelt landslide. Mr. Crowley at once took control of that office and was actually the Governor until a few months ago when he went to Washington.

He worked with the Conservative or Reactionary Republicans, in fact the Wisconsin State Journal of this city, a Conservative paper, has been and is his mouth-piece and advertising medium. He handled the farmers milk strike with the State Militia. He issued scrip to the State Banks at an extraordinary political expense to the banks.

Mr, Farley No. 2

He forced the first Democratic Assembly in forty years to vote against the Initative and Referendum law. More than fifty of these assemblymen were retired last November. He even tried to issue every saloon license in the State from the State Capitol. He dominated the C.W.A. and other relief programs and appointed large numbers from families of his friends, causing much merited criticism. Finally he attracted the favorable notice of Mr. Morganthau and went to Washington.

In South Dakota in 1914 as Democratic State Chairman, I initated a Bank Guaranty Law almost a copy of the present law. I felt that the man in charge of this new Guaranty Law could do muc h to make or break it. I felt that Mr. Crowley would not be the proper man and for that reason filed objection to his confirmation with Senators Glass and Norbeck of the Banking Committee.

I cited only my personal experience with Mr. Crowley which was briefly as follows. Early in 1933 I examined a number of failed banks for the State Public Funds Guaranty Department. My reports reflected on the men in charge of the State Department, Gerald Maloney and Leonard Wilbert, friends of Mr. Crowley. One item alone shows that they overpaid $5010.00. Mr. Crowley admitted my report was corrrect but he left his friends undisturbed and replaced me with a relative of Mr. Leonard Wilbert's.

Finally, there continues to be much criticism of Mr. Crowley and his methods here. There still are threats of a John Doe investigation of his State Bank. Most of the blame for the Reactionary control of the Democratic party in this State is charged to him. A thorough inquiry should be made, though the facts stated above and sustained by the record should prove Mr. Crowley unfit to hold any office of PUBLIC TRUST.

In conclusion I have confined this report to matters of record or matters that may be easily established. If I can be of any service to youm at any time please advise me.

Respectfully,

James Coffey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: January 5, 1935.

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Report of the Committee on Economic Security

The recommendations and analyses embodied in the report of the Committee on Economic Security are, on the whole, soundly conceived, disciplined, and practicable. Though sufficiently concrete in outlines to afford the basis for immediate legislation, the recommendations are also sufficiently flexible to permit the Treasury to devise and incorporate the machinery best suited to its needs; and to alter certain proposals without impairing their general objectives.

The principal proposals made by the Committee are the following:

1. The establishment of a Federal-State unemployment insurance system.

2. The establishment of a system of employment assurance, only vaguely suggested, mainly through the provision of jobs for able-bodied unemployed in public works projects.

3. The establishment of a national contributory old-age insurance scheme on a compulsory basis, applicable to most wage and salary workers.

4. The establishment of a Federal-State system of non-contributory old-age pensions for workers now advanced in years.

5. Federal appropriations of (a) an additional $10,000,000 annually for extending aid to local State health services; (b) $25,000,000 to $50,000,000 for grants-in-aid to States with mothers' pension laws and for the development of adequate child welfare services; and (c) $7,000,000 for the resumption of the nation-wide maternal and child health program undertaken by the Government between 1922 and 1929.

I. UNEMPLOYMENT INSURANCE

A. Principal Recommendations

1. The Federal Government shall levy a uniform payroll tax of 3 percent on the wages or salaries of all workers employed by enterprises having more than three employees.

2. Up to 90 percent of the Federal tax shall be credited to employers for payments they have made to State systems meeting the minimum standards to be prescribed by the Federal Government; and the States may allow credits to employers who provide their own approved insurance systems or who contract out such insurance under approved conditions.

3. The funds collected by the States, however, under State schemes, as well as the remaining 10 percent of the Federal payroll tax, shall be deposited in the Treasury in a trust account to the credit of the States, for administration by the Secretary of the Treasury; and interest shall be credited periodically on the account of each State at a rate equal to the average yield of all long-term Government bonds.

4. The Federal Government, from the proceeds of 10 percent of the Federal payroll tax, will pay all costs of administration of the State unemployment insurance systems.

5. Administration of the Federal act and general supervision of the State systems, except with respect to financial administration, shall be by the United States Department of Labor, through a Social Insurance Board.

6. States are free to provide more liberal benefits than the minima to be prescribed by the Federal Government, and, for such purpose, may exact contributions from employees.

7. It is estimated that a 3 percent payroll tax would permit compensation of one-half the weekly wage up to a maximum of $15 a week for a period of 10 to 15 weeks upon loss of a job, after a waiting period of 4 weeks.

8. Benefits are to be administered by the States, preferably at public employment exchanges; the seasonally unemployed are not eligible in off-seasons. When unemployment benefits are exhausted, worker is to be certified to authorities in charge of Federal public works projects as eligible for public employment.

9. It is estimated that during the decade of the Twenties, contributions under such a plan would have exceeded disbursements by approximately $2,500,000,000; and that annual collections between 1922 and 1933 would have varied between $896,000,000 in 1929 and $452,000,000 in 1932.

B. Comments

1. The broad economic and financial aspects of the proposals would appear to offer no insuperable difficulties, particularly as they follow the English practice in important respects.

2. Unlike the English system, however, the costs are not shared by employers, employees, and the Treasury, but are levied immediately against employers exclusively. The tendency, therefore, would be to raise business costs and prices and/or to reduce wages.

3. The latitude to be allowed the several States should not be too great because a real pooling of risks is essential, and because uniformity is required to prevent the States from engaging in a competition for looseness at the behest of employers.

4. Collection exclusively by the Federal Government, with remissions to the States, would be far more effective administratively than the proposed method of "credits" against the Federal tax.

5. The advisability of permitting employers to obtain further credits by setting up their own systems or by contracting out their insurance is extremely questionable, save, perhaps, under the most rigid safeguards.

6. The segregation of accounts for each State, as is proposed, would raise serious problems, as would the segregation within the States by enterprises. The pooling of risks, which is essential for the system, would be impaired by such segregation. All States would be encouraged to adopt systems that would exhaust at least 90 percent of the contributions of their business enterprises; and States with relatively stable employment would contribute nothing to States with relatively unstable employment.

If it be at all feasible politically, a uniform minimum national system should be adopted, with a provision that any State might establish supplementary systems. It may be noted that under the recommendations of the Committee, no provision is included for the transfer of unemployment credits from one State to another.

II. EMPLOYMENT ASSURANCE

In line with the President's opening message to the present session of Congress, the Committee recommends a permanent system of planned public works, conducted in conjunction with the unemployment insurance systems. This plan is proposed as a substitute for the European system of providing extended cash relief benefits to workers who have exhausted their normal unemployment benefits.

It is obvious that this proposal may provide the basis for an enormously important attack upon the problem of stability of employment and business. It is likewise obvious that it has important implications for the Treasury. But neither of these or other problems involved in this general proposal are subjected to any analysis nor are concrete recommendations made in connection therewith.

III. National Contributory Old-Age Insurance

From the standpoint of the Treasury, the recommendations in this connection are by far the most important and the most significant for the future of all the proposals embodied in the report.

A. Principal Recommendations

1. All employees other than those of governmental units and those under the Railroad Retirement Act are brought under the plan on a compulsory basis.

2. Contributions will be levied jointly against employers and employees in the form of a payroll tax on the first $50 per week of all wages and salaries. It is proposed that the rate of the tax be 1 percent during the first 5 years of operation; and 2,3,4, and 5 percent during each of the next 4 succeeding 5-year periods, respectively, half of the tax to be deducted from the wages of employees, and all of the tax to be remitted to the Federal Government by employers.

3. Administration of the funds and reserves collected shall be by the Secretary of the Treasury; but in other respects the system shall be administered by the United States Department of Labor through a Social Insurance Board, which shall also have supervision over the unemployment insurance systems.

4. The Federal Government will guarantee payment of the benefits.

5. No benefit shall be paid until after the system has been in operation for 5 years, nor to any person who has not made 200 weekly contributions, nor before the member has reached the age of 65 and been retired from gainful employment.

6. The weekly retirement benefit shall be 10 percent of the average weekly wages upon which contributions have been paid, plus an additional 1 percent for each year of membership in the system after a qualifying period of 5 years. More liberal provisions, with a maximum pension equal to 40 percent of the average weekly wages, are provided for individuals who came into the system during the first 5 years. Provision is also made for joint survivorship benefits and for the return to individuals or their estates of not less than the actuarial equivalent of their contributions.

7. The reserves to be managed by the Treasury shall be built up to a level of approximately $12,000,000,000, and retained at approximately that figure.

B. Comments

1. Under the specific proposals made by the Committee, no actual cash outlays would be required by the Federal Government for approximately 30 years, despite the fact that the system would be far from self-supporting. The explanation is that, on the one hand, the contributions to be exacted during the first 2 decades of the system will fall far short of the amounts actuarially required, but that, on the other hand, the receipts during this period will greatly exceed the amounts actually required to be disbursed.

2. In an attempt to minimize the problem of managing large reserves, the Committee has proposed actuarially inadequate rates during the early years, thereby adding commensurately to the burdens of future generations.

More particularly, by applying these low rates to now middle-aged and older workers, it contracts to give them far more than they pay for, the Federal Government borrowing the difference, in effect, from the current contributions of younger workers.

The result, after the passage of sufficient time, is a very large Federal outlay annually for the system. Using the Committee's own figures, which we have not yet had adequate opportunity to check, we find that the actual cash contribution of the Federal Government would rise rapidly from $124,000,000 in 1965 to $475,000,000 in 1970; to $776,000,000 in 1975; and to $1,109,000,000 in 1980.

3. It may be contended that it would be far more prudent, as well as desirable on other grounds, to build up substantial reserves in a shorter time than that proposed by the Committee, and to face the problems involved in unmanageably large reserves when this problem actually approaches.

(a) An increase of employees' contributions to 3 percent of their wages, and of employers' contributions to 3 percent of their payrolls, within 10 years, would be far sounder actuarially than the rates proposed by the Committee.

(b) The reserves accumulated through this scale of contributions could be invested in the public debt. Until a large part or all of the Federal debt, and of the State and municipal debts, were acquired by the fund, no insuperable investment problem would arise.

(c) The tendency of such a scale of contributions would be to socialize an important fraction of the country's wealth. The burden upon the Treasury would be correspondingly reduced, for part of the cost of the system would be carried by interest on the public debt now paid to private bondholders. The interest now paid to the latter would be paid to the fund, thereby reducing the net demands upon the Treasury.

(d) The higher rates here suggested are particularly desirable in view of the fact that they would exact a more equitable contribution from persons now middle-aged or older.

(e) Whereas the Committee estimates the cost to the Treasury of the insurance plan at $1,109,000,000 in 1980, this cost would be substantially reduced if more adequate contributions were exacted in the early years.

4. It is obvious that whatever scale of rates is adopted, a compulsory old-age insurance system would cause large sums to flow annually to the Treasury for many years, and would transform the problem of the public debt. One of the future problems, indeed, would be to maintain a public debt large enough to absorb the reserves actuarially required.

(a) Even under the Committee's proposed low rates, the reserves would approximate 3.5 billions in 10 years; 9 billions in 20 years; and 11.5 billions in 30 years.

(b) If this volume of funds, or the larger volume that is actually required, were invested in Government bonds, private holdings of the public debt would shrink enormously.

(c) The rapid reduction in the volume of Federal obligations outstanding in the market, and later, in those of States and cities, would operate powerfully to reduce interest rates.

IV. NON-CONTRIBUTORY OLD-AGE PENSIONS - OVER 65.

To provide for the present large number of the dependent aged, of whom 700,000 are on the FERA relief lists alone, and who would not qualify under a compulsory contributory old-age annuity system, the Committee proposes the establishment of a Federal-State system of old-age pensions.

A. Principal Recommendations

1. States which institute systems approved by the FERA or its successor for the assistance of the dependent aged shall be given grants-in-aid by the Federal Government equal to one-half the total expenditures for old-age pensions, including the administration expenses, with the Federal subsidy limited, however, to $15 per month for any individual, plus 5 percent of the States' administrative expenses for old-age assistance.

2. Minimum standards for State systems eligible for Federal aid shall include (a) eligibility for citizens over 65 years of age whose property does not exceed $5,000 in value and whose income is inadequate for reasonable subsistence; (b) residence requirement not to exceed 5 years within the last 10 years preceding application; (c) effective administration by a designated State department.

3. No Federal aid is to be extended for aged persons cared for in institutions.

4. The Committee estimates, at the outside, that the cost of these grants-in-aid will be $136,600,000 in the first year of operation, $418,000,000 4 years later, and that they will increase steadily thereafter. By 1980 the annual cost is estimated at $1,300,000,000.

5. If the system of Federal grants-in-aid be adopted in conjunction with the contributory old-age annuity system already discussed, however, the annual cost after the first five years will increase only slowly, reaching $701,000,000 by 1980.

B. Comments

The proposal of the Committee appears to be entirely practicable and to involve no substantially greater drain upon the public than might be expected to occur with the mere passage of time in the absence of well-considered legislation.

In 1930 there were 6,500,000 people over 65 years of age in this country and the current prediction of population experts is that the number of the aged will double in the next 25 to 30 years. The FERA expenditures, alone, for the aged have been estimated at $45,000,000 a year; and large numbers of old persons are receiving relief from local funds. Approximately 150,000 aged persons are now in receipt of industrial and trade union pensions, the cost of which is estimated to exceed $100,000,000 annually.

V. OTHER RECOMMENDATIONS

A. Social Welfare

The recommendations of the Committee with respect to security for children, risks arising out of ill health, residual relief, accident compensation, employment service, and educational and rehabilitation services, are very general in character, for the most part, and with one or two exceptions are not incorporated in specific proposals.

This comment does not apply to the Federal appropriations recommended for the following: (a) An additional $10,000,000 for extending aid to local and State health services; (b) $25,000,000 to $50,000,000 for grants-in-aid to States with mothers' pension laws and for the development of adequate child welfare services; and (c) $7,000,000 for the resumption of the nation-wide maternal and child health program undertaken by the Government between 1922 and 1929. These appropriations appear to be eminently desirable.

B. Voluntary Annuities

The Committee recommends the establishment of a Federal system of deferred voluntary annuities to supplement the non-contributory and compulsory contributory systems. The voluntary system is to be wholly self-supporting, except that Federal contributions are recommended to supplement the actuarial rights of members of the lower-income groups who subscribe.

Such a system would be designed particularly for professional men, farmers, the self-employed generally, and for others who wish to supplement the annuities obtainable under the compulsory system.

Judging by the experience of other countries and of American insurance companies, we are of the opinion that a voluntary system of deferred annuities would be much less attractive to the public generally than a Federal system of immediate annuities coupled with the sale of discount bonds of various maturities, the proceeds of the latter being employed upon retirement to purchase immediate life annuities. Such an annuity system should be administered exclusively by the Treasury.

VI. GENERAL CONSIDERATIONS

A

From the standpoint of the Treasury, the unemployment insurance and compulsory old-age insurance proposals are of the greatest significance.

Both of these systems would result in the accumulation of very large sums to be managed by the Secretary of the Treasury.

Both systems might result in occasions when substantial liquidation of securities in the funds would be required.

It would be essential, therefore, that, through new banking and currency legislation, the Treasury obtain the right to effect sales of Government securities to the Federal reserve system at will, and such other powers as analysis may prove necessary.

B

The payroll taxes employed in conjunction with both the insurance proposals would have the effect of diverting funds from current consumption to saving. Temporarily it may be true that the necessary legislation could now be adopted only in this form. Later, however, serious attention should be given to the problem of raising the required funds through taxes that would be less regressive in their effects.

In order to avoid the ill-effects of excessive saving, it may prove desirable later to substitute income and profits taxes as sources of funds for the insurance systems in place of wage and payroll taxes.

The inevitable long-term effect of the old-age pension plan would appear to be the buying out of private Government bond-holders by the mass of insured workers, with a consequent increase in the volume of funds available for private investment and a fall in interest rates.

Comments by the Secretary of the Treasury on the Report submitted to the Committee on Economic Security.

Unemployment Insurance.

1. Contact with the States, in the administration of funds as well as in other matters, should be through the Social Insurance Board. With regard both to Unemployment and Old Age Insurance funds the Treasury is prepared to act as banker and nothing more.

2. The rate paid by the Treasury should be set at the next one eighth per cent below the average rate paid on all outstanding primary obligations of the Federal Government (and not the average rate paid on long-term obligations).

3. Some percentage of the total contribution should be paid by the employee.

4. The sliding scale proposed for the rate of tax to be levied in 1936 should apply to the years 1937 and 1938 as well.

Old Age Insurance.

1. The proposed plan of avoiding a large reserve by keeping contributions too low (from an actuarial point of view) and paying out higher benefits than are earned in the early years of the scheme obscures what is really happening and is thus fundamentally unsound. If the Government wants to pay more to insured workers reaching the age of 65 in the next ten or twenty years than is actuarily justified it should explicitly borrow the money from current contributions to do so, issuing its obligations to the Insurance Fund in return.

Non-Contributory Old Age Pensions.

The money to finance grants-in-aid to States under this plan must be raised out of new taxes.

Voluntary Old Age Annuities.

As already noted the Treasury can only act as banker for any of these schemes and cannot undertake to administer them either in whole or in part.

Meeting of the Committee on Economic Security

January 7, 1935.

Present: Secretary Perkins, Secretary Morgenthau, Secretary Wallace, Mr. Williams (representing Mr. Hopkins), Miss Roche, Mr. Witte, Mr. Altmeyer, Mr. Eliot.

A. The Committee considered at length the points raised by Secretary Morgenthau in the attached memorandum.

1. There was unanimous agreement on points (1) and (2) under <u>unemployment insurance</u>. On point (4) reluctance was expressed by some members of the Committee to see any delay in the collection of contributions and as a compromise it was decided to have the sliding scale apply to 1937 but not to 1938. Opinions were sharply divided on (3) and it was tentatively decided to settle the matter by including a footnote in the Report which would put Secretary Morgenthau on record as favoring the requirement of some employee contribution.

2. There was general agreement on the necessity for clarifying the situation with regard to <u>old age insurance</u>. It was suggested that this should be done by (1) stating quite clearly in the report what is involved in the present plan and (2) requiring in the bill that the Social Insurance Board publish annually the amount by which benefits paid out during the preceding year have exceeded benefits actuarily justified and how much of an eventual obligation to the Old Age Insurance Fund has thus been incurred by the Federal Government. The revised text of the report and of the bill on this point will be submitted to the members of the Committee for approval as soon as drawn up.

3. On the matter of <u>non-contributory old-age pensions</u> there was a difference of opinion in the Committee as to whether the money for the

first year's grants under this and the child welfare and public health proposals of the report had to be raised out of new taxes or could be diverted from the four billion allocated in the budget estimates to work relief. There was general understanding that after the first year the money for the payment of grants-in-aid to states with old-age pension schemes could, if it were thought desirable, be obtained by borrowing the contributions paid in under the Old Age Insurance scheme.

B. Secretary Wallace then raised the following points:

1. The draft bill should go to the President with the report. It was generally agreed, however, that the draft bill could not be made public as soon as the report since the President would have to have time to consult Congressional leaders first.

2. No powers given to the states should be irretrievable. Mr. Eliot said that a requirement was being included in the bill that every provision of the state laws must be subject to legislative repeal.

3. Insisted on the importance of safeguards if individual plant funds are to be allowed.

4. Urged the desirability of finding other sources than the pay roll tax of the necessary funds. Any move in this direction was, however, considered impracticable by the Committee at the present time.

C. Other points discussed briefly were:

1. The advisability of trying to collect old age insurance contributions on the earnings of casual workers.

2. The question of a separate department of public welfare to verify all non-insurance welfare activities of the Federal Government such as those connected with old age and mothers' pensions and public health.

3. The question of representation from other departments on the Social Insurance Board which according to present plans is to be a board within the Department of Labor.

Dictated January 6th

I sent for the Chinese Minister on December 18th and gave him a week's notice that we would buy silver at above 55¢. A copy of the exact cable is attached hereto. The reason for my doing this was that over the week-end I kept thinking that I had given my word to the silver Senators that if the bill passed without including the quantity of silver to be bought and a time limit, that I would carry out the purchase of the silver enthusiastically. I made this statement in front of them and the President. The President also made a similar statement although I do not remember the exact words that he used.

Having come to this conclusion entirely by myself without anybody trying to influence me I called up Oliphant at 8:15 in the morning and told him that I wanted a short statement to show to the President at 9:30 which I could get him to O.K. and then hand it to the Chinese Minister. On arriving at the office they gave me the statement and I took it over to the President and explained to him what I had in mind and without a moment's hesitation he said, "That is right. Give them a week's notice".

For the record, it is interesting to note that the President had agreed to our stabilization silver at 55¢ and that I took the initiative at the end of two weeks to cancel this agreement. I then sent for the Chinese Minister and handed him a letter containing this information, photostat copy of which is attached herewith. He seemed quite upset and I explained to him the reason. I told him that there is nothing left for me to do but to carry out the will of Congress and if he wished to change our silver purchasing program he should work on the Senators and Congressmen who were responsible for having it passed. The Chinese Minister said that they were delaying in sending over a representative as we had suggested because they could not make up their mind whom to send. He asked me whether the President would indicate a choice. I told him that I did not know but if he didn't hear from me the inference would be that the President did not wish to indicate.

At lunch I asked the President whether he would care to suggest names and he said"yes, tell them either Kung, Minister of Finance, or T. V. Soong". I asked the Chinese Minister to return in the afternoon and gave him this message. He seemed a little surprised at the two names. The Chinese Minister said, "What would the Japanese if one or two such prominent men would come over here". I answered him by saying, "I know nothing about World politics." I was surprised and so was the President when I repeated this to him that they seemed worried what the Japanese might think.

Monday, Dr. Sze kept urging me not to buy so aggresively. So I said I cannot stop. I even have to buy shortly between 5 and 10 million ounces of silver for Cuba and if you wish to assist us maybe you would like to sell us some silver for Cuba. He then said that they would sell us either 5 or 10 million ounces of silver at the World price, 58¢. Naturally my eyebrows went up at the price because the World price that day in London was .5471 and the London and Shanghai price are about the same. When I saw him later in the day I reminded him that our agreement not to buy silver above 55¢ was still in effect and it was rather amusing that the Chinese should be asking us to buy silver at 3¢ above the agreed price. Either Sze has no sense of humor or else he didn't think it was very funny.

The interesting thing about his message was that they wished to have us earmark gold in the Federal Reserve in New York as a credit against the silver - or in other words they wanted to exchange silver for gold. I told him that we could not do this and if he wanted to buy gold he could take the dollar that we gave him in payment for the silver and buy gold anywhere in the World market. I then offered him $54\frac{3}{4}$¢ for 5 million ounces of silver, to be shipped on the first American ship leaving Shanghai, which turns out to be the President Grant. As he left Sze said "would you make this 55¢". I told him that we were a one price house.

After the President's press conference I got an opportunity to speak to him because the fact that he wanted to exchange silver for gold seemed so important that I felt I ought to tell the President about it. I did and quick as a flash he said, "Of course, let them have it that is fine". He said, "That is just what I want to do in the South American countries, namely, to encourage them to have both a gold and silver reserve".

I then asked the Chinese Minister to come to my house at 6 o'clock Saturday afternoon and told him that after reconsidering the matter we decided we could earmark gold for them and that if this transaction went through successfully that we would be glad to undertake another one of a similar nature. We then had a lot of discussion about the price and he showed that he had been trying to check up all day as to whether we made him a fair offer, notwithstanding the fact that I had given my word that the price I was making him was the top price. Then he said to me, "Can't you indicate something about your program so that Mr. Soong can be preparing himself". I said quite enthusiastically, "We have no program. Mr. Soong will have to explain to us and particularly the silver Senators why our program is injuring China."

I then said, "I hope you will not mind my suggesting that Mr. Soong give out no statements until his arrival in Washington"and Sze said he would attend to that. I gave them until 5 o'clock Monday to accept or reject my offer. They had just left when the phone rang and it was Secretary Hull. (I had told Oliphant to keep the State Department informed during the day what we were doing and the only person being in was Herbert Feis so he had the whole story and he must have gotten it to Hull and what happened over the phone is either the second or third time that Feis has tried to stop me from taking any action on anything with any foreign country). Feis' policy seemed to be - if you do nothing you will insult nobody, will not hurt anybody's feelings and you take no risks. Hull said on the phone, "My people tell me that you are inviting Soong to come over here and we are afraid that if no results come out of this conference that the effect in the World will be bad" and he said "I think we better either call off or postpone the whole matter". I was very gentle and polite and said, "Mr. Hull, I appreciate greatly your calling me up and I have just told Mr. Sze we have no program and it is up to them to come here and tell us why we should change our silver buying policy". Mr. Hull then said, "As long as you tell them that,my objections are over-ruled.

January 6th

Late Friday afternoon, January 4th, I got word that the Chinese Minister wanted to see me. I saw him at 11 o'clock Saturday. He said that he received a cable from Kung which says, "Convey my appreciation for the invitation asking me to come over. I would gladly go personally but present critical situation here prevents me. If agreeable to the President T. V. Soong will come on the Empress of Russia which sails on the 18th, arriving Vancouver, February 2d.

January 7th

The Chinese Minister called me at my home last night at a quarter to eleven and said he received a cable and that it was sort of garbled. However, his people were willing to sell us silver for next September delivery and I told him that I was not interested.

January 8th

H. M. Jr. told Oscar Johnston that commodities will not be his only job; that he will study the cost of manufacturing in Japan; also whether we could not divert our cotton trade from Japan to England.

H.M.Jr: I'm sorry to bother you. Miss Perkins has this meeti[illegible] at her house at 2:30. By the way are you feeling better.

Harry Hopkins: Yes.

H.M.Jr: Let me ask you a question. People over 65 years old. Have you ever heard the President say how he expects to take care of them?

H: Old age pensions and old age insurance.

H.M.Jr: Well where is he going to get the funds from?

H: Well the old age pension is intaxable. The old age insurance there will be a tax on - half of it on payroll and half of it as a contributory tax by the employer.

H.M.Jr: It's the old age pension? Well they have figures here it's going to cost them over a billion dollars.

H: A billion dollars - how long.

H.M.Jr: About 1980.

H: I don't know about that. As a matter of fact if we pay 50% of all of them this year it will just cost us $20,000,000.

H.M.Jr: I know but these figures - I think they come up to over a billion dollars.

H: Well that is going to be expensive some day but in those days it will be paid entirely by check and not by any -----

H.M.Jr: Well the figures - I thinka billion one hundred million our figures show. Has he ever said to you - I mean it's never come up in any discussion I've ever had.

H: You mean about old age insurance?

H.M.Jr: Not only old age - I'm talking about the nonemployables and the people who are over 65.

H: Yes well he said that he wants the old age insurance to------. Now there's an insurance to be paid for - half by the employer and half by the employee.

H.M.Jr: Well I got that.

H:	And secondly, until that becomes effective an old age pension for those people in need only.
H.M.Jr:	Has he told you that?
H:	Yes and that's 50% paid by the state and local finances and 50% by the federal government and that's part of that ninety odd million dollars talked about.
H.M.Jr:	That's part of the ninety million?
H:	Yes.
H.M.Jr:	But I asked him at 1:15 on Saturday and he said none of this money was to come out of the four billion.
H:	That's right.
H.M.Jr:	Well we understand that but I don't think that anybody realizes how much it will run to over a period of years.
H:	Well but after you get on Henry in a while it isn't a tax on the Federal treasury because it's for employers and employees - just like any other insurance fund and they can't get back any more than they put into it.
H.M.Jr:	The thing has got me and it's got Miss Roche - there's no provision been made in the old age and the non-employables.
H:	Well there is ninety odd million dollars which has been applied for.
H.M.Jr:	Well they'll have a swell time - they won't have to raise the tax.
H:	It's around one hundred million dollars.
H.M.JrL	Alright.
H:	Alright Henry.
H.M.Jr:	Alright.
H:	Listen Henry do you think I ought to get up and go down there.
H.M.Jr:	I wouldn't ever advise a person to get out of bed. I'm telling you what I've done. I'm not arguing what should be done but I'm just going to point out what should not be done and I am afraid Francis is going to have a bad time.

H: Well I mean you don't think there will be any difficulty about passing a bill for old age pension that would cost the Treasury 25 to 35 million dollars this year do you?

H.M.Jr: Not this year but it's the things that it runs into. That's the thing. That's what scares me.

H: Well there are going to be twice as many old people thirty years from now Henry than there are now.

H.M.Jr: Well I've gotten a very good analysis of this thing and I'm going to lay it in her lap this afternoon. I'm simply going to point out the danger spots and it's up to somebody else to say whether they want to do it. I'm not trying to say what they should do - I want to show them the bad curves.

H: I wish I was going to be there.

H.M.Jr: I wish you were too.

H: That old age thing is a bad curve.

H.M.Jr: And I'm going to have an extra copy made of the report I'm using and if you want to see it I'll send it up to you.

H: Will you?

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

H: I'd like it very much.

H.M.Jr: It isn't long - it's right to the point.

H: Alright, Henry.

H.M.Jr: How's the missus?

H: Oh fine. I say fine - she's better than she was yesterday.

H.M.Jr: And the child?

H: Oh the baby is wonderful.

H.M.Jr: Fine.

H: Well we'll see you all soon Henry. Thanks a lot.

January 7, 1935.
Monday.

January 7, 1935.

The sub-committee on Housing of the Interdepartmental Loan Committee met at 2:30 P.M. in the Federal Reserve Board room. 61

Those present were:

Mr. Fahey, Chairman, FHLBB

Mr. Eccles, Governor, FRB

Mr. Jones, Chairman, RFC

Mr. Hackett, PWA

Mr. Moffett, Administrator, FHA

Mr. J. Howard Ardrey, Deputy Administrator, FHA

Mr. Upham

Mr. Fahey asked Mr. Hackett if he could give any indication of the PWA housing program. Mr. Hackett replied that no final policy had been determined upon as to just what use would be made of their money for housing, but intimated that the first $200 million would go for slum clearance.

Mr. Eccles said that the committee should go ahead and consider the legislation needed on housing irrespective of the PWA, which must wait for budget suggestions to be acted upon. The need is, he said, for funds to be provided the Home Loan Banking System on a low enough rate to enable them to take care of the demands of their member institutions. The home loan banks should make five-year loans, thus enabling member institutions to borrow up to 25 per cent of their resources, which is enough to be sound.

Mr. Fahey referred to the disinclination of the mortgage institutions to borrow for a short term and lend for a long term. They can borrow for ten years now, but not cheaply enough -- must pay four per cent. It would be a great aid to the home loan banks if they could borrow against their debentures at the RFC, or rediscount at the reserve banks.

Mr. Eccles thought they might have access to the RFC now and then let the reserve banks come into the picture when and if necessary in recurrent times of depression and save the situation. That would provide orderly, not forced, liquidation. If the Federal Reserve Board had power to decide what paper is eligible, the whole situation would be cleared up. There would still be the necessity for legislation authorizing the home loan banks to become members of the FRS.

Mr. Jones asked how much the home loan banks would need in the next twelve months, and Mr. Fahey replied that they could use $300 or $400 million if they could get it cheap. Mr. Jones suggested that the RFC be given authority to lend against or to buy say up to $250 million of the home loan bank debentures, and buy up to $50 million of the stock of the Federal Savings and Loan Associations. Mr. Eccles was of the opinion that this with a change in the eligibility rules of the Federal Reserve Banks, which the Federal Reserve Board will ask for, will take care of the situation. He suggested that the question of membership of home loan banks in the FRS be deferred for a year.

Mr. Fahey said that he would like to explore one more possibility with the sub-committee. He referred to the fact that home loan banks can loan up to 90 per cent of the 80 per cent which member institutions lend on mortgages. This is of no help so far as commercial banks are concerned, he said, and wondered if there would be any possibility of permitting commercial banks or other eligible mortgagees to borrow on some fair basis from the home loan banks without becoming members. The idea was not favored by the rest of the sub-committee.

Mr. Moffett said that if Title III is to be abandoned, then the regulations under Title II will have to be liberalized.

Mr. Fahey said that he would like the support of the sub-committee that HOLC take no more applications. He will have final figures at the end of the week on a survey of what other institutions will do in the way of taking over the mortgage burden. He stated that he was not sure yet whether Congress would be asked for an additional billion for the HOLC.

Mr. Eccles was of the opinion that the home loan banks would not need to concern themselves much further with creditor relief if the rest of the picture is developed as it should be. Forget the mortgage associations, is his advice. They won't work anyway. The purpose of the national mortgage association is liquidity. The banks get five per cent if they sell to national mortgage associations. So they must lend at six, which is too high. The national mortgage association is just another middleman agency for the original borrower to pay for. The banks won't sell insured mortgages when they have excess funds. In a decline there will be no market with the public for the debentures of the national mortgage associations and so no liquidity. They will then be in the same situation as the home loan banks. To get quick action, forget the national mortgage associations and Title III. The banks will not buy national mortgage association stock. The institutions which can have not.

Mr. Moffett said that the mortgage institutions will not lend until the Federal Housing plan is fixed and known, and until State laws are changed to permit loans up to 80 per cent of appraised value. Four things have stood in the way, he said, (1) Uncertainty of the Government program, (2) the interest rate, (3) five million capitalization requirement for mortgage associations, and (4) state laws. Until there has been an effort to make Titles II <u>and</u> III work he thinks Title III should not be thrown out of the window.

Mr. Jones said that the FHA needs a source of money. Why not devote time, he said, to getting the banks to make eighty per cent loans for 20 years and insure the mortgages.

Mr. Moffett said that was alright, but Title III can't be just forgotten.

Mr. Eccles said the rules and regulations are too severe, and the insurance is not based on the risk. There should be flat five per cent mortgages in his opinion, and less complexity in the rates on various types of borrowers and mortgages. If the regulations did not have Title III in mind all the time, it would help, he thought.

Mr. Moffett asked that Title III be amended to reduce the required capital from five million to two million,to permit the issuance of debentures up to twenty times capital rather than ten, and to amend the National Bank Act to permit national banks to buy the stock of national mortgage associations. The first proposal was agreed to, the second was left indeterminate, after some discussion of fifteen times capital as a substitute for twenty, and the third was disapproved by Mr. Jones and Mr. Eccles. It was suggested that if the third was not secured, it might be possible to revise the rules and regulations, and sell stock to the public.

Mr. Eccles said that "time is of the essence", and we can't wait to try to make Title III work. What is needed first is relief to the existing mortgagors who are bringing pressure on the HOLC. Relieve that pressure by permitting holders to refinance and insure them where they are for twenty years at five per cent, with the insurance based on the risk. That is what the President and the Treasury want. The thought behind the mortgage association is liquidity. When you need a market for alarge bloc of refunded mortgages, then there may be a place for the national mortgage associations.

Mr. Moffett said that the President did not talk that way to him.

Mr. Eccles said that that was the reason the HOLC got another billion last year, so that the situation might be cleared up by say March, 1935, the rest of the program in motion, and the HOLC drop out of the picture. If we depend upon the national mortgage associations, another year will be lost and then the associations will be futile anyway. Make all mortgages at five per cent, have the insurance based on the risk at from one half to one per cent, change eligibility of Federal Reserve banks and get the liquidity that way that is sought but cannot be gotten though by the national mortgage associations.

Mr. Moffett was of the opinon that we will get liquidity and new construction only when the public comes in.

Mr. Ardrey was of the opinion that the lending institutions are ready to use the national mortgage associations, and that a four per cent debenture will sell.

Mr. Moffett says that the banks can sell to the mortgage associations and then the associations in turn canget ten times that amount from the public for new construction. It is a private enterprise show. Let is succeed or fail on that basis. Have no RFC stock.

The job is to restore values through eighty per cent appraisal and insurance. It would be a bad thing for a big construction program to get started too soon.

Mr. Jones ended the meeting by saying that the reduction in the capitalization of mortgage associations from five million to two seemed to have the approval of the sub-committee, and making the suggestion that Mr. Moffett discuss the proposal with Senators Fletcher and Glass.

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Jan 7 ? 1/8/35

Crowley's general statements about the nature of his obligations on the notes is illuminated by his whole background. He never married, all his brothers and sisters living in his house, and he has fathered them all for years, building houses for them etc. A key to his character is found in his devoutness, evidenced by substantial gifts to hospitals, and other Catholic charities and that he goes to church every day on his way to work.

H.O.

OFFICE OF
THE COMPTROLLER OF THE CURRENCY

Dear Mr. Coolidge:

I have hesitated to send you the enclosed but in view of the Secy's instructions that he wanted all information and let chips fall where they may. I believe it my duty to send enclosed. Please return for my file

O'Connor

... $3,000

... in circuit ... counsel for Leo T. Crowley, chairman of the Federal Deposit Insurance corporation.

Dettloff seeks recovery of $3,000 used in the purchase of preferred stock of the General Paper and Supply company, and the Crowley Wholesale Grocery company, under an agreement with Mr. Crowley whereby the latter would repurchase the stock if the companies did not do so by May 1, 1933.

In his answer, Crowley admitted the agreement but contended the stockholders postponed the date of repayment and Dettloff by accepting interest payments under a reduced rate, gave his approval.

Sincerely M. G. Ryan

Dec. 26, 1934 1/8/35

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Hon. J. F. T. O'Connor
Controler of Currency
Washington D. C.

Sir:-

Am glad you are going to stick to the Guns and fight Crowley.

I represent hundreds who would like to have you for Controler of Currency and for Chairman of the Federal Deposit Insurance corporation.

We know Leo T. Crowley to be dishonest and to tell falsehoods. I am his cousin and should know and have had personal dealings with him where he was dishonest

He is not an authority on banking. and the sooner Washington is rid of Leo T. Crowley and his ballyhoo and his inefficiency the better it will be for the Country

Sincerely M. G. Ryan

January 8th

Steve Early called H. M. Jr. and asked him to come in about 15 minutes after the President started his Press Conference to-day at which time he was going to explain his Budget Message to the Press. H. M. Jr. was quiet upset by this request but did not let Steve Early know that he was. He agreed to come in late. Steve Early had the idea that H. M. Jr. would overshadow the President and the Press might give H.M. Jr. the credit. This was very unfair because H. M. Jr. had worked very very hard on this for months.

about Jan 12

The President said to me at lunch to-day two things which were of great interest. "For the first time in my life during the last three months I believe that I would sell England short. I think the next 10 years will tell the story for England".

I showed him the automobile figures and when he saw that Chrysler was making more cars than anybody else he was simply delighted, particularly that Chrysler was beating Ford. The President asked me what I thought would happen if we had a war in Europe. He said he thought there was only one chance in 5 that we would have a war. He said, "Will everybody rush to buy dollars abroad" and I said, "Yes and they will convert it into gold and ship it over here". He said, "Will that mean that our internal prices will go up or down". I said, "I think they will go up" and he said, "That is all I care to know. I agree with you". He said, "I wanted to know whether I was thinking straight".

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: January 8, 1935.

TO Secretary Morgenthau.

FROM Oscar Johnston.

MEMORANDUM on conference held at 9.30 a.m. in the office of the Secretary of the Treasury:

Present at the Conference:

Henry Morgenthau, Jr., Secretary of the Treasury;

Marvin Jones, Member of Congress from Texas, and Chairman of the Committee on Agriculture, House of Representatives;

William I. Myers, Governor of the Farm Credit Administration;

C. W. Warburton, Director of Extension, Agriculture;

Oscar Johnston, Assistant to the Secretary.

Subject of Conference: Seed and Crop Production Loan.

Mr. Jones proposed and urged the continuation of the policy of making Seed and Crop Production loans, and urged that there should be made available for this purpose $40,000,000.

The Secretary called attention to the fact that under the present plan as outlined in the President's Message to Congress on January 7, 1935, the budget is balanced except with respect to loans provided for relief work; that the budget as prepared did not include funds for the continuation of the Seed and Crop Production loan program; that if an appropriation is made for this object or any other object not included in the budget submitted, it would be necessary for Congress to provide funds by additional methods of taxation.

After some more or less general discussion it was suggested that since it was believed that the extending of credit under the Seed and Crop Production loan program would greatly reduce the number of families who otherwise would be cared for out of relief funds, it might be possible and practicable to have Mr. Hopkins make available to Farm Credit Administration the necessary funds to carry on the Seed and Crop Production loans, Hopkins to draw these funds from the general relief appropriation.

At the conclusion of the Conference it was understood that Mr. Jones proposed to introduce a bill providing for the continuance of the loan program, but that he (Jones) and Governor Myers would confer with Hopkins with the idea of working out the arrangement of having the money supplied from relief funds.

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STATEMENT BY THE SECRETARY OF THE TREASURY
TO THE
WAYS AND MEANS COMMITTEE ON PROPOSED TAXES

I am glad to respond to the request of your Chairman, Mr. Robert L. Doughton, that I appear and discuss briefly, from the Treasury's point of view, the principles and policies for obtaining additional revenues which the President has outlined in his message to the Congress.

The Chairman of your Subcommittee on Taxation, Mr. Samuel B. Hill, submitted to the Treasury a number of hypothetical rate-schedules and requested the Department to prepare for your Committee estimates of the probable amount of revenue that would be produced by each of these rate-schedules. The Treasury is very glad to furnish this statistical material for the use of your Committee and will be happy to supply any additional information which your Committee may desire for use in the discharge of its responsibility for the formulation of revenue legislation.

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In looking forward to balancing the budget and reducing the national debt, the primary interest of the Treasury in the legislation which your Committee is considering relates to the revenue which it may raise, although it is true that the full consequences of tax laws are not limited to the revenues they produce. It has to be recognized that taxation in any form has many collateral effects throughout our whole economic and social life, and that, since taxes cannot be levied without these collateral results and since they must be levied, there is a national duty to avoid tax laws which produce undesirable social consequences and a like duty to correct evils produced by existing tax legislation as they become apparent. I think it will be generally recognized that our tax legislation has too often neglected these considerations.

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The sources of taxation proposed by the President in his Message to the Congress of June 19, 1935 can be made to yield substantial additions to the receipts of the Federal Government. This is shown in our estimates of revenue based upon the schedules of rates submitted by your Subcommittee to the Treasury for calculation of probable yield. These proposed taxes rest on the principle of ability to pay. They are devised to draw on accumulations of wealth and income which, for the most part, have been derived from nation-wide activities. In consequence, their enactment should constitute an important step forward in reshaping our tax structure along sounder and fairer lines.

The Treasury's first concern is with the adequacy of the national revenue. There are times of emergency when the Treasury must finance expenditures in excess of income by borrowings which increase the public debt. But the national welfare demands that, when such an emergency has passed, sufficient income be raised both to meet current expenditures and to make substantial reductions in the debt. The time has come to move in this direction. It would, of course, be unwise to impose tax burdens which would retard recovery. But it would be equally unwise not to call on sources of revenue which would reduce our borrowings and later reduce the national debt without interfering with recovery, and it is my belief that the additional taxes which the President has now recommended fall within this latter class.

Because of our common responsibility for safeguarding the national credit, we are all vitally concerned in the use which is to be made of the revenue that may be derived from the proposed taxes. As Secretary of the Treasury, it is my conviction that it would be perilous to regard any part of these new revenues as available for new types of expenditures or as justifying any increase over our carefully budgeted plans for Federal outlays. The course which I feel sure will appeal to all of you as the only sound procedure is that the revenue derived from these new taxes shall be regarded as very definitely earmarked for reducing future borrowing and paying off the public debt. We should set aside the proceeds of these new taxes and safeguard them as carefully as was the Stabilization Fund.

Some months ago in discussing monetary matters, I spoke of the increment on gold resulting from revaluation as having been placed in a special drawer of the Treasury's cash register, since it was being kept separate from other funds and was not to be used for ordinary expenditures. Silver seigniorage resulting from the Silver Purchase Act is being similarly handled. In closing I should like to repeat that I think it would be in the highest public interest to regard the proceeds of these taxes as occupying a third special drawer in the Treasury, available only to reduce our borrowings and later reduce the national debt.

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January 9, 1935.

The Interdepartmental Loan Committee met in the office of the Secretary of the Treasury at 2:30 P.M.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,
Col. Horatio B. Hackett, Division of Housing, PWA,
Leo T. Crowley, Chairman, FDIC,
James A. Moffet, Administrator, FHA,
Marriner S. Eccles, Governor, FRB,
Warren L. Pierson, General Counsel, Export-Import Bank,
Lynn P. Talley, President CCC,
Ward M. Buckles AAA,
George N. Peek, President, Export-Import Bank,
W.I. Myers, Governor, FCA,
Scott Hovey, General Counsel, FCA,
F.F. Hill, Deputy Governor, FCA,
T. Jefferson Coolidge, Undersecretary of the Treasury,
C.B. Upham.

Governor Myers was asked to present Farm Credit Administration proposals for legislation, which he did, presenting the main features in the form of a digest of the Act which has been prepared. The legislation was cleared by the committee, and Mr. Morgenthau said that it would also have to be cleared through the Budget Bureau, indicating that each bill would have included a sentence or a paragraph bringing under the supervision of the Bureau of the Budget the administrative expenses of the agency concerned. Mr. Morgenthau remarked that with respect to all agencies, the answer would have to be NO on all items not in the budget.

Mr. Myers said that another bill relating to Puerto Rico only, and which failed of passage in the last session of Congress, would be advanced separately and that he would be glad to present it to the sub-committee on his bill, if they so desired. That was agreed to.

Mr. Morgenthau added to his previous statement that the President now had no control over the expenses of the independent agencies, and that their administrative expenses in the current fiscal year total some $129 million. It was pointed out that the Farm Credit Administration is already under the supervision of the Bureau of the Budget with respect to such expenses.

Mr. Crowley was asked as to FDIC legislation, and he explained that it had been passed by the sub-committee and everything agreed to. He suggested that perhaps it would be well to clear it formally with the Comptroller of the Currency, and Mr. Coolidge was asked to take care of that.

Mr. Fahey was asked to report for the sub-committee on Housing. Reference was made to a conversation with Donald Richberg, Executive Director of the Emergency Council, in which the point of view was expressed that there was not enough unification and coordination of agencies in the housing field, and that they were not being drawn together in a common program as they should. Mr. Fahey questioned that his sub-committee was charged with that program, but agreed to call Mr. Richberg, and discuss the matter. It was said that perhaps other agencies should be included. Mention was made of a "real property inventory" being made by the Department of Commerce.

Mr. Fahey reported that the sub-committee on Housing had agreed that the RFC should be given authority to lend against or buy $250 million of the debentures of the home loan banks and to buy $50 million of the stock of the Federal Savings and Loan Associations, and that the capital stock of national mortgage associations be reduced from the present $5 million minimum requirement to $2 million. He said that the approval of the sub-committee had been registered for a proposal to be made by the FRS that eligibility requirements be liberalized. The matter of additional lending power for the HOLC had not been determined, he said.

Mr. Fahey added two matters upon which the sub-committee had not reached an agreement, one, the purchase by national banks of stock in national mortgage associations, and two, an increase in the amount of debentures national mortgage associations may issue from ten times capital to fifteen, or twenty times.

Mr. Moffett reported that he had seen Senator Glass but had been given no commitment on either proposition.

Mr. Morgenthau commented that the RFC is limited in the Budget in the amount of money they will have available after July, 1, and that the Budget had "gone pretty heavy" on the RFC in the matter of absorbing repayments. He suggested that it might not be possible for them to go as far as suggested in the matter of financing the HOLC. He suggested that the RFC be given the authority to buy their obligations but in indefinite amount.

With respect to the $50 million for the savings and loan associations, Mr. Morgenthau reminded the committee that the Budget Bureau had already said NO to this proposal, and he was of the opinion that it should be forgotten unless the President agreed to it. He suggested that it might go to the President with a footnote explaining the situation for his final decision. He added that he would rather see an increase in borrowing power for HOLC and have the money come from there.

Mr. Fahey was agreeable to having blanket authority for the RFC to take an undetermined amount of obligations of either the home loan banks or the savings and loan associations, and to giving the HOLC discretion to use some of its money in the same ways.

Mr. Fahey said he had one more matter to present, and asked if he could get the backing of the committee that the HOLC should take no more applications for loans.

Mr. Fahey moved that the Interdepartmental Loan Committee go on record as looking with favor upon a continuance of the present policy of the HOLC of not accepting further applications for loans. The motion was agreed to.

There was a discussion of the issuance of debentures by national mortgage associations, and Mr. Eccles and Mr. Jones signified their willingness to agree to an issue of 15 times capital.

Mr. Moffett wanted approval of the purchase by national banks of stock in national mortgage associations. Mr. Coolidge said that it is against the tendency of the times. He indicated that while his mind is not closed on the proposal, his first reaction is negative. Mr. Eccles stated the position he had taken in the subcommittee againsthe proposal, explaining his disbelief in the national mortgage associations as such, stating that the financial institutions which can buy their stock are not doing so, and that national banks would not do so if they had the authority. He regards the national mortgage associations as an unnecessary link in the lending chain, for which the ultimate borrower must pay. Mr. Moffett restated the position he has maintained in the sub-committee, to the effect that representatives have been made to the FHA that banks will buy stock if permitted to do so. Mr. Eccles and Mr. Coolidge were in agreement that banks should make the mortgages and hold them.

Mr. Jones suggested that since it is a matter which related to national banks, it be left to the Comptroller of the Currency. Mr. Moffett said that he wants to recommend it. Mr. Morgenthau indicated that Mr. Eccles and Mr. Jones and Mr. Coolidge all seemed to be against it, and suggested that a footnote inform the President of that situation, leaving it to him to determine. Mr. Jones had expressed the opinion that Mr. Moffett should have his "day in court" before the President. Mr. Moffett observed that FHA people were not disposed to favor the idea of relying upon a broadening of the eligibility of paper for rediscount with the reserve banks.

It was agreed that Mr. Coolidge would present the matter to the Comptroller for his opinion.

The matter of enacting a statute to continue the life of the Export-Import banks, now operating under Executive Order, was presented. Mr. Morgenthau made the comment that the President had twice announced that the emergency lending agencies will taper off as business rises. He referred to speeches by Secretary Wallace, emphasizing imports as against exports, to our favorable balance of trade, and signified that the tenor of the Administration seemed to be against active encouragement of export business. Mr. Jones inquired if the present banks had any business. Mr. Coolidge was of the opinion that there was no great need or demand for credit. He suggested that perhaps there would be opportunities for the banks in connection with the trade agreements being arranged. Mr. Talley explained the present business of the banks, and suggested that other applications are pending and their determination will depend upon action taken at this session of Congress with respect to the banks. Mr. Jones suggested that a joint resolution be introduced continuing the life of the banks, and that the RFC then could buy preferred stock as needed. A sub-committee to work out this arrangement was appointed, to consist of Mr. Talley, Mr. Jones, Mr. Coolidge and Mr. Peek.

Mr. Jones said that the RFC expected to ask for broader powers on railroad loans and on mortgage loans. Mr. Coolidge asked that he consider asking broader power in the selling of preferred stock, and the right to take over the rail securities now in the Treasury. Mr. Jones and Mr. Coolidge agreed to get together and discuss that.

Mr. Myers asked that Mr. Jones get authority to continue for another year to make loans to joint stock land banks.

Mr. Jones said that they might ask for a removal of the limit of $500,000 on loans to industry in cases where employment in the capital goods industries would be stimulated.

Mr. Coolidge reported that the Comptroller's annual report had been cleared as to legislative recommendations.

Mr. Eccles reported that he was ready to report on Federal Reserve legislation at any time, but suggested that it was a matter which was not of interest to the whole committee.

Mr. Crowley suggested that the Federal Reserve needs certain legislation, and that putting it before the Congress at the present time might be prejudicial. He suggested that the Federal Reserve legislation be held back and sent up at a later time.

It was agreed to hold another meeting on banking legislation.

It was agreed to follow the same procedure with the Commodity Credit Corporation as with the Export-Import bank.

Mr. Morgenthau informed the committee that Oscar Johnston has been borrowed by the Treasury with the consent of Secretary Wallace to make a study of commodity loans. The Government now has some $800 million of commodity loans, and it seems logical to estimate the situation and try not to repeat the Federal Farm Board experience of getting in too deep.

It was agreed that the next meeting of the committee will be Tuesday, January 15, at 2:30 P.M.

January 9th

H. M. Jr. spoke to the President and told him what Key Pittman said about Soong coming over and the President said that the Monet, who was the former financial adviser to the French Embassy in Washington and is now head of the Chinese Development Corporation, told the President that Soong. The President said he thought it much better that Soong did not come and that we ought to tell the Chinese Minister that if the Chinese have a new program we would be glad to discuss it by cable and it is not worth-while for Soong to come over here. The President questions how much we could accomplish by having him come over here. H.M.Jr. called Secretary Hull and asked him to contact the Chinese Minister.

Admiral Peoples: Now the situation is this. They look upon the $4,000,000,000 lump sum as perfectly fine. They are behind that to a full 100% but on the $300,000,000 lump sum Public Works they don't like that at all. They take this ground that those items of permanent public works Congress has handled itself like roads, public buildings and that sort of thing for years and they are not at all disposed about it. Mr. Buchanan had a talk with Garner already - also with Carl Vincent, he's another leader, and they are very much very much very very much up in the air over it. He wanted to know from me if I happened to know the breakdown - it was a natural question for him to ask. I said no I didn't have the slightest idea as to what the President had in mind or where that estimate came from. He wanted to know who was going to handle the allotment of the money to make the recommendation to the President. I told him that I didn't know. He gave this suggestion. He said "Admiral I feel sure that if we took that item out on the floor of the House we would lose it because the House would feel that the allotment of the money would be handled by Mr. Ickes".

H.M.Jr: By who?

Peoples: By Mr. Ickes. You see?

H.M.Jr: Yes. Well now he told me all this Admiral, see?

P: Oh he did.

H.M.Jr: And he also yesterday asked the Bureau of the Budget to give him that item - the breakdown. Fulloway came in to see me last night and asked what should he do about it. I said there is only one thing to do and that is to communicate with the White House, and if they care to give it alright, but I said you can't give it. I mean that's something which is up to the President.

P: Sure.

H.M.Jr: So I understand that he has communicated with Buchanan through his Clerk and said that if Mr. Buchanan wants to get that information he'll have to get it from the President direct, so he tried to get it out of me you see.

P: And he tried to get it out of me also.

H.M.Jr: And of course he's a little bit inconsistent in that he told me that he doesn't want Ickes to handle that - $300,000,000 see?

P: Yes.

H.M.Jr: But on the other hand he told me that he'd much rather have Ickes handle the $4,000,000,000 than he would to have Harry Hopkins handle it. The two things don't quite G.

P: Well he discussed that very - the slant I got on that was this sir. That they would prefer - he thought that neither one of them should have the full say about it. He said that Hopkins while he could handle relief work fine, he questioned the ability to do the

H.M.Jr: Which all boils down this; that the President is a shrewd old top; he said it's disrespectful in that he isn't going to tell anybody whose going to do it until the bill is passed.

P: Yes.

H'M.Jr: See?

P: That's it exactly.

H.M.Jr: And he's going toplay those cards so close to his chest and not let them know whose going to do it until he's got the money and then he's going to tell him. Now he hasn't told me that but I take it that's what his game is and these fellows are going to try out every way they can to find out whose got the money.

H.M.Jr: Well I'm delighted you called me and what luck did you have on getting the money for the two buildings in Washington?

P: Well that's included in the three hundred million.

H.M.Jr. Oh - is it?

P. Yes he said right off the bat he said why he said his intention what he wanted to do and what Congress - the House he said would want to do would be to break down that three hundred million into say a Federal building program - one he said of probably fifty millions which could include a couple of buildings for the Treasury but it's all in that three hundred million, Mr. Secretary.

H.M.Jr: But he's favorably inclined to those two buildings?

P: Oh very and he's very very exceedingly inclined toward about a fifty million federal building program.

H.M.Jr: Could you gather - I think he left me yesterday fairly happy, didn't he?

P: He just says he's behind us to a full 100%.

H.M.Jr: Well that's fine.

P: But he's opposed to that three hundred million.

H.M.Jr: Well we've got to contact these fellows very close to find out what they want and then sometimes we can influence them and sometimes they can influence us.

P: Well I'll tell you what he's going to do sir.

H.M.Jr: Yes.

P: He's going to see Key and probably a couple more of them and they are going to see the President about a breakdown - that's what they are going to consider.

H.M.Jr: I think the President will give it to them.

P: They're either going to do that or they are going to make up their own itemization of it.

H.M.Jr: I think he'll give them the breakdown. No one else can do it but the President and no one else should do it.

P: That's exactly it. But he's exceedingly favorable.

H.M.Jr: Fine.

P: I had to be very exceedingly diplomatic.

H.M.Jr: I'm sure you were.

P: And in other words as between Hopkins and ---- that's a matter of local baseball.

H.M.Jr: How you feeling?

P: Oh fine sir. Mr. Secretary - another thing - Carl Vincent - I'm holding him back. He says that a delegation is getting together on the protest of the marble people in Georgia and about 8 or 10 other states for us to loosen up a little bit in interior marble particularly and out of our sixty-five million projects and he said he was very insistent on it. He said they had a great deal of criticism on the Treasury Department method of economy followed - they understood how it was necessary under the PWA allotments and they said they were going straight to the President about it. I said well now here Mr. Vincent don't do anything like that. I said you leave that in my hands and I said I'm sure that we can find a reasonable way to meet their objections and their criticism.

H.M.Jr: I see.

P: And I think I'll tell Barton to ease up a little bit, within reason.

H.M.Jr: Well you better go over it with me.

P: Yes.

H.M.Jr: And let me know what you are going to do.

P: Well it won't be more than about possibly 5 %.

H.M.Jr: Well when you get it let me look at it.

P: Yes I will. I'll bring it to your special attention.

H.M.Jr: Before you do it bring it to my attention.

P: Yes I will.

H.M.Jr: Will you please?

P: Yes indeed, Mr. Secretary. I tell you this is a very serious criticism. They take this ground that the Administration is doing the - has done pretty well on its activities toward helping out steel, lumber and cement and brick. Marble is the only - the quarries are practically dead - all they want is a little bit.

H.M.Jr: Well get it down on paper so I can see what it looks like.

P: Yes.

H.M.Jr: You may have to do a little selling - a little work on me.

P: Yes - well I'll have a talk with Barton and see what --

H.M.Jr: The two of you come over when you have something.

January 14th

Admiral Peoples and Mr. Simon arranged for an appointment for a group of architects who asked for a conference with the Secretary. These men had been given temporary employment and now that the work was completed and they were laid off they came to make an appeal for more work. H. M. Jr. explained that they were told that just as soon as the job that they were doing was finished they would have to go home. The men explained that they had been asked to work overtime and if they had not, the work would have been prolonged and they would have had more pay. H. M. Jr. then asked Admiral Peoples and Mr. Simon to pay these men for their overtime. They both argued and said that under the law it was impossible but the Secretary said that it was done over at Farm Credit and that it was possible and he wanted it done. The men were very grateful and H. M. Jr. explained that just as soon as any new project started under the 4 billion dollars, and more men were needed, they would be called upon again.

A sub-committee on Federal Reserve legislation of the Interdepartmental Loan Committee met in the office of the Secretary of the Treasury at 10:30 A.M. Those present were:

Mr. Morgenthau, Secretary of the Treasury,

Mr. Coolidge, Undersecretary of the Treasury,

Mr. Oliphant, General Counsel to the Treasury Department,

Mr. Eccles, Governor, Federal Reserve Board,

Mr. C.B. Upham, Secretary of the Committee.

It was agreed that the presentation of Federal Reserve legislation to Congress might perhaps best be deferred until confirmation of Mr. Eccles as Governor of the Federal Reserve Board.

Mr. Eccles read an outline of the proposed legislation.

His first point had to do with combining the offices of the Chairman of the Board and Governor of a Federal Reserve Bank.

Mr. Morgenthau was of the opinion that there should be no local interference by the Federal Reserve Board.

Mr. Coolidge said that it would destroy the usefulness of local Boards of Directors if they had no control over local management of the bank. Mr. Eccles replied that without control over the local banks the usefulness of the Federal Reserve Board would be destroyed.

Mr. Oliphant interposed to say that the conflict was right there -- we must accept either the Eccles proposal or a central bank.

Mr. Morgenthau said that three things had been agreed to.
1. Control of open market operations by the Federal Reserve Board.
2. Giving to the Federal Reserve Board veto power over appointment of regional bank management. 3. A reorganization of the Board by

reducing its number to three and the addition of two Governors as ex-officio members.. Mr. Morgenthau added that if the idea was to establish a national credit control through discount rates, interest rates and open market operations and control of local banks, that he would much rather see a central bank.

Mr. Oliphant said that is the issue -- and we are moving toward a central bank and we will be lucky if we get no more than the Eccles proposal.

Mr. Morgenthau said it was satisfactory with him to be removed from membership on the Federal Reserve Board. He said that if the Federal Reserve Board appoints the local management it will be responsible for the operations of the banks. The situation will be made worse. If they are to appoint the local management, the Federal Reserve Board might as well take the banks over.

Mr. Oliphant stated his agreementto this. He suggested that the transition to a central bank should be made as easy as possible.

Mr. Morgenthau said that the Federal Reserve Board as it is today constituted should not have open market powers--that they should be exercised by the President and one other person. Mr. Eccles agreed to accept the principle of the veto rather than appointing of local bank management.

Mr. Morgenthau said that it would be politically impossible to change the Act to permit the appointment of more than one member of the Federal Reserve Board from the same Federal Reserve district.

Mr. Coolidge said that it had been agreed to reduce the members of the Federal Reserve Board to three members, to which Mr. Eccles replied that he could not recommend the elimination of his associates. Mr. Morgenthau said that if the Board stayed as it is he was against doing anything but that he thought Mr. Eccles was put in as Governor to do the job of reorganizing the Board. He reminded the committee that that is just what he had done with the Federal Farm Board.

Mr. Eccles said that he didn't feel as badly about the Federal Reserve Board as Mr. Morgenthau did -- that he gets along fine with them.

Mr. Morgenthau asked what single thing the Federal Reserve Board has done to help recovery.

Mr. Eccles replied that the Board is impotent -- it does not have sufficient power to do very much.

Mr. Coolidge said that three strong men could do something even with their present powers.

Mr. Morgenthau asked Mr. Oliphant how he would set up an ideal Board. Mr. Oliphant replied that he would reduce the Board to three members -- a Governor and two Deputy Governors and pay them $20,000.

Mr. Eccles suggested that two Governors be added to the Board to make up the open market committee. Mr. Coolidge suggested that there be a Board of 9 or 10 as a sort of advisory group to meet weekly -- the 3 members to serve as an administrative or executive committee. The others disagreed to Mr. Coolidge's suggestion.

It was suggested that a letter from the President to Mr. Eccles be arranged asking him to recommend the reduction of the Board to 3 members.

Mr. Eccles second suggestion was agreed to. His 3rd, 4th, 5th, 6th, 7th, 8th, 9th and 10th suggestions were agreed to.

With respect to his eleventh suggestion relating to real estate loans, Mr. Coolidge said that he would prefer to permit real estate loans against savings deposits up to 50% leaving out other limitations such as appraised value and maturity.

Mr. Morgenthau said that he didn't like to see banks load up with real estate and said that many still are.

Mr. Oliphant said that someone must loan against real estate and that apparently we are not yet ready to set up an intermediate banking system.

Mr. Morgenthau said that he was opposed to permitting the investment of 100% of savings funds in real estate.

Mr. Eccles, Mr. Coolidge, Mr. Oliphant and Mr. Upham adjourned to the office of the Undersecretary to discuss the technical amendments included under point 12 in the Eccles memorandum.

At that adjourned meeting, Mr. Eccles indicated his desire to suggest that National banks be permitted to establish branches throughout the territory of their Federal Reserve bank or Federal Reserve branch bank district. It was thought that any such proposal should be made, if at all, in a separate measure.

The technical points in the 12th section of Mr. Eccles memorandum were approved.

January 14, 1935.

The sub-committee on Housing met in the Federal Reserve Board Room at 2:00 P.M. Those present were:

James A. Moffett, Administrator, Federal Housing Administration,
John H. Fahey, Chairman, Federal Home Loan Bank Board,
T. Jefferson Coolidge, Undersecretary of the Treasury.
Marriner S. Eccles, Governor, Federal Reserve Board,
Lynn P. Talley, President, Commodity Credit Corporation,
H.B. Hackett, Housing Division, Public Works Administration,
C.B. Upham, Secretary of the Committee.

Mr. Fahey presented a draft of legislation for the FHLBB and allied agencies.

Section 3 of the bill substituting 9 Directors for 11 for Home Loan Banks was agreed to. Section 4 was agreed to. Section 5 was agreed to, section 6 was agreed to and section 7 was agreed to.

Section 8 authorizing an increase of $1.5 billion in the borrowing authority of HOLC gave rise to a good deal of discussion as to whether it should be allocated as between distressed mortgage refinancing and private funds or Home Loan Banks and Federal Savings & Loan Associations.

Mr. Eccles said that he would like to see a part of the authorization set aside definitely as a discount fund for Home Loan banks. He suggested that alternative plans be put up to the Interdepartmental Loan Committee.

Section 9 and section 10 were involved in section 8. Section 11 was agreed to.

With respect to Section 12, it was suggested that losses of insured Building & Loan Associations be charged to reserve up to the point where the reserve is hot reduced below the minimum requirement of 1/2 of 1% per year.

Section 13 and section 14 were agreed to.

Section 2 was agreed to. The first section was agreed to.

Four points were advanced by Mr. Moffett for consideration. 1. The right of National banks to buy stocks in National Mortgage Associations. This was not agreed to. 2. Reduction of capitalization of National Mortgage Associations from $5 million to $2 million. This was agreed to. 3. An increase in the amount of debentures that National Mortgage Associations can issue from 10 times capital to 15 times capital. This was agreed to. 4. Amending Title I for modernization of apartment houses and department stores.

January 14th

H. M. Jr. saw Eccles to-day. He asked him whether he had done anything about his confirmation and Eccles admitted that he had done nothing at all. Mr. Morgenthau was quite surprised and called up Senator King and asked him whether he would not "father and mother" Eccles and take him around to meet the various Senators. King said he would get started right away and would be glad to do whatever he could.

January 14th

Lunched with the President. General discussion. Told him about my troubles with O'Connor and Crowley. Told him that both of them might file charges against each other with him. The President said if they do, rather than make charges public I will ask both of them to resign.

After lunch he had the Attorney General come in and then started one of the most unpleasant hours I have had since I have been in Washington, with the exception of the time that the President gave me the works on the Mellon case. The President argued with me that he wanted me to keep things on an unsettled basis until the Supreme Court handed down its decision. He said that he wanted this for judicial and political reasons. He said the only way that the man in a taxicab can become interested in the gold case is if we kept the story on the front page. He said I want bonds to move up and down and Foreign Exchange. He said if we keep things in a constant turmoil if the case should go against us the man on the street will say for God's sake, Mr. President, do something about it and, he said, if I do everybody in the country will heave a sigh of relief and say thank God. He would turn to the Attorney General as he made his various points and he would always agree with him. The President conducted the entire argument and the Attorney General would only join in the conversation when he was asked a question. I argued harder and more intensly than I have ever before in my life. I said the last time the three of us sat down, Mr. President, in regard to the Mellon case, you said it was a legal matter so the Attorney General's wishes must prevail. This is a financial matter so I say you should take my advice. At this point Cummings said I would not think of advising you on this matter. I argued that the Stabilization Fund was given to me by Congress as a trust officer and in that capacity my conscience told me that I must use every effort to even out the difference in the exchange and the government bond market and I could not lend myself to sit still and do nothing or even to encourage uncertainty. I told him that when I came with him a year ago things were most uncertain and chaotic and that step by step I have built up the confidence of the community in myself and the Treasury and I expected to keep that confidence; that the bond market had gone up during the past year under my supervision. I said: "Mr. President, you know how difficult it is to get this country out of a depression and if we let the financial markets of this country become frightened for the next month it may take us eight months to recover the lost ground." He continued to press me very very hard, arguing all the time for the political effect

Finally when I felt that I was not making any headway and I said to myself I do not want him to order me to do this because I will have to refuse and if I refuse I will have to simultaneously give him my resignation. I, therefore, pointed my finger at him dramatically and said: "Mr. President, don't ask me to do this" whereupon he answered: "Henry, you have simply given this thing snap judgment". Think it over" and I answered: "Lets all three of us think it over". I rose to go and said: "Is it agreeable to you that I go ahead now and buy several million dollars worth of Francs in order to steady the market" and he answered "Yes" so I felt that for the time being he was going to le me continue the course I feel I should.

I returned to the office and sent for Herman Oliphant as I was suspicious that he had sent word either to the President or the Attorney General and I was being given the works on account of that. I asked Oliphant pointblank and he said he had not communicated with either man and to prove his statement he showed me a statement which he had gotten Gaston to give out which took the same position that I was taking. Naturally Oliphant was terribly excited as I was because I felt that the President was making a teriffic mistake and that I did not know whether my advise or influence would prevail.

The next morning when I called him I could feel from his tone of voice that he was being particularly nice as I felt that he must have slept over my discussion and my advice was going to prevail. In talking to him at 9:15 I pointed out that the price of gold in London was lower than in Paris and I wanted to buy a couple of million dollars of gold in London. He said "Fine, go ahead". As it turned out, we were only able to buy a half a million dollars worth of gold in London. During the next hour I got word from Crane, of the Federal Reserve in New York, that Mr. Fraser, President of the BIS, had called up saying that people abroad could not understand why the Stabilization Fund did not go into action and bring the dollar within the gold price. The following is the exact conversation between Mr. Crane and Mr. Fraser:

"Confirming my telephone call this morning, Mr. Fraser, President of the B. I. S., telephoned about 10 a. m. to say that there was much uncertainty and nervousness in the principal markets abroad because of the rapid rise in the dollar above the gold point resulting from widespread comments in he press about the possibility of lowering of the gold price here in case the Supreme Court should decide against the Government in the gold case. Mr. Fraser added that the B. I. S. was receiving frequent telephone calls from the principal European centers and it was being asked on all sides why the United States stabilization fund was not being used to prevent the dollar rising to such a high level in view of the fact that Europe had regarded the primary objective of the stabilization fund to be the maintenance of a stable dollar exchange. Mr. Fraser suggested that I should communicate to you the substance of his telephone call."

Crane during the morning tried his best to get me to jump in and bring the dollar within the gold point. I told him to keep his shirt on. Crane called me on the Hill and told me that the Governor of the Bank of France had phoned him that they had asked Lazard-Freres in Paris and New York to take 8 million dollars worth of gold, that Lazard in Paris had taken 4 million and that Lazard in New York had refused to take their 4. They were very much disturbed and asked us as a favor that we pick up the 4 million. I told him that I would let him know in a few minutes. I called up the President, got him at once, told him the circumstances particularly that Frank Altschul had refused to take this 4 million and unhesitatingly said "Take it". I then called up Frank Altschul and had the personal satisfaction of getting off my chest all of the excitement which I had and undoubtedly said a lot of foolish things. However, in this conversation with Frank I made the statement that I thought inasmuch as the government had to step in and buy gold, that we could not rely on the private bankers to do it and that the government might as well take over the gold bullion business. With this idea in my head I called in Coolidge, Lochhead and Oliphant and discussed it with them and then made the suggestion that we authorize the Bank of France to buy gold for our account up to 5 million dollars and up to 6.69. They all liked this idea and Coolidge and Lochhead all through the afternoon kept advising me not to try to jump in and bring the Franc suddenly up to the gold point, that they both felt it might cost too much money. If the President had told me to go easy I was in such a state of mind and instead of jumping in and spending 50 million dollars because I would have thought that his reasoning was based on a political one but when Coolidge and Lochhead advised me to go easy their advice was based on what they thought was best from the standpoint of the Treasury.

At the Vice-President's dinner the President sat on Mrs. Garner's right and I on her left. He leaned back and said across her back "Well Henry I am glad to see that you are smiling again". He said to Mrs. Garner "You know Henry was very serious for an hour yesterday". He said "I was arguing with him about the gold case and in arguing I often take the side of the opposition in order to bring out the various points but of course I didn't believe in these arguments" but he said "Henry feels much happier to-night and I see he is smiling". The President took this most unusual method of informing me that he didn't mean what he said on the previous day. Of course the interpretation that I give to these remarks is that he was notifying me that I had won.

Every suggestion and every move that has been made on the exchange situation, every single idea has been mine. The President did not make one single suggestion. I simply told him what I was going to do and he approved.

January 14, 1935.

Secretary Morgenthau.

Oscar Johnston.

In line with our conversation this morning with reference to certain markets for American cotton:-

I suggest the advisability of entering into negotiations with India, Egypt and Brazil with the thought of reaching an agreement the effect of which would be to limit the export of cotton from these four countries to world markets in accordance with such arrangements as might be thought mutually advantageous. Such conference might also consider embodying within the terms of the agreement limitations upon the acreage to be planted by each of the contracting parties during a period of five years. The agreement to be subject to such modification as might be agreed upon by a Commission, Board or other controlling agency established to effectuate the purposes of the agreement.

America's normal acreage is approximately 40,000,000 acres, that of Egypt approximately 1,743,000 acres, that of India 23,935,000 acres. It can not be said that there is a normal acreage for Brazil since that country for the past four years has materially increased her acreage and because of this fact now threatens to disrupt conditions with respect to America, India and Egypt.

At this time Brazil is largely dependent upon America as the principal market for her coffee. I think that before a reciprocal trade agreement is concluded between America and Brazil, serious consideration should be given to the advisability of asking Brazil to enter such an agreement as is above suggested in return for having her coffee admitted to America duty free.

The charge is generally made that our efforts to improve the price of cotton by curtailing production are resulting in the development of the foreign growth of cotton, and that America is losing her world position as a cotton producer. I think the situation has been grossly exaggerated, but it is undeniably true that Brazil is rapidly increasing her acreage and becoming to that extent each year more seriously a competitor with America in world markets.

If an agreement such as above suggested could be had, the four countries would have it in their power very largely to determine the trend of world cotton and textile markets, and with that power each could probably improve its position very much without at the same time injuring the other.

January 15th

I phoned the President to-day and told him that Francs have dropped from 6.59 to 6.40. The export gold point is 6.59. My thought is that we could step in at 6.40 and buy Francs and convert them into gold. I would suggest limiting it to $10,000,000. The President approved. I then telephoned Burgess and told him to buy Francs immediately from 6.40 to 6.50 up to $10,000,000 with the understanding that we could convert them into gold if we wanted to.

January 16th

Mr. Morgenthau talked with Coolidge and Lochhead at 9 o'clock this morning and decided to buy gold in the London market. They thought they could get it at about $34.50.

Mr. Morgenthau called the President at 9:15 and called his attention to the article in the New York Times by Arthur Krock correcting a statement made in yesterday's New York Times that "The possibility that a decision adverse to the government in the gold-clause cases pending before the Supreme Court might cause Congress to return to the dollar its original gold content and thus effectively prevent further inflation by this route was being discussed to-day among Federal experts."

"Unlike certain Congressional leaders who, through fear of financial chaos, declined even to consider what might happen if the court rules against the government, the departmental experts reached the opinion that such action would have definite advantages."

Mr. Krock now states that "Some Treasury officials felt that the reading public conclude that the "departmental experts" were Treasury men. The fact is that the experts whose views were reflected in the dispatch to the New York Times are in another department. Treasury opinion given to the preparation of the Attorney General's argument was firmly behind his statements that an adverse decision would be most disadvantageous to the government."

At the time of my confirmation as Chairman of the Federal Deposit Insurance Corporation a year ago, the relation of my brothers, myself, and our company was the subject of a special investigation by the Comptroller's office, and the result of such investigation was apparently satisfactory, but because of a report made by another national bank examiner some two months later a misunderstanding has arisen which I desire to explain.

For many years prior to 1928, my four brothers and myself were actively engaged in business, first in the operation of a Wisconsin corporation known as the General Paper and Supply Company (later known as General Paper and Crowley Wholesale Grocery following acquisition of a wholesale grocery business at Beloit, Wisconsin, and later on the Goodall Crowley Oil Company with some thirty-five service stations located in the City of Beloit. These corporations are what are commonly called family companies as the common stock in both is exclusively owned by us and we have at all times managed and operated them.

In addition to the above named corporation, we invested in Wisconsin corporations located at Madison, Wisconsin, which were engaged in owning, improving and developing real estate in Madison and vicinity. I was thus engaged until 1928 when I became President of the Bank of Wisconsin, Madison, Wisconsin.

This bank had been established some twenty years prior to 1928, and for reasons for which I was in no wise responsible, it was in a very unsatisfactory condition, and at the solicitation of the bank's stockholders I accepted the presidency and thereafter devoted most of my time to its affairs. In order to strengthen the cash position of the bank, additional stock was issued and sold with the approval of the State Banking Commission, whereby the bank received $600,000 in cash and approximately one-fourth of this sum was paid in directly or indirectly by myself and brothers. In 1929 the bank was acquired by the Wisconsin Bankshares Corporation, but I continued as President until February 2, 1932, when the bank was taken over by the First National Bank of Madison, Wisconsin, which was another Bankshares' bank. Before this merger I was asked by Bankshares to take the presidency following completion of the merger but I declined. Immediately after leaving the bank in the spring of 1932, I was appointed Chairman of the Wisconsin Review Board by Governor LaFollette and assisted in organizing the Board, represented the Banking Department in legislative matters, and was active in banking affairs throughout the State until I became Chairman of the Federal Deposit Insurance Corporation a year ago.

In the operation of our two companies it had been our practice for years for us to borrow individually for the benefit of the companies and likewise to borrow from the companies in order to purchase property for their benefit. Thus in the past property has been acquired by one of us and held for several years and sold, or conveyed to the companies which had loaned the purchase price.

Unfortunately, the depression found us indebted as individuals and our companies as well. Our condition was the subject of a special investigation through the Comptroller's office by Special Examiner Hopkins.

Preceeding my appointment as Chairman of the F.D.I.C. Hopkins reported to the Comptroller on February 12, 1934, and I am informed that on April 6th following another bank examiner commented on our relations to the banks, and without some explanation, these two reports might be deemed at variance.

In the Hopkins' report it is stated that on February 2, 1932, Leo T. Crowley was personally indebted to the State Bank of Wisconsin in the sum of $89,966.60, and to First Wisconsin National Bank of Milwaukee in the sum of $52,500. This report shows that between February 2, 1932, and February 12, 1934 (the date of the report) that $79,741.59 was paid on such indebtedness to State Bank of Wisconsin which would have reduced the amount personally owing by him to both banks to the sum of $52,725.01, but for the fact that in the meantime an agreement was negotiated with the banks whereby Leo T. Crowley voluntarily assumed the obligations of his brothers, guaranteed by them, amounting to $350,251.37 to State Bank of Wisconsin and $127,795.58 to First Wisconsin National Bank of Milwaukee. The foregoing facts are set forth in detail in the Hopkins report to the Comptroller and is a part of the Department's files. In the report made by some national bank examiner on April 6, 1934, my indebtedness to the First Wisconsin National Bank of Milwaukee, including that which I voluntarily assumed, is stated to be $274,295.58, whereas the Hopkins report shows the amount to be $180,295.58. The discrepancy is accounted for by the inclusion in the first report above mentioned of $106,500 evidenced by note to First Wisconsin National Bank signed by myself and

A. W. Schulkamp. This note represents a balance on a note which we gave for money borrowed for our banks as explained in the letter of Mr. Thomas hereto attached. Neither of us received any benefit therefrom, and have since been released from all obligation thereon.

In view of the conditions accompanying the depression, although we had operated our companies on a small profit, I deemed it wise to obtain an extension of time for the payment of my personal as well as our company indebtedness in the hope that business conditions would improve and values would again become normal, and with this idea in mind, negotiations were commenced in the spring of 1932 with the representatives of two creditor banks and an agreement was reached and became effective September 8, 1932. Under this agreement Leo T. Crowley personally assumed the indebtedness above mentioned, giving his personal notes therefor, 50 M guaranteed by his brothers, dated March 1, 1933, at 2% due on or before five years after date, payment being secured by certain stocks, bonds, and other collateral of some twenty-three different corporations, all of which except six were Wisconsin corporations operating in Madison and vicinity. Amongst other collateral was a mechanics lien against an office building in Madison for the sum of $78,277.59 which was subsequently taken over by Wisconsin Bankshares at face and applied upon my note indebtedness. I am advised that the examiner who made the report on April 6, 1934, indicates that the only collateral back of my notes consists of some common stock in the General Paper and Supply Company and stock in a closed bank of Madison, Wisconsin. This is evidently a mistake. Some of the collateral consists of common stock in the General Paper and Supply Company, but there has never been any stock in any bank in Madison placed as collateral to either of my notes. Some of the collateral consisted of Bankshares stock which I ordered sold and the proceeds applied on the notes.

Under the contract of September 8, 1932, the Goodall Crowley Oil Company debt of $100,000 was extended five years payable in annual installments ranging from $10,000 a year to $35,000 per year and the interest rate was reduced from 5½% to 5%. In consideration of this extension I pledged a life policy in the principal sum of $100,000. Pursuant to this agreement of September 8, 1932, General Paper and Supply Company was granted an extension of five years on its obligations, with interest rate reduced from 5% to 3% the first year, 4% the second year, and 5% thereafter. I also secured payment of this company's obligation with insurance on my life in the aggregate principal sum of $275,000. In neither case was the principal of any obligation in any wise reduced. The only concession was in the interest rate and extension of time of payment as above set forth which I feel was amply compensated by posting collateral consisting of life insurance.

Apparently there is some statement in the report of the examiner of April 6, 1934, to the effect that some four year plan had been agreed upon between ourselves and the banks which had failed and the result was the giving of my notes dated March 1, 1933. There never was any four year plan. These notes were given March 1, 1933, in accordance with the terms of the contract of September 8, 1932.

My personal notes, above mentioned, and the collateral securing the payment of same, are now held by the First Wisconsin Mortgage Company of Milwaukee, Wisconsin, whose stock is owned by the Wisconsin Bankshares Corporation.

Our two corporations have no indebtedness except to the banks and there is no mortgage or other lien against their properties. What the assets of these companies will be worth at the end of the extension period in 1937 is, of course, impossible of ascertainment, but I was somewhat encouraged by an offer received since 1932 in excess of a little over $200,000 for the property of Goodall Crowley Oil Company which property we could have sold before the depression for nearly twice that amount.

I am still Carrying life insurance in the aggregate principal amount of $

I am in no wise concerned with any loan obtained by either of these banks or by Wisconsin Bankshares from the Reconstruction Finance Corporation and as far as the Federal Deposit Insurance Corporation is concerned, neither of these banks has ever sought a favor and nothing has ever developed which indicates that I cannot act fairly and impartially in my official contacts with them.

Respectfully yours,

Diary

A Summary and Analysis
of
Memorandum dated January 15, 1935
Re: Crowley Loans.
*****

I - Bank Loans.

On January 15, 1935, the date of the examiner's memorandum, Leo T. Crowley, companies in which he was interested, and his sister, owed the First Wisconsin National Bank, Milwaukee, Wisconsin, $458,795.58 and the State Bank of Wisconsin (the First National Bank of Madison, Wisconsin, on February 2, 1932 took over the assets and assumed the liabilities of the State Bank of Wisconsin, which is now in liquidation) $707,209.44, a total indebtedness to both banks of $1,166,055.02.

Of the amounts above mentioned, $165,795.58 in the First Wisconsin National Bank and $350,476.38 in the State Bank of Wisconsin, or a total of $516,271.96, include loans made to Mr. Crowley's brothers and to the Four Lakes Investment Company, a substantial part of the proceeds of which were received by or credited to Leo T. Crowley personally. These, however, have now all been assumed by Mr. Crowley. During the period when practically all these loans were made, Leo T. Crowley was President of the State Bank of Wisconsin (formerly the Bank of Wisconsin) a state banking institution.

There is a so-called "standstill" agreement, dated September 8, 1932, entered into by Mr. Crowley and his four brothers with Wisconsin Bankshares, a holding company owning controlling interests in the above mentioned banks. Pursuant to this agreement notes were given to the banks in substitution of notes previously given in connection with this indebtedness. These notes mature March 1, 1938 and carry interest at the rate of 2% (this interest represents a substantial reduction in the rate of interest which was payable on the pre-existing notes). Under the agreement the obligor has the right to defer payment of interest until maturity. This right has been exercised.

For further details in respect to the above mentioned indebtedness see Exhibit "A", hereto annexed and pages 2-4 of the examiner's memorandum, particularly the comment as to the character and value of the collateral to the loans in question. For separate analyses of borrowings at banks by four brothers and by Four Lakes

Investment Co., apparently to a very substantial extent for the account and accommodation of Leo T. Crowley, see pages 33-40 of examiner's memorandum.

II - Personal indebtedness of Mr. Crowley to so-called Crowley companies.

A. To General Paper and Supply and Crowley Wholesale Grocery Company.

According to the audited statement as of December 31, 1933, by Elwell, Kiekhofer & Co., certified public accountants, Leo T. Crowley was then indebted to this company to the extent of $327,500. This indebtedness is evidenced by Mr. Crowley's note dated December 31, 1932, due December 31, 1937, with interest at the rate of 2% per annum. For an analysis of this amount see pages 20-21 of the examiner's report.

B. To Goodall-Crowley Oil Company.

According to copy of balance sheet of this company as of December 31, 1933, a certified copy of which is in the credit files of the First Wisconsin National Bank of Milwaukee, Wisconsin, Leo T. Crowley was then indebted to this company in the amount of $127,600, as evidenced by a note dated December 31, 1932, maturing December 31, 1937. For further details in respect to this indebtedness see pages 28-32 of the examiner's memorandum.

III - Florence Crowley indebtedness, secured by mortgage on Edgewood Avenue property located in Madison, Wisconsin.

This property was originally conveyed to Leo T. Crowley by St. Clara College and Mr. Crowley erected a residence thereon. On November 21, 1931 Mr. Crowley deeded this property to his unmarried sister, Florence Crowley, for a nominal consideration and on the same date Florence Crowley mortgaged the property to the State Bank of Wisconsin, of which Mr. Crowley was then the President, for a loan of

$60,000. During 1932 the notes evidencing this loan were sold to the Central Wisconsin Trust Company, Madison, Wisconsin, but subsequently found their way back into the State Bank of Wisconsin. Some time during 1932 these notes were sold to the First Wisconsin National Bank, Milwaukee, Wisconsin. The notes were originally due as follows:

$10,000 -- November 21, 1932
10,000 -- November 21, 1933
40,000 -- November 21, 1934

Maturity on these notes has been extended to October 31, 1937 and the interest rate reduced to 5%. On the day that the loan on this property was made by Mr. Crowley's bank it appears that a previous loan to Mr. Crowley on the property by the National Guardian Life Insurance Company, in the amount of $30,000 was paid off and Mr. Crowley's commercial checking account in the State Bank of Wisconsin was credited with $60,000. The assessed value of the property for 1933 was -- Land - $4,450; Building - $38,400.

On January 15, 1935, the date of the examiner's memorandum, the notes and the mortgage securing them were owned by the First Wisconsin National Bank.

IV - <u>Brief history of certain of the larger or more important loans.</u>

A. Loans of Four Lakes Investment Company.

(1)

Included in the loans of Leo T. Crowley referred to in I above, and in Exhibit "A" attached, are certain loans to Four Lakes Investment Company by Mr. Crowley's bank, totaling $210,000, on which the net balance due is $170,000. With respect to these loans the liability ledger of the State Bank of Wisconsin shows the following:

<u>Date of Loan</u>	<u>Amount</u>
December 21, 1929 (Credited to checking account of Leo T. Crowley at State Bank of Wisconsin.)	$30,000.00
December 27, 1929 (Credited to checking account of Leo T. Crowley at State Bank of Wisconsin.)	28,000.00
June 26, 1930 (Credited to checking account of Leo T. Crowley at State Bank of Wisconsin.)	2,000.00
June 30, 1930 (Credited to checking account of Leo T. Crowley at State Bank of Wisconsin	50,000.00
Sub-total	110,000.00

Date of loan		Amount
	Sub-total (carried over)	$110,000.00
December 31, 1931 (On same date the loan of the General Paper & Supply and Crowley Wholesale Grocery Co. at the State Bank of Wisconsin was reduced $100,000.)		100,000.00
	Total Advances	210,000.00

Date of Credit	Amount	
January 13, 1932	$12,000.00	
January 13, 1932 (On same date General Paper & Supply and Crowley Wholesale Grocery Co. increased its indebtedness $40,000. at the State Bank of Wisconsin.)	28,000.00	40,000.00
	Net Balance Due	$170,000.00

At various times portions of this company's loans were sold by the State Bank of Wisconsin to the First Wisconsin National Bank with the result that as of September 8, 1932, the date of the so-called "standstill" agreement with Wisconsin Bankshares $82,000 of this indebtedness was due to the First Wisconsin National Bank and $88,000 to the State Bank of Wisconsin.

As a part of the agreement of September, 1932 whereby Leo T. Crowley assumed the debts of this company and those of his brothers, is a schedule listing the various obligations of this company and of his brothers, which includes this caption:

"<u>Four Lakes Investment Company</u>

Notes owned by First Wisconsin National Bank, Milwaukee, Wis.:

Note dated July 8, 1932, demand, 2%, $82,000.; collateral 1,000 shares General Paper & Supply and Crowley Wholesale Grocery Company preferred.

Notes owned by the State Bank of Wisconsin, Madison, Wis.:

Note dated June 30, 1932, demand, 2%, $88,000.; collateral, 90 shares General Paper & Supply and Crowley Wholesale Grocery Company preferred — second issue."

For some reason this collateral has been returned. Copy of collateral records of the First Wisconsin National Bank, Milwaukee, Wis. shows the following:

Date Deposited	Ctf. No.	Shares	Description	Withdrawn	
11-9-31	187	500	General Paper pfd.	6-23-33)	Penciled notation:
11-9-31	120	500	" " "	6-23-33)	"For collection receipt by Auditing Dept. First Wis.Natl. Bank."

Apparently the collateral was first deposited on September 10, 1930 at the State Bank of Wisconsin, Madison, Wisconsin. This shows 1,000 shares of the General Paper & Supply and Crowley Wholesale Grocery Co. preferred stock, certificates numbers 187 and 120 for 500 shares each. The audited statement as of December 31, 1931 of the General Paper and Supply and Crowley Wholesale Grocery Company shows among various certificates which were missing, and with their stubs blank, these two certificates. According to the same audit the authorized capital stock of the company, as of this date, consisted of 1,000 shares of $100 par value common stock, 2,000 shares 8% preferred stock, with par value of $100 a share and 2,000 shares of 7% preferred stock, with par value of $100 a share.

In this connection, it will be noted that the amendment of the company's articles to provide for the 7% issue was not made until December 31, 1931. Prior to that time only the issuance of the common stock and of the 2,000 shares of 8% preferred apparently had been authorized. The records of the bank do not show the issue of preferred stock which was deposited as collateral on September 10, 1930 at the State Bank of Wisconsin and it has not been otherwise identifed because of the absence of any record in the books and accounts of the company.

Since, according to the audit above referred to, no other issue of preferred stock had been authorized on or before September 10, 1930 it is apparent that if this collateral consisted of authorized preferred stock it must have been a part of the issue of 8% preferred. However, the auditor's statement as of December 31, 1931 shows the amount of preferred stock outstanding to be 1954 shares and lists the recorded owners thereof and the respective certificate numbers. This list does not show certificates numbers 120 and 187, nor does it show that the Four Lakes Investment Company was the owner of any preferred or other stock of the company.

There is little information in the report in respect to the business and assets of the Four Lakes Investment Company. It appears, however, from the records of the Secretary of the State of Wisconsin that this company has never operated since its organization in October, 1929.

B. William P. Crowley loan, secured by mortgage on Madison Brick Warehouse.

On November 25, 1931, the General Paper and Supply and Crowley Wholesale Grocery Company deeded its Madison Brick Warehouse to William P. Crowley for $1 and other good and valuable considerations. On December 31, 1931, this property is still shown as an asset of the company, although the company did not have title to the property on that date, nor had it received anything for it. The facts are: On December 5, 1931, a mortgage of $75,000 on this property was given by William P. Crowley to the State Bank of Wisconsin, Madison, Wisconsin, of which Mr. Leo T. Crowley was then President. On the same date, the checking account of Leo T. Crowley at the State Bank of Wisconsin was credited $75,000. Mr. Crowley apparently used the proceeds of this loan to his brother to reduce his personal obligations at the State Bank of Wisconsin by $68,316.29, the balance being used to reduce his overdraft at the State Bank of Wisconsin by $5,600. (2)

As above stated, the General Paper and Supply and Crowley Wholesale Grocery Company, of which Mr. Leo T. Crowley was also President at thistime, did not receive the proceeds from the loan made on the security of this mortgage and on March 10, 1932 title was still in William P. Crowley. However, the property had not been taken off the company's books and the mortgage liability had not been entered on the books of the company as of the date of the December 31, 1931 audit. The auditor's report for 1932, however, includes the property among the fixed assets in the balance sheet for December, 1932. The property was deeded back to the company some time in 1932 after the 1931 audit. The note of William P. Crowley was retired, and the mortgage lifted by a note of Leo T. Crowley given to the State Bank of Wisconsin, Madison, Wisconsin, on June 29, 1932.

At or about the time of the above mentioned transaction, there was outstanding, according to this company's stock book, $195,400 of 8% preferred stock owned by 61 different shareholders. Of the recorded owners of these shares only 35 shares appeared in the name of the Crowley brothers and none in the name of Leo T. Crowley. In this connection, attention is invited to the provisions and restrictions of this issue of preferred stock, reading in part as follows:

(A) "Corporation shall not dispose of all, or substantially all, or encumber its property and assets, except by and with the consent of holders of three-fourths of preferred stock outstanding.

(B) "Preferred stockholders have equal voting rights with common stockholders only in case of 60 days default.

(1) "* * * * * or in other provisions specified for the protection of the preferred stockholders."

V - Financial statements of Crowley companies furnished State and National Banks.

A. General Paper and Supply and Crowley Wholesale Grocery Co.

The report contains copies of financial statements of the General Paper and Supply and Crowley Wholesale Grocery Company as of December 30, 1928, December 30, 1929 and December 30, 1930. These statements are copies of originals in the files of the First National Bank, Madison, Wisconsin, which as above stated has taken over the assets and assumed the liabilities of Mr. Crowley's bank, the State Bank of Wisconsin. The statement as of December 30, 1928 reflects obligations of $131,500. However, it is known that the company was then obligated to three banks in the amount of $162,500. (3)

The statement as of December 30, 1929 reflects obligations of $124,500. It is known that on this date the company was obligated to six banks in a total amount of $192,500.

The statement as of December 30, 1930 shows notes payable of $129,500. On that date, it is known that the company was obligated to six banks in a total amount of $236,500.

For further particulars in respect to the above statements, see copies thereof appearing on pages 22, 23 and 24 of the examiner's report. Also see examiner's comments on pages 19-21, which indicate that in other respects these statements may not have reflected the true financial condition of the company on the dates in question.

B. Goodall-Crowley Oil Company.

In the credit files of the First Wisconsin National Bank, Milwaukee, Wisconsin, is a copy of statement of this company dated November 30, 1930, with a notation - "Copy State Bank of Wisconsin, Madison, Wisconsin, received November 30, 1931." (See page 31 of examiner's report).

This statement shows notes payable in the amount of $59,000. However, the liability ledger of the State Bank of Wisconsin on November 30, 1930 shows that the Goodall-Crowley Oil Company was indebted to it in the amount of $11,500 on its own books and $75,000 on those of its branch. (See page 32 of examiner's report).

VI - Financial condition of Crowley companies.

The examiner's report shows no equity for common or preferred stockholders of the General Paper and Supply and Crowley Wholesale

Grocery Company by an analysis of the company's statement as of December 31, 1933. (See pages 5-8 of examiner's report).

The report also shows the net worth of the Goodall-Crowley Oil Company to be $14,147.26 by an analysis of the company's statement as of December 31, 1933. (See pages 28-29 of examiner's report).

VII -- Leo T. Crowley overdrafts at State Bank of Wisconsin, Madison, Wisconsin.

Mr. Crowley became President of the State Bank of Wisconsin on September 1, 1928 and continued in active charge of the bank until it was taken over by the First National Bank of Madison, Wisconsin, on February 2, 1932. (4)

An inspection made of the deposit account of Leo T. Crowley with the State Bank of Wisconsin, Madison, Wisconsin, shows that overdrafts were more common than credit balances. In 1928 overdrafts ran as high as $44,060.81; in 1929 they ran as high as $22,459; in 1930 they ran as high as $17,388; in 1931 they ran as high as $32,805 and in January, 1932 they ran as high as $3,305.

Immediately before examinations were started of the bank by the auditors for the Wisconsin Bankshares and/or the State Banking authorities during the years, 1929, 1930 and 1931 these overdrafts were covered temporarily, largely by placing notes in the bank. For further details see pages 56-57 of the examiner's report.

VIII -- Losses sustained by Wisconsin Bankshares in connection with the taking over of the State Bank of Wisconsin by the First National Bank of Madison.

The report shows that the assets of the State Bank of Wisconsin were guaranteed by the Wisconsin Bankshares Corporation at the time the bank was taken over by the First National Bank of Madison on February 2, 1932 and further shows that to the date of the examiner's report, January 15, 1935, the Wisconsin Bankshares suffered a loss of approximately $4,500,000 and that the acquisition of the State Bank of Wisconsin, Madison, played no small part in making it necessary that Wisconsin Bankshares be rehabilitated through a sizeable loan received from the Reconstruction Finance Corporation. (For further details see page 58 of examiner's report).

IX -- General statement and examiner's conclusions.

For a general statement in respect to the scope of the report and the examiner's conclusions see the first and last pages of the report. (Pages 1 and 60).

EXHIBIT "A".

	First Wisconsin National Bank, Milwaukee, Wis.	State Bank of Wisconsin, Madison, Wis.	Total
Leo T. Crowley	$165,795.58	$350,476.38	$516,271.96
General Paper & Supply and Crowley Wholesale Grocery Company	124,500.00	156,025.33	280,525.33
Goodall-Crowley Oil Company		100,000.00	100,000.00
Amount involved in agreements dated 9-8-32 #	290,295.58	606,501.71	896,797.29
Florence Crowley mortgage	60,000.00		60,000.00
Shorewood Hills Company		100,707.73	100,707.73
Leo T. Crowley and A. W. Schulkamp	108,500.00		108,500.00
Amount not involved in 9-8-32 agreements	168,500.00	100,707.73	269,207.73
Grand Total	$458,795.58	$707,209.44	$1,166,005.02

The standstill agreement dated September 8, 1932, covering the loans of Leo T. Crowley in an original amount of $587,513.55, is signed by the five Crowley brothers and by Vice President Louis Schriber for the Wisconsin Bankshares. The agreement covers the following loans, all of which were assumed by Leo T. Crowley; such notes mature March 1, 1938, at 2% interest, but under the agreement the obligor has the right to defer any payment of interest until maturity. He has exercised this right.

	First Wisconsin National Bank, Milwaukee, Wis.	State Bank of Wisconsin Madison, Wis.	
E. E. Crowley		$52,800.00	
J. H. Crowley		50,770.00	
Sylvester Crowley	$25,795.58	33,473.57	
Wm. P. Crowley	20,000.00	20,782.80	
Leo T. Crowley	32,500.00	181,391.60	
Four Lakes Investment Company	82,000.00	88,000.00	
Borrowing as of 9-8-32	$160,295.58	$427,217.97	Total, $587,513.55
Adjusted figures as of 1-15-35	$165,795.58*	$350,476.38**	Total $516,271.96

* This figure takes into consideration a note of Leo T. Crowley dated November 21, 1932, due on demand, interest endorsed to January 25, 1933; and principal payments on Crowley notes amounting to $500.

** The $350,475.38 takes into consideration a loan of James P. Dean in the amount of $2,500., assumed by Leo T. Crowley; a $500. new advance; and a $78,277.59 reduction through transfer of collateral to the Tenney Building Claim Account on the books of the State Bank of Wisconsin, Madison, Wisconsin; and other reductions by principal payments of $1,464. (Explanation; the $78,277.59 represents mechanics' liens acquired by Leo T. Crowley against the Tenney Building Company. From whom acquired, or amount paid for same, is unknown to your Examiner. The status of the mechanics' liens was not determined until June 30, 1934, when the Court fixed it as being a fifth claim subject to prior claims as follows:

1st Claim	$550,000.	--	First bond issue
2nd Claim	12,000.	--	Architect's fees
3rd Claim	150,000.	--	Second mortgage bond issue, of which the State Bank of Wisconsin, Madison, Wis. holds $100,000.
4th Claim	30,000.	(approx.)	Third mortgage held by State Bank of Wisconsin, Madison, Wis.)

Excerpts from The Banking Law and Other Laws Relating to and Governing the Organization of Banks and Conduct of the Banking Business, revised to March 1, 1934 and prepared under the direction of the Banking Commissioner of the State of Wisconsin.

* * * * * * * * *

221.31. LOANS TO BANK OFFICIALS; PENALTY. (1) No bank or mutual savings bank shall loan more than one thousand dollars in the aggregate to any director, officer or employe, except under the following conditions:

(a) The loan must previously be approved by resolution of the board of directors recorded in its minutes.

(b) The entire line of loans made to such director, officer or employe, including those previously made, must be secured to their full amount by indorsements or collateral security, the sufficiency of which shall have been approved by resolution of the board of directors recorded in its minutes.

(c) In no event shall the indorsement of any director or directors be accepted as sufficient security for a loan to another director.

(2) Every officer, director or employe of any bank or mutual savings bank who in violation of this section, directly or indirectly, borrows or otherwise procures for his use money, funds or property of such bank or mutual savings bank in excess of one thousand dollars in amount or value upon his credit or through use of his credit or accommodation of another person, firm or corporation or by acceptance for discount at said bank or mutual savings bank of any note, bond or evidence of debt which he knows or has reason to know is worth less than the price at which it is accepted as an asset, shall be punished by imprisonment in the state prison not exceeding ten years. (1931 c. 252)

221.39 EMBEZZLEMENT, HOW PUNISHED. Every president, director, cashier, officer, teller, clerk or agent of any bank or mutual savings bank who embezzles, abstracts or wilfully misapplies any of the moneys, funds, credits, or property of the bank or mutual savings bank, whether owned by it or held in trust, or who, without authority of the directors, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, draft, bill of exchange, mortgage, judgment or decree; or who makes any false entry in any book, report or statement of the bank with intent in either case to injure or defraud the bank or mutual savings bank or any person or corporation, or to deceive any officer of the bank or mutual savings bank, or any other person, or any agent appointed to examine the affairs of such bank or mutual savings bank; or any person who, with like intent, aids, or abets any officer, clerk or agent in the violation of this section, upon conviction thereof shall be imprisoned in the state prison not to exceed twenty years.

221.17 MAKING FALSE STATEMENTS MADE A FELONY. Any banker, officer, director or employe of any bank who shall wilfully and knowingly subscribe to or make, or cause to be made, any false statement or false entry in the books of any bank, or mutual savings bank, or shall knowingly subscribe to or exhibit false papers, with the intent to deceive any person or persons authorized to examine into the affairs of said bank, or mutual savings bank, or shall knowingly make, state, or publish any false report or statement of any such bank, or mutual savings bank, shall be deemed guilty of a felony, and upon conviction thereof shall be punished by a fine or not less than one thousand dollars and not more than five thousand dollars, or by imprisonment in the state penitentiary not less than one year nor more than ten years, or by both such fine and imprisonment in the discretion of the court.

(Note: A banker who repeatedly by colorable transactions, reduced the amount of bills payable shortly before the call of the banking commissioner for a statement of the bank's condition was expected, and who restored the account of bills receivable to their true condition directly after the statement of the bank's condition had been made to the commissioner was guilty of making a false statement and punishable under this section. Rosenberg v. State, 249 NW.)

The Interdepartmental Loan Committee met in the office of the Secretary of the Treasury, at 2:00 P.M. Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,
T. Jefferson Coolidge, Undersecretary of the Treasury,
Warren L. Pierson, General Counsel, Export-Import Bank,
J.F.T. O'Connor, Comptroller of the Currency,
F.F. Hill, Deputy Governor, Farm Credit Administration,
George N. Peek, President, Export-Import Bank,
Jesse Jones, Chairman, Reconstruction Finance Corporation,
Lynn P. Talley, President, Commodity Credit Corporation,
Harold Russell, General Counsel, Home Owners' Loan Corporation,
Marriner S. Eccles, Governor, Federal Reserve Board,
Herman Oliphant, General Counsel, Treasury Department,
Chester Davis, Administrator, Agricultural Adjustment Administration,
Stewart McDonald, Deputy Administrator, Federal Housing Administration,
John H. Fahey, Chairman, Federal Home Loan Bank Board,
Leo T. Crowley, Chairman, Federal Deposit Insurance Corporation,
H.B. Hackett, Housing Division, Public Works Administration,
C.B. Upham, Secretary of the Committee.

Mr. Russell gave an explanation of the bill proposed for enactment by the HOLC. With respect to the increased borrowing authorization of the Corporation asked for, Mr. Russell said that it might be better to merely ask for $1.5 billion increased authorization and leave it to the Corporation and the Home Loan

Bank Board as to how it should be allocated.

Mr. Eccles suggested that the increase include $1 billion for loans to clean up applications which the Corporation already has, $100 million for modernization and $400 million for the combined purpose of purchasing debentures of Home Loan Banks and stock of Federal Savings & Loan Associations.

Mr. Coolidge made the point that the authorization for mortgage refunding operations provides no new money and so is no strain on the market but that the $400 million for the two agencies supervised by the Home Loan Bank Board are a market factor.

There was some discussion of the relationship between the reserve built up by a Building & Loan Association and its authority to pay dividends in connection with what Mr. Fahey described as a technical amendment of the Act.

It was finally agreed that insured Building & Loans might be permitted to waive for one year the disability against paying dividends while their reserve was deficient.

Mr. Eccles made the point that it was desirable to encourage building up of a reserve. On the other hand, Mr. Crowley suggested that perhaps the Building & Loans were being asked to build up a reserve at a time when a dividend might be better for the protection of the insurance corporation .

Mr. Moffett suggested amendments to the National Bank Act and Federal Reserve Act whereby National banks and member banks would be permitted to buy stock in National Mortgage Associations. Mr. Eccles, Mr. Coolidge, Mr. Jones and Mr. O'Connor all rejected this proposal.

The FDIC legislation was brought up for consideration and upon certain objections by Mr. O'Connor it was decided to refer the bill to a banking sub-committee.

Mr. Morgenthau suggested that Congress be asked for no more than $500 million for HOLC. He was of the opinion that they would increase the amount of their own volition. He suggested that applications should have been shut off earlier. Mr. Fahey said that had that been done the situation would be worse now -- that the quicker they can clean up distress and stop loaning, the better. Mr. Morgenthau recalled that a year ago HOLC had indicated that if they got their additional $1 billion then, one half billion now would be sufficient.

Mr. Jones was of the opinion that the HOLC is asking for $400 million which it doesn't need, but Mr. Fahey was of contrary opinion.

Mr. Morgenthau said that he had understood ayear ago that the FHA would relieve the HOLC of the mortgage burden. Mr. Eccles said they could if the Federal Housing Act were amended. It was agreed that there would be another meeting of the Housing sub-committee to consider what FHA can do to take over the load now being carried by the HOLC.

Mr. Morgenthau said that he couldn't see any hope of FHA taking up the load and Mr. McDonald said under their present set up they could not. Mr. Fahey pointed out that the FHA cannot take distressed mortgages. Mr. Morgenthau asked why good mortgages should be insured. Mr. Morgenthau said he would like to see a solution of where the HOLC should stop and FHA begin.

January 15, 1935.

Following the meeting of the Interdepartmental Loan Committee, a sub-committee on banking legislation met in the office of the Undersecretary of the Treasury. Those present were:

T. Jefferson Coolidge, Undersecretary of the Treasury,
Leo T. Crowley, Chairman, Federal Deposit Insurance Corporation,
Jesse Jones, Chairman, Reconstruction Finance Corporation,
J.F.T. O'Connor, Comptroller of the Currency,
Marriner S. Eccles, Governor, Federal Reserve Board,
Lynn P. Talley, President, Commodity Credit Corporation,
C.B. Upham, Secretary of the Committee.

The outline of salient points of the FDIC bill dated December 17, 1934 was considered. Point 1 was agreed to - Mr. Coolidge expressing a preference for the omission of mutual savings banks but not insisting. The second and third points were agreed to.

With respect to 4 (a) it was agreed that the FDIC should have the right to examine insured banks only with the permission of the Comptroller of the Currency.

With respect to 4 (b) it was agreed that the right of the FDIC to require reports would be limited to non-member State banks. In connection with this point, Mr. Crowley had said that it had been made to apply to all banks in order to avoid the criticism of the states that there was an attempt to regulate state banks only.

Mr. O'Connor had objected to the duplication of requiring banks to report to him and to the Corporation.

With respect to 4 (c) dealing with the right of the Corporation to terminate insurance benefits, it was agreed that this should apply to non-member State banks only.

With respect to 4 (d) dealing with the right of the Corporation to control new admissions, it was agreed to leave for decision of the Secretary of the Treasury whether the right should apply to non-member State banks only or member State banks and National banks.

With respect to 4 (e) relating to approval of the Corporation before merger or consolidation, or reduction of capital, it was agreed that it should apply only to the merger of a non-insured bank with one that is insured.

Point number 5 was agreed to with the suggestion that one years' withdrawal notice would be sufficient.

Point number 6 was agreed to. Point number 7 was agreed to. Point number 8 was agreed to. Point number 9 was agreed to. Point number 10 (a) was agreed to.

With respect to point 10 (b) having to do with the liquidation of closed banks by either the Comptroller or the Corporation, it was agreed that decision should be left for the Secretary of the Treasury.

Mr. O'Connor read a memorandum which he had prepared commenting on the provisions of the FDIC bill. Most of his points had either been taken care of by the drafters, Mr. Crowley said, or could be agreed upon without difficulty.

The committee adjourned leaving it up to Mr. Coolidge to get a decision from Mr. Morgenthau on (1) the control of new admissions to the Deposit Insurance system, (2) control the termination of insurance benefits, and (3) handle liquidation of closed banks.

The sub-committee on banking legislation met again the following morning in the office of the Undersecretary of the Treasury.

The decision of the Secretary of the Treasury that the FDIC, when appointed as receiver for closed National banks, should report to the Comptroller, was accepted.

The decision of the Secretary of the Treasury in connection with terminating the insurance benefits of national banks of the FDIC would work through the Comptroller was accepted.

Upon the suggestion of Mr. Awalt and agreement by Mr. Morgenthau it was decided that in chartering National banks and so automatically insuring them, the Comptroller would secure recommendation from the FDIC.

The sub-committee on Housing met in the Federal Reserve Board Room at 2:00 P.M. Those present were:

T. Jefferson Coolidge, Undersecretary of the Treasury,

Marriner S. Eccles, Governor, Federal Reserve Board,

John H. Fahey, Chairman, Federal Home Loan Bank Board,

H.B. Hackett, Housing Division, Public Works Administration,

C.B. Upham, Secretary of the Committee.

Mr. Coolidge suggested that National Mortgage Associations will be unable to get cheap enough money by selling their debentures to compete on a sound basis with savings banks. He is inclined to abandon National Mortgage Associations, but objects to National banks buying stock in National Mortgage Associations when others are not doing so. If they do buy, he said, it will be for the purpose of putting in mortgages that they don't like or mortgages of their friends or to sell bonds at a profit.

Mr. Eccles suggested that the Federal Reserve Act and the National Bank Act be amended to make mortgages insured under the FHA eligible collateral for borrowing from Federal Reserve banks. He suggested second that the FHA regulations be amended to permit mortgagees to sell mortgages to individual investors, trust funds, etc. without going to National Mortgage Associations. Let an insured and accepted mortgagee make and service and sell mortgages. He suggested third, that the FHA adopt a uniform maximum 5% rate and a graduated scale of insurance premiums. He suggested fourth, that the FHA eliminate population and capitalization limits on mortgages and that they make all members of the FDIC eligible mortgagees.

Mr. Moffett said thathe thought that there had been no slackness in the FHA and that the fundamental point made by Mr. Eccles is not valid. The slowness in getting the FHA to work has been due to confusion as to a Government subsidy and 3% money, and to the inability of State institutions to lend on an 80% basis and to the difficulties in getting National Mortgage Associations organized.

Mr. Eccles added two points to his statement of changes to be made. Number 5, simplify the regulations of the FHA to permit approved mortgagees to pass on the credit of mortgagors; to permit reliance of mortgagee as to appraisal; and to permit semi-annual or quarterly amortization payments as well as monthly. Number 6, Mr. Eccles suggested that Title III of the FHA be suspended for study.

Mr. Moffett was against too much rate cutting and said that perhaps putting the rate up would attract private capital. Mr. Eccles replied that debtors can't support higher rate.

Mr. Fahey said that Mr. Riefler wants a recommendation on the real property inventory and survey of urban housing conducted by the Department of Commerce. He said that their money has all been spent and they need about $10,000. The inquiry was whether the FHA, the HOLC and the P.W.A. would contribute $3500 each to complete the study.

Jan 16 ?

MEMORANDUM

In connection with the following items referred to in "A Summary and Analysis of Memorandum dated January 15, 1935 Re: Crowley Loans", the facts suggest a possibility of violations of the penal provisions of Wisconsin statutes relating to State banks on which the statute of limitations apparently has not run. (See Chapter 221.17 (false entries), 221.30 (loans to bank officials), 221.39 (embezzlement.)

III - Florence Crowley Indebtedness, secured by mortgage on Edgewood Avenue property located in Madison, Wisconsin.

On February 21, 1931, Miss Florence Crowley received a loan of $60,000 from the State Bank of Wisconsin, and on the same day Mr. Crowley's commercial account in the bank was credited with $60,000.

IV - A. Loans of Four Lakes Investment Company.

On June 26, 1930 and June 30, 1930, loans were made to this company in the amount of $2,000 and $50,000, respectively, which were credited to the account of Leo T. Crowley at the State Bank of Wisconsin. On December 31, 1931, a further loan was made in the amount of $100,000, the proceeds of which apparently went to reduce the loan of the General Paper and Supply and Crowley Wholesale Grocery Company at the same bank.

The 1,000 shares of preferred stock posted as collateral against these loans apparently was first deposited at the State

Bank of Wisconsin on September 10, 1930. Facts have been mentioned in the examiner's report which call into question the legality of this stock.

IV - B. William P. Crowley loan, secured by mortgage on Madison Brick Warehouse.

On December 5, 1931, a loan of $75,000 on a mortgage was made to William P. Crowley at the State Bank of Wisconsin, and on the same date Mr. Leo T. Crowley's checking account at the bank was credited with $75,000.

V - Financial statements of Crowley companies furnished State and National banks.

A. General Paper and Supply and Crowley Wholesale Grocery Company.

The statement of December 30, 1930, shows notes payable of $129,500. On that date, it is known that the company was obligated to six banks in a total amount of $236,500.

B. Goodall-Crowley Oil Company.

The statement of this company of November 30, 1930, apparently furnished first to State Bank of Wisconsin, shows notes payable in the amount of $59,000, whereas records of bank and its branch shows indebtedness of this company in amount of $86,500.

VII - Leo T. Crowley overdrafts at State Bank of Wisconsin, Madison, Wisconsin.

In 1931 overdrafts of Mr. Leo T. Crowley's deposit account at the State Bank of Wisconsin ran as high as $32,805, and in January, 1932, they ran as high as $3,305.

For particulars of provisions of Wisconsin statutes above referred to see excerpts attached to "A Summary and Analysis of Memorandum dated January 15, 1935 Re: Crowley Loans". For excerpts of State statutes relating to the running of statute of limitations on criminal offenses as well as civil suits, see attached.

January 16, 1935.

MEMORANDUM

To Secretary Morgenthau

From J. E. Crane

Referring to our telephone conversation this afternoon, this will confirm that Mr. Cariguel of the Bank of France advised me by telephone this afternoon that Lazard Freres (Paris) had been unable to finance $4,000,000 of a consignment of gold aggregating about $8,000,000 which they had arranged this morning to purchase from the Bank of France, value January 18, 1935. Mr. Cariguel said that at his suggestion Lazard Freres (Paris) had sold today in Paris about $8,000,000 in anticipation of shipping a corresponding amount of gold to New York and that their operations had been a most important influence in steadying the dollar-franc rate. Since they had been operating at his suggestion, Mr. Cariguel felt morally obligated to see that they obtained the $4,000,000 which they had been unable to finance themselves. Mr. Cariguel said that the Bank of France would like to buy from us $4,000,000 at 6.571943, value January 18, 1935, on which day they would earmark an equivalent amount of gold for us in Paris, it being understood that the expense of shipping the gold to New York would be for our account. Mr. Cariguel said it would be greatly appreciated if we would accommodate the Bank of France in supplying these dollars.

Following your advice to me by telephone that you would sell $4,000,000 to the Bank of France at the above-mentioned rate, value January 18, 1935, buying from the Bank of France an equivalent amount of gold to be earmarked in Paris, I telephoned to Mr. Cariguel and advised him accordingly. He asked me to tell you how grateful he was for your having accommodated him in this manner.

January 16, 1935.

MEMORANDUM

To Secretary Morgenthau

From J. E. Crane

This will confirm my telephone call this morning regarding the information which I received by telephone today from Mr. Cariguel of the Bank of France. He told me that the exchange markets abroad were greatly disturbed owing to the sudden rise of the dollar and that he had this morning induced Lazard Freres (Paris) to sell dollars against francs for the purpose of shipping gold. He added that Lazard had already sold today about $8,000,000 and that they were the only important factor in the market. He said that Lazard Freres would soon reach their limit and that if the New York banks continued to refuse to ship gold from Paris to New York and if our stabilization fund did not intervene vigorously, he was fearful that there would be a panic.

I told Mr. Cariguel that I would pass along the information to you and I also advised him that we had bought about 28,000,000 francs yesterday afternoon. He said that he would convert the francs which were purchased into gold immediately upon their delivery to the Bank of France and that he would require no notice from us such as is asked of the Paris market when they take gold from the Bank of France.

I also informed Mr. Cariguel of our orders in the London market for the purchase of gold.

Crane: Is that what you got 6.57?

H.M.Jr: Yes. Now I gave you 6.57. Now our thought is to buy a little gold in London.

C: Buy gold in London?

H.M.Jr: Yes.

C: Well now can I just talk to you for two minutes?

H.M.Jr: You can have two and one half.

C: I've been thinking about this thing overnight and I've come very strongly to the conclusion that we ought to keep the dollar within the gold point. I think that yesterday was a very good example of what happens when the dollar goes up too high above the gold point - they had very weak commodities - the securities all declined - the whole market was upset and I think for a thing like that to happen - seems to me to hurt things all around and my thought is that last September we took action to support the dollar to keep it from going down . I think that we have just as much - we ought to have just as much responsibility to keep it now from going too high and my very strong recommendation to you is that we ought to put the Franc rate to 6.59 and hold it there, see?

H.M.Jr: Well now let me talk to you see just like a Dutch uncle.

C: Yes.

H.M.Jr: The conversation which you had with the bankers yesterday which was on the front page of last night's New York Sun. Now you emphasized to the bank that we couldn't give them a commitment in advance - is what scared those fellows. Now they've never raised the point before - no they never raised the point before since January 31 but we ----

C: I haven't talked to the papers.

HM.Jr: No, no, no, no but I mean the dealers in foreign exchange.

C: Oh.

H.M.Jr: I mean it's not in the New York Sun to you. No one ever raised the point before since January 31 when we buy gold a week or a month from South Africa, from Bombay - it's come here and no one has ever raised that point before.

C: I see.

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

C: I think they've raised it now on account of the Supreme Court.

H.M.Jr: But my dear Crane I'm talking excitedly but not in an unfriendly matter to get this straightened.

C: I understand.

H.M.Jr: I mean I'm excited but not unfriendly. Now/what the hell has the Supreme Court got to do with the price of gold?

C: Well I agree with you - I don't think it has anything but the banks here don't feel that way.

H.M.Jr: I don't care what the Supreme Court says. The Supreme Court can't tell the United States Treasury what they can pay for the price of gold.

C: I agree - regardless of all of that I feel very strongly that no matter what attitude the New York banks - no matter what attitude anybody in the country takes, I feel that it's our job and our duty to keep the dollar within the gold point - now that's my point of view.

H.M.Jr: When you mean our job and our duty you mean the duty of the United States Treasury.

C: Right.

H.M.Jr: And this demonstrates to me that when the United States Government is in difficulty the international speculator sells it's government short in order to make a penny and when there's a little doubt and they just don't know - they're scared and they're yellow. If I had my way I'd take the full question of dealing with international speculators and put it right in the hands of the United States Treasury. They haven't got any guts, they haven't got any backbone and they haven't got any flag that they follow.

C: That's all true. I'm not upholding the New York banks. I think they're taking a foolish and narrow attitude on this thing. I don't think there is any risk of the Treasury lowering the gold price. My own feeling -----

H.M.Jr: My dear Crane there's no relationship between the price of gold and the Supreme Court decision and the whole trouble was yesterday's story in the New York Times when they quoted departmental experts and that they thought the thing to do was to lower the price of gold. Now I refer you to the first column of page 2 in the New York Times in which it said that the experts whose views were reflected in the dispatch to the New York Times are in another department, see? Now you bring that to the attention of some of those fellows down there.

C: Well now don't you agree with me, Mr. Secretary?

H.M.Jr: I do - I do.

C: When commodities drop - securities drop and the whole market ---

H.M.Jr: My dear Crane --

C: Well all I'm recommending is I'd like to see you go into action to-day and keep it within the gold price the same as any other day.

H.M.Jr: I'm not going to do that and let these New York bankers sit there and make a turn on it.

C: But it won't let them make a turn on it if you do it.

H.M.Jr: Alright let's start in by doing it my way.

C: Alright.

H.M.Jr: And my way is this - I'm giving you orders now to start to buy $2,000,000 worth of gold in London.

C: Yes.

H.M.Jr: See? And let's go in and buy $2,000,000 worth of gold in London.

C: Up to what?

H.M.Jr: Up to $35.60.

C: $35.60.

H.M.Jr: Now you see on the opening of the fixed rate there this morning gold is 141.6 - working out $34 - $38.45 which is much lower than the Paris rate but Sterling is 4.86 at the fixed rate and has now gone up I understand to about 4.88 so I think we'll have to give a little leeway on it.

C: Now you want us to buy $2,000,000 worth of gold in London at not over $35.60.

H.M.Jr: That's right on the dollar basis - we guarantee to buy the gold in London on the same basis as we are buying silver now on the dollar basis.

C: Yes I see. Now is the Secretary still on?

H.M.Jr: Yes I'm still on.

C: Well now Mr. Secretary will you give some further thought to what I said.

H.M.Jr: Yes I haven't thought about anything else.

C: I think we ought to go into the bank market and hold the rate at 6.59.

H.M.Jr: Well I haven't thought of anything else but your New York bankers just turn my stomach.

C: I don't think you ought to think about the New York bankers - I'm not thinking anything about them at all. I'm just thinking from the standpoint of the Treasury and the country as a whole and I think it's our job.

H.M.Jr: Well I've taken the responsibility and I'm taking the leadership.

C: I don't care what the New York banks say. I think we ought to disregard them entirely.

H.M.Jr: Well now let's start in with the London gold thing and let's see by if buying gold in London we can't equalize this thing and bring it up to the gold point.

C: Yes.

H.M.Jr: And I'll follow this thing very closely myself.

C: Alright.

H.M.Jrl And as I said my emphasis is interest enough --

C:	Yes well I know you want me to tell you how I feel. I feel very strongly on this thing.
H.M.Jr:	Well I always want you to tell me what you feel and then---
C:	I know you told me that once.
H.M.Jr:	That's your job and put in that order and let's see what happens.
C:	We'll get after it right away.
H.M.Jr:	OK.
C:	OK

January 16, 1935.
Wednesday - A.M.

NEW YORK TIMES
1-16

WASHINGTON SCANS MARKETS CLOSELY

Congressional Leaders See in Gyrating Prices an Example if Gold Clause Is Upset.

HOPE THE COURT SEES IT

Senator Thomas on Eve of Inflationists' Meeting Suggests Ignoring Adverse Decree.

Special to THE NEW YORK TIMES.

WASHINGTON, Jan. 15.—Today's gyrations in the foreign exchange markets, in which the dollar suddenly took a spurt upward while stocks and commodities declined, gave executive and legislative authorities another reason to hope that the Supreme Court would decide the gold clause cases in favor of the government.

Legislative leaders cited the feverish activities of the markets as a foretaste of what might happen there and in the country should the government lose its case.

A defeat for the government would mean that the government could not abrogate the contract in its bonds to pay in gold, and that it could not force private debtors to abrogate their obligations so to pay. The practical result, however, would be an increase in the currency value of government gold bonds and private gold-clause contracts from 100 per cent to 169 per cent.

Experts' Views Cause a Flurry.

The activity of the exchange markets was ascribed here partly to the news yesterday that certain "departmental experts" of the government would rather welcome an adverse decision of the court in the belief that it would force Congress to return the dollar to its former value. Congressional leaders held that if news of this character had such results abroad, the domestic financial structure would be shaken if the court actually handed down an adverse ruling.

Executive circles being equally sensitive over the gold case, there was a flurry in the Treasury today because of the dispatches. Some Treasury officials felt that the reading public conclude that the "departmental experts" were Treasury men. The fact is that the experts whose views were reflected in the dispatch to THE NEW YORK TIMES are in another department. Treasury opinion given to the preparation of the Attorney General's argument was firmly behind his statements that an adverse decision would be most disadvantageous to the government.

Although apprehensive in some degree as to what the court might do, officials generally rested on assurances, first, that the decision would be favorable and, next, that Congress would act immediately to remedy any situation that might arise.

Congress itself passed the law abrogating gold clause contracts and in various measures ratified President Roosevelt's action in devaluing the gold dollar. Officials contend it is clear to the Supreme Court that Congress and the executive branch have together shaped the monetary policies.

Thomas Would Not Obey.

Senator Thomas of Oklahoma, author of the amendment under which the dollar was devalued, said that Congress or the President could act within a matter of minutes to maintain the status quo should the court decide adversely to the government.

The President simply could issue a statement, he contended, saying there would be no change in the monetary policy, and the demanders of gold payments could do nothing about it. He suggested that Congress might even ignore such a decision and refuse to appropriate funds to meet the spread between the face value of its bonds and the value in terms of the devalued currency.

Students of the gold clause cases have unearthed a treatise by James Parker Hall on the abrogation of contracts by the government which indicates to them that the framers of the Constitution intended at the outset that the Federal establishment reserved the right to abrogate in case of extreme emergency.

They found, for instance, the following quotation in Mr. Hall's "Constitutional Law":

"With very little discussion * * * the Philadelphia Convention inserted in the proposed Constitution the clause: 'No State shall pass any law impairing the obligations of contracts.' A proposal that a similar prohibition should be placed upon the United States Government was not even seconded in the convention.

"Probably the framers of the Constitution thought that the National Government, subject to the possible hazards and burdens of war, could not be as safely fettered in this respect as might the local State Governments, relieved of the duty of meeting supreme emergencies."

These students pointed, furthermore, to some cases indicating that the prohibition against the abrogation of contracts by States had not been considered ironclad by the courts, and quoted Hall again as follows:

"From these decisions and dicta it appears that the subjects concerning which a State may not irrevocably contract away its governmental powers are considerably more extensive than the public health, morals and safety. Probably the doctrine is or will come to be that no State may make an irrevocable contract substantially impairing its government powers in respect to any matter seriously affecting the public welfare."

Applying this doctrine to the present case, it is argued that the national government could not legally sign away its sovereign powers through contracts with private persons, or restrict itself in meeting an emergency such as existed when the gold clause abrogation was voted.

The pending cases are expected to demand a large part of the attention of an inflationist group meeting tomorrow at the Senate Office Building. The session has been called by a committee headed by Senator Thomas to consider further monetary measures, principally designed for inflation.

Philippine Currency Act Cited.

By The Associated Press.

WASHINGTON, Jan. 15.—Treasury experts contended today that Congress already, in effect, has ratified President Roosevelt's proclamation devaluing the gold dollar.

Officials busy with plans for action turning on the Supreme Court's ruling in the gold clause cases held that Congressional approval of last June's Philippine Currency Act represented full endorsement of devaluation.

The Philippine Currency Act of June 19, last year, appropriated money to pay to the islands the dollar profits accruing, through devaluation, to its gold deposits in this country.

Treasury experts consider this law a direct Congressional approval of devaluation, and cited, especially, Section 2 of the Philippine Currency Act which said:

"There is hereby authorized to be appropriated, out of the receipts covered into the Treasury under Section 7 of the Gold Reserve Act of 1934, by virtue of the reduction of the weight of the gold dollar by the proclamation of the President on Jan. 31, 1934, the amount necessary to establish the credit provided for in Section 1 of this act."

Meanwhile, Representative Dies, Democrat of Texas, author of the Dies Silver Act, prepared a measure calling jointly for a tax on private "gold clause" obligations and for inflation, to meet what he called "a serious situation" in event that the Supreme Court should return an adverse opinion in the gold case.

Mr. Dies's bill provides that on July 1, 1935, a tax equal to [illegible]0 per cent of the principal and interest on private obligations payable in gold be levied.

Non-taxable Federal, municipal and State government gold obligations would be treated differently. The Secretary of the Treasury would be authorized to issue United States notes, not to exceed $3,000,000,000 at any one time, to pay off the increased debt that would result from an adverse decision.

NEW YORK TIMES

1/15

REVALUED DOLLAR IS URGED IF COURT UPSETS GOLD ACTS

Experts at Capital Consider a Return to Old Weight as Way to Bar Debt Chaos.

WORLD COURT HAS ACTED

Hughes a Member When Brazil Was Ordered to Pay in Gold, but the Cases Differ.

Special to THE NEW YORK TIMES.

WASHINGTON, Jan. 14.—The possibility that a decision adverse to the government in the gold-clause cases pending before the Supreme Court might cause Congress to return to the dollar its original gold content and thus effectively prevent further inflation by this route was being discussed today among Federal experts.

Unlike certain Congressional leaders who, through fear of financial chaos, declined even to consider what might happen if the court rules against the government, the departmental experts reached the opinion that such action would have definite advantages.

They believed that President Roosevelt would have ample ground on which to ask Congress to repeal the act whereby it devalued the dollar, and to revalue upward to the level prevailing prior to abrogation of the gold clause and devaluation.

The experts made it plain that they were merely speculating on alternatives should the decision go against the government, and were not engaged in preparing any plan for possible official use.

For Quick Revaluation Act.

The fear among Congressional leaders that financial chaos might follow an adverse decision grows out of the belief that the effect would be to raise gold bonds and gold clause contracts to 169 per cent of their face value, by requiring payment according to the former value of the gold dollar.

The experts contend that an act of Congress revaluing the dollar upward to meet this contingency not only would be the simplest but probably the most politic thing to do. They hold that dollar devaluation has not measured up to expectations. It has helped domestic prices but little, they contend, and its value in stimulating foreign trade, apparent at first, has largely disappeared.

Speaker Byrnes joined the group today who contend that there is too much at stake to fear an adverse decision from the Supreme Court.

"It means too much to the country," he said as he predicted that the court would uphold the government.

Treasury Busy With "Home Work."

Although the Congressional leaders had not considered a course in the event of an adverse decision, Treasury officials were known to have been canvassing the possibilities. Secretary Morgenthau, at a press conference today, said "we are doing considerable home work" on the gold clause cases.

In their search for every possible indication of what the court might do, some Washington observers today ran upon a decision of the Court of International Justice at The Hague, rendered July 12, 1929, holding valid the gold clause in Brazilian bonds.

The case was seized upon as highly significant when it was learned that Chief Justice Hughes was a judge of that court at the time.

The ruling had to do with Brazilian Federal Government bonds of 1909, 1910 and 1911, in marketing

Continued on Page Four.

YORK TIMES

1/15

REVALUED DOLLAR HELD ONE WAY OUT

Continued From Page One.

which Brazil agreed to pay interest and principal in French francs. In this there was a distinction between the case and that now before the Supreme Court, on which the promise was to pay in United States gold coin of the standard of value at the time the bonds were issued and not in gold coin of another nation.

Between the time the Brazilian bonds were marketed and the arguments on the case before the International Court, the statutory gold value of the French franc was depreciated about 80 per cent.

A number of findings in the opinion of the International Court were felt by some who studied it to be of peculiar interest.

"When the Brazilian Government promised to pay 'gold francs' the reference to a well-known standard of value cannot be considered as inserted for literary effect, or as a routine expression without significance," was one of them. "The court is called upon to construe the promise, not to ignore it.

"As of what time is the standard of value to be taken? Manifestly as of the time of the bond issue. The engagement would be meaningless if it referred to an unknown standard of a future day. The parties, if they referred to a gold standard of value, must be taken to have referred to an existing standard."

The argument by the Brazilian Government, the opinion stated, assumed that the purpose of the gold clause was to protect against depreciation of some currency.

"But if that be so, protection was sought not simply by agreeing for payment in French francs, but in gold francs," it went on. "As this standard of value was stipulated, it should be enforced according to its terms and not be limited as referring only to a single object not specified. It was depreciation in value that was the subject of the safeguard, not in this or that particular currency, and it was evidently for this reason that the reference was made to the well-known stability of gold value.

"What was the standard of gold value this envisaged? The promise was for payment of francs in gold or gold francs, and wherever the payment was actually made, the amount to be paid had to be computed accordingly."

Not a Clause of Mere Style.

The decision of the International Court in the Brazilian bond case also held that where the government itself became responsible for the prospectus and invites subscriptions for the bonds, "it is reasonable to treat the prospectus as a part of the transaction with the bondholders, at least so far as may be necessary to clarify the meaning of the bond."

It put aside as untenable the argument that the provision for gold payment was simply a "clause of 'style' or a routine form of expression."

"The economic dislocation caused by the great war," it also was held, "has not, in legal principle, released the Brazilian Government from its obligations. As for gold payments, there is no impossibility because of inability to obtain gold coins, if the promise be regarded as one for the payment of gold value. The equivalent in gold value is obtainable."

Some legal experts were quick to find differences between the Brazilian bond case and those pending in the Supreme Court here. They held, for instance, that the court might well distinguish between domestic obligations, or contracts between citizens of the United States, and obligations which had reached an international status.

They thought it possible, too, that the court might distinguish between various classes of obligations of a strictly domestic nature. For example, it might hold the gold clause in Liberty bonds inviolable, while holding that the gold clause in a private contract unavailing.

A number of legislative leaders were asked today whether, if the decision went against the government, Congress might not pass a law confiscating the increment in government obligations. They answered immediately that such a law obviously would be unconstitutional as the confiscation of private property for public use without just compensation.

An additional suggestion was that Congress might attain the same purpose by levying a tax for the difference. It was held to be extremely unlikely that the government would seek to avoid a court decree by such a subterfuge.

It was held equally unlikely that any step would be made to increase the membership of the court to render it more responsive to "New Deal" sentiment.

CANADIAN BONDS INVOLVED.

$2,000,000,000 Securities Held Here Affected by Gold Clause Case.

OTTAWA, Jan. 14 (Canadian Press).—Canada is greatly interested in the gold clause litigation now before the Supreme Court of the United States.

Financial experts here are watching the case carefully. They explain that the court's ruling will doubtless apply to the Canadian debtors in the same way as to those in the United States. They expressed confidence that the abrogation would be sustained.

Dominion gold bonds held in the United States total about $240,000,000. These all contain a clause which says "payable in New York in United States gold coin of the present standard of weight and fineness."

The Dominion bonds, however, form only a small part of all the Canadian gold bonds held across the border. Railway bonds, many of them guaranteed by the government, make up a much greater total. There are also Provincial and municipal bonds.

The total investment of United States citizens in Canada has been estimated at about $4,000,000,000. A very considerable portion of that amount is in common stock covering subsidiary enterprises in this country, mining stocks and other securities on which the gold clause question has no direct bearing. One financial expert here, however, expressed the view that the gold clause securities would total close to $2,000,000,000.

Since the Congressional abrogation Canadian debtors have been paying their interest and principal to their United States creditors in New York funds, buying them with the Canadian dollar which has been at a slight premium.

REFUNDINGS HERE HELD UP.

Gold Decision Is Awaited Despite SEC Simplified Registration.

Despite the Securities and Exchange Commission's simplification of its registration requirement, little refunding of corporate obligations now callable is expected in Wall Street until after the Supreme Court gives its decision in the gold cases. Several trustees of such issues, it was learned yesterday, have notified bankers for corporations that they would require indemnity bonds for 1.70 times the amount of any issue that might be called for redemption as protection against enforcement of the gold clause.

If, subsequent to the call but prior to actual redemption of an issue, the Supreme Court were to uphold the validity of the gold clauses, the trustees foresee the possibility of being required to pay off bonds at 170 per cent of their present value. Their notice to bankers is, therefore, tantamount to a ban on redemptions pending settlement of the present litigation.

Notwithstanding this impediment to immediate financing, the commission's release of Form A-2 was looked upon yesterday in Wall Street as a step in the right direction. Few investment bankers and corporation executives had had time to study the simplified registration form, but those who had commented favorably upon it. Among them was Arthur Lehman, partner in Lehman Brothers, who said:

"The action of the Securities and Exchange Commission in issuing a simplified form for the registration of securities by established and seasoned corporations, is another evidence of the very helpful work which is being done by Mr. Kennedy and his associates on the commission.

"The new forms will lessen the expense to the issuers and in that respect undoubtedly will remove much of the resistance toward financing which has been felt by the issuing corporations.

"Quite obviously Mr. Kennedy and his associates have been proceeding realistically to make the law as workable as possible. While he has already done a tremendous amount of work along the line of simplifying the procedure of registering new securities, the next step will undoubtedly be the clarification of the law by rulings of the commission.

"The unusual liabilities set up in the act still remain as a deterrent to new financing. If these features of the law, which are not within the province of the Securities and Exchange Commission to clarify and interpret, are approached in the same spirit by Congress, then all of the difficulties of the act will be removed."

WALL STREET JOURNAL

1/16

No Change In Gold Price

From THE WALL STREET JOURNAL *Washington Bureau*

WASHINGTON—Inquiries at the Treasury regarding requests to guarantee that it will purchase gold, and if so, at a fixed price, are being answered as all such requests have been answered since the Secretary of Treasury's statement of January 31, 1934, that until further notice he would buy gold at $35 an ounce. It was pointed out there has been no statement from the Treasury to indicate that revaluation upword, that is, increasing the gold content of the dollar, is even being considered. Indeed, examination of the government's briefs in the gold case indicates that such a course would be contrary to the whole government policy.

Devaluation was effected by the President in compliance with permissive legislation limiting the devaluation to a range of 50 to 60 cents. This action, once taken, became irrevocable without Congressional action, and in section 2 of the Philippine currency act of June 19, 1934 was in effect ratified by Congress. Now, with the dollar devalued to 59.06, it would be impossible for any power other than Congress to increase the gold content by more than 94-100ths of one cent. Any such action by Congress seems highly improbable. The power of Congress to devalue the dollar is not contested in the pending gold cases.

J: I went by Jack's room and didn't get home until 3 o'clock.

H.M.Jr: What?

Jones: I went by Garner's room and didn't get home until 3 o'clock, so you can imagine how I feel. I was talking to the President on the phone last night about the advisability of possibly suggesting initial bond power and he suggested that if you and I and Bell would get there ten minutes to two

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for the meeting. Does that suit you?

H.M.Jr: O.K.

J: Fine I'll be there then at ten minutes to two.

H.M.Jr: I'll leave my check book home though.

J: You'll leave your check book home?

H.M.Jr: Yes.

J: Fine. Alright.

H.M.Jr: Thank you.

January 17, 1935.
Thursday.

Prepared by Parker Gilbert

January 17, 1935.

1. In the event of an adverse decision by the Supreme Court in the gold cases, it will be of the utmost importance that the Treasury be prepared to announce, without more than a few minutes' delay, its program for dealing with the situation. Otherwise there will be danger of severe panic, and of serious setback to recovery.

2. The program will necessarily have to be adaptable to whatever terms the Court's decision may take. It is impossible, therefore, to plan in advance with any precision, but the Treasury can chart out even now the general course it would follow, subject to final revision in the light of the actual decision. It seems reasonable to presume, - and it is of major importance - that the Court even in the event of an adverse decision would do nothing to question the government's power to impose embargoes and other restrictions on imports and exports and internal payments of gold.

3. From the standpoint of recovery, and of the general welfare, it is absolutely fundamental that the measures to be taken should not be deflationary in their effects. The decision might make it necessary to change monetary technique in some respects, - and such changes could be kept relatively unimportant. But the essentials of monetary policy must be preserved, and renewed attention given to other measures in the field of Federal Reserve and general economic policy to

promote increased business activity and higher prices. To avoid deflationary pressure, the measures to be taken should carefully be protected from being interpreted as a return to the old gold basis at this time.

4. From the legal standpoint, it seems probable that in case of an adverse decision the chief point will be to eliminate for practical purposes any distinction between the dollar currently in use and the so-called gold dollar which, under the decision, might have to be paid to satisfy the gold clause. In legal language, the object would be to make it impossible for claimants or bondholders to prove any real damage, and to deprive them of any measure of damages. The chief trouble with the present dollar - with a gold content equivalent to 59.06 cents of the old dollar, is that it gives a ready-made measure of damages. The same is true, substantially, of any fixed readiness to buy gold at a fixed price of $35 an ounce. I take it to be unthinkable that anyone in this country would be allowed to get $1.69 for each dollar, by means of a gold clause bond.

5. From both the legal and the economic standpoints, I believe that the situation could be met by the following measures, the object of which is to give full freedom of action to the government while at the same time making the gold content of the dollar utterly immaterial for present practical purposes:

First, immediate repeal of the action fixing the gold content of the dollar at the 59.06 rate and of those provisions of the Gold Reserve Act of 1934 which fixed the limits of the dollar's gold content. Strictly speaking, this would probably have the effect of reinstating the old gold content of the dollar, but this would be deprived of any current practical importance by the remaining steps to be taken.

Second, impose embargoes not only on exports but also on imports of gold (subject only, of course, to license by the Secretary of the Treasury)

Third, allow exports of newly-mined gold to move freely - so that the mining industry may get advantage of the world price of gold, whatever it may be. This would have the additional advantage of perhaps encouraging some gold exports (of newly-mined gold) from this country.

Fourth, continue (and if necessary impose additional) restrictions on gold payments within the country. If necessary, make gold practically contraband, so that even in the unlikely event that the Supreme Court granted specific performance in gold of a gold clause obligation, the gold paid out could be simultaneously seized and returned to the Treasury.

Fifth, give to the Secretary of the Treasury (if existing legislation is not sufficient for the purpose) power to buy and sell gold freely (primarily for export or import) at such price as he may determine from time to time. This would be substantially the English situation, and such powers would be necessary to deal with the exchanges. A statutory fixed price (or even administrative fixed price) would presumably have to be avoided, for the reasons already given.

Sixth, give to the Secretary of the Treasury (unless already sufficiently covered by existing legislation) power to buy and sell foreign exchange. This might require a new appropriation for the Stabilization or Equalization Fund, if the repeal of the 59.06 dollar had the effect of eliminating the existing fund (as it apparently would).

It is impossible, of course, to forecast everything that may have to be done, but the foregoing general measures would seem to give the Treasury the necessary freedom and powers to meet the situation as it develops. The Treasury's own lawyers will know best, of course, what the legal situation requires.

6. It is implicit in the problem, I believe, that the Treasury may have to think in terms of purchases and sales of foreign exchange rather than of gold itself in order to meet the requirements of the situation. Purchases of gold and the emphasis on the gold price have their disadvantages anyway, as they tend to suck gold out of the rest of the world (as we have seen during the past year), and thus to deflate world prices, with consequent deflationary effects on our own prices.

Purchases of exchange would be subject to some disadvantages - e. g. possible risk of loss through depreciation, but this risk could be minimized by joint account transactions and to some extent by the government's own monetary policy. Even if the Supreme Court's decision should be favorable, consideration will have to be given, it would seem, to exchange purchases and sales as distinguished from gold alone. There are manifest limitations, already apparent from the experience of the past year, in reliance on gold purchases to deal with the exchanges, as the underlying effect is deflationary on world prices which is just the reverse of what our monetary policy seeks to accomplish.

7. Higher commodity prices internally and increasing business activity would remain the principal objectives of government monetary and economic policy, and should be fully stressed in connection with any measures to be taken. These objectives, in proportion as they can be attained, would act as an important corrective on the exchanges, and I believe that they could be attained in substantial measure through Federal Reserve and Treasury policy and by facilitating the early opening of the capital markets. At best, however, it takes time for these things to operate, and the Treasury would want to be in a position to deal with the immediate and perhaps temporary situation that would arise in the foreign exchanges in consequence of an adverse Court decision, by intervening freely and with assurance in the foreign exchanges themselves, instead of

concentrating on the price of gold.

8. The foregoing outline has been jotted down for consideration, - not as a definite program but as a chart for discussion. Manifestly, it would need to be filled out wherever there are gaps in the practical steps to be taken, and checked and cross-checked in the light of existing legislation and general objectives of policy.

January 17th

H. M. Jr. blew up at Hull to-day because Feis asked Hull to call up H. M. Jr. and use his influence to get Crane to come to Washington on some matters relating to foreign exchange with Brazil. George Harrison not being on the job, H. M. Jr. felt it was important for Crane to be in New York and, therefore, refused. H. M. Jr. was quite annoyed with Hull and Feis. He later telephoned Hull and told him he was sorry for blowing up.

I do not remember the date, but I was present when H. M. Jr. telephoned the President and told him that inasmuch as there was so much criticism about ~~Ballou~~ Burlew he wanted the President to know that he had done a swell job co-operating with Bell and Peoples on the construction program and the budget.

H. M. Jr. also told Ickes how pleased he was. Gossip later came back that Ickes had told ~~Ballou~~ Burlew that H. M. Jr. had told the President that it was Flemming who did such a good job and not he.

Saw F.D.R. on this on Jan 25 4.45 P.M. Eccles - Oliphant - Coolidge

January 17, 1935 153

OUTLINE OF PROPOSED FEDERAL RESERVE LEGISLATION

Federal Reserve Banks. - 1. Combine offices of Chairman of the Board of Directors and Governor at the twelve Federal Reserve banks, appointments to be made annually by the directors of the banks, after nomination to and approval by the Federal Reserve Board. Provide for Vice-Governor and Deputy Chairman to be selected in the same manner.

2. No members of the Board of a Federal Reserve bank, except Governor and Vice-Governor, shall hold office for more than six consecutive years.

Federal Reserve Board. - 3. Change qualifications for future appointive members of the Federal Reserve Board by providing that they shall be persons well qualified by education or experience or both to participate in the formulation of national economic and monetary policies, and that the general policy should be that at least two of them shall have had experience as executive officers of Federal Reserve banks. Present geographical limitation shall not apply to selection of future Governors. The Governor's membership on the Board shall expire when he is no longer designated as Governor by the President.

4. Increase the salaries of future appointive members to $20,000 per annum, with compulsory retirement at 70 on $12,000 pension. Present members to be eligible for retirement at 70. Provide for proportionate pensions for service of less than twelve years.

5. The Board shall be empowered to delegate specific powers and duties not involving the determination of national or System policies to individual members of the Board and/or its representatives.

Credit Control.-6. Change Section 12A of the Federal Reserve Act so as to provide for an open-market committee to consist of the Governor and two members of the Board elected annually by the Board, and two governors of Federal Reserve banks elected annually by the governors of the Federal Reserve banks. This committee shall make recommendations about discount rate policies and formulate the System's open market policies which, when approved by the Federal Reserve Board, shall be binding on the Federal Reserve banks.

Eligibility and Collateral Requirements.- 7. Any sound asset of a member bank shall be eligible for discount at a Reserve bank, subject to regulations of the Federal Reserve Board, and the Board shall also have authority to prescribe limitations on maturity of advances to member banks.

8. Collateral requirements for Federal Reserve notes shall be repealed, and the office of Federal Reserve Agent shall be abolished.

Reserve Requirements of Member Banks. - 9. In order to prevent injurious credit expansion or contraction, the Federal Reserve Board may change reserve requirements as to any or all Federal Reserve districts and/or any or all classes of cities, and as to time and/or demand deposits.

Suspension of Capital Requirements for Membership. - 10. At any time prior to July 1, 1937, the Federal Reserve Board may admit any insured nonmember bank to membership in the Federal Reserve System; and may waive the legal capital requirements for admission: Provided, That such bank shall comply with all of the regular requirements of members within such time as the Federal Reserve Board shall prescribe.

Real Estate Loans. - 11. Amend Section 24 of the Federal Reserve Act so as to eliminate the restriction regarding the limitation of real estate loans as to maturity and as to percentage of the value of the property.

Branch Banking. - 12. Permit national banks to establish branches within Federal Reserve branch territories, but provide that no branch shall be opened in a community of 50,000 people or less, except by taking over an existing bank, or with the consent of existing banks.

Miscellaneous Provisions of a Technical Nature. - 13. These provisions are largely non-controversial and are chiefly for the purpose of improving the operating efficiency of the System and removing inequalities and ambiguities from existing law.

3.2 6OM 1-34

FEDERAL RESERVE BANK
OF NEW YORK

FICE CORRESPONDENCE

DATE January 17, 1935.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH MR. CARIGUEL OF THE BANK OF FRANCE.

J. E. Crane

Mr. Cariguel of the Bank of France telephoned at 1:15 p. m. today after the closing of the Paris exchange market to advise us that he had sold a total of $3,644,000 at an average rate of about 6.57. He added that up until about 3 p. m. Paris time he had sold less than $2,000,000 but that between 3 and 6 p. m. he had sold about $2,000,000. I asked Mr. Cariguel whether any of the large banks, who normally ship gold from Paris, were doing anything today in the exchange market and making preparations to ship gold again to New York. He said that they were not and that he did not think we could expect any support from the big banks tomorrow. That being true, he said, the franc market would probably be without support tomorrow unless we gave him another order to sell dollars as we had done today. I told Mr. Cariguel that I would send him a cable later today to let him know whether we wanted him to do anything in the exchange market tomorrow morning.

I advised Mr. Cariguel that for the moment we did not want him to ship any of the gold which we acquired as a result of our exchange operations, that is to say, no gold other than the $4,000,000 which is coming on the SS. President Harding.

JEC:KMC

COPY FOR SECRETARY MORGENTHAU

FORM NO. 3.2 60M 1-34

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 17, 1935.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH MR. CARIGUEL OF THE BANK OF FRANCE.

FROM J. E. Crane

Mr. Cariguel of the Bank of France telephoned at noon today to report that he had sold for our account approximately $2,674,000 at an average rate in the neighborhood of 6.57. He said that the dollar rate in the market now was 15.20 (6.5789) and that New York appeared to be seller of both sterling and dollars. Mr. Cariguel said that he had arranged to ship to us $4,000,000 gold on the SS. President Harding sailing from Havre on January 24. He inquired whether we wanted him to ship immediately the gold to be acquired by us as a result of our purchases of francs and his sales of dollars for our account. I told him I would let him know later about that and in response to his question authorized him to continue sales of dollars for us up to 6 o'clock Paris time.

I telephoned the foregoing to Secretary Morgenthau who authorized me to advise Mr. Cariguel that for the present we would not ship to New York the gold acquired as the result of our exchange operations.

JEC:KMC

COPY FOR SECRETARY MORGENTHAU

MISC. 3.2 60M 1-34

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 17, 1935.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH MR. CARIGUEL OF THE BANK OF FRANCE.

FROM J. E. Crane

I telephoned to Mr. Cariguel at the Bank of France about 9 a. m. today to inquire about the exchange market in Paris. Mr. Cariguel said that things were going very well and that it was fortunate that he had had our order in hand this morning as there appeared to be many bids for dollars in the Paris market at their opening. He added that he had been able to keep the dollar market steady at about 6.57 and had so far sold only about $1,000,000. He said that the market was much quieter than it had been yesterday and the day before.

JEC:KMC

Crane: Hello Mr. Secretary.

H.M.Jr: Lochhead's on the wire with me. Go ahead.

C: Cariguel ( ) called me about a quarter after one I think it was and said that their market was closed now that the total he got was $3,644,000.

H.M.Jr: Three millian six.

C: Three million six and the average rate was about 6.57.

H.M.Jr: 6.57.

C: Yes. I asked him about the - whether he was selling any gold or whether any of the big banks were at the exchange market getting ready for gold shipments. I wanted to find out whether the Chase or the Guaranty or the City or any of these fellows are doing anything. He said no that they weren't and he said he didn't think we could expect any support from the big banks to borrow and that unless we had an order in the market tomorrow there won't be any support.

H.M.Jr: I see.

C: See? In other words, he says we can't rely on the big banks now. I mention that because I think you ought to take that into consideration for tomorrow morning.

H.M.Jr: Well that's alright. Now we'll start all over again.

C: Yes.

H.M.Jr: I'll give them another authorization of $5,000,000.

C: Yes.

H.M.Jr: See?

C: Now what about this afternoon? Will you give us two or three million here?

H.M.Jr: What if it does break your on the other side.

C: What if it breaks?

H.M.Jr: Yes.

C: Well if it breaks Mr. Secretary you'll have all over again the disturbance that you had a few days ago.

H.MJr: Well what difference does it make what price banks sell at in New York?

C: Well two or three days ago here you had a break in your commodity prices, you had a weak security market and everybody was upset and excited and it all happened because the bank -----

HM.Jr: Well what are they now?

C: What?

H.M.Jr: What are they now?

C: What are what?

H.M.Jr: What are Francs?

C: About 3.57 - 58. As I said the other day, I feel very strongly that we ought to keep the dollar within the gold point. I don't think you ought to let it get outside.

H.M.Jr: Well wait a minute. Coolidge says the $5,000,000 that I'm giving you - hello?

C: Yes.

H.M.Jr: How much have you got left - you got a Million four left.

C: That's right.

H.M.Jr: Well I'll give you that.

C: Give me that too?

H.M.Jr: Yes. I'll give you that.

C: Yes.

H.M.Jr: When I come back from the White House we'll talk about what we'll give to Paris, depending on what happens here.

C: Yes. Well then you don't want to try to pick the rate up at all.

H.M.Jr: No, no no.

C: Well now I think you ought to.

H.M.Jr: Well now listen will you let me run that please?

C: Yes. You said you wanted our recommendation.

H.M.Jr: That's right.

C: Alright.

H.M.Jr: But I mean------------. And after all if the Bank of France don't want us to go up to the gold point, why should we worry.

C: Well I think they do want it to go up a point.

H.M.Jr: Why don't they put it up a point?

C: Well we told them yesterday that we wanted to be very sparingly.

H.M.Jr: Now I say the same thing to you - as a matter of fact - just a minute.

H.M.Jr: Hello

C: Hello.

H.M.Jr: I'm sitting here with Coolidge and we say not to buy very much until it gets down to 55.

C: Yes I see

H.M.Jr: And - because what I'd like to do is have them close at the same price as they closed in London - I mean in Paris.

C: You'd like to close it around 6.57.

H.M.Jr: 58 if possible.

C: Yes but you don't authorize us to go any more than a million four.

HM.Jr: That's right.

C: A million four and you don't want us to do any heavy buying -------------

H.M.Jr: That's right. If you're out of money and things look bad I'm with the President from 2 o'clock on and you can call me over there.

C: Yes - alright fine.

H.M.Jr: See?

C: Yes.

H.M.Jr: We've got certain things which I can't explain to you over the telephone - I mean you have no idea what I've been through to be able to do what I am doing and Mr. Coolidge knows and if you knew the difficulties under which I've been working the last two days you'd appreciate why I'm

C: That's alright I don't mind

H.M.Jr: I mean I've been under the most teriffic handicap down here and if I say so myself I've had to use all my influence to do what I have.

C: That's fine.

H.M.Jr: And it's been very very difficult.

C: Well it's a good job.

H.M.Jr: Alright.

C: Goodby sir.

H.M.Jr: Goodby.

January 17, 1935.
Thursday.

H.M.Jr: Hello - hello Crane.

C: Yes sir.

H.M.Jr: I hear it hasn't cost you much.

C: No not a cent.

H.M.Jr: Well that's

C: 6.57 is the last I have and Knoke says he hasn't bought any Francs.

H.M.Jr: Well now do you want to talk to the French?

C: Well I hope that they don't come at us around 5 o'clock.

H.M.Jr: Did you say - no but I say how about talking to the Bank of France?

C: Well I think I'll send them a cable.

H.M.Jr: A cable. You want to give them an authorization for $5,000,000.

C: $5,000,000.

H.M.Jr: Yes.

C: Yes. I think I can do that by cable.

H.M.Jr: Well I'd give them an authorization for $5,000,000.

C: 6.59?

H.M.J5: Yes - the same.

C: The same as yesterday.

H.M.Jr: Just the same.

C: Well I won't call them on the phone unless you want me to.

H.M.Jr: I don't care how you do it.

C: Alright.

H.M.Jr: I hear - Lochhead tells me that City is bringing over $10,000,000 from London.

C: Well I think that's gold they've had in London.

H.M.Jr: Yes. Well that's alright. The banks haven't stepped in yet have they?

C: No they haven't. I'm a little bit surprised that they're holding off like this.

H.M.Jr: Well I've got Aldrich in the next room.

C: Have you?

H.M.Jr: Yes.

C: Well I understand they're about - as more nervous than anybody else.

H.M.Jr: Yes.

C: Well maybe you can find out something from him.

H.M.Jr: Well I think we'll carry it ourselves until next week - see if we can tell him a thing or two.

C: That's O.K. with me

H.M.Jr: Yes I told Aldrich - he was just sitting here - as long as I'm Secretary of the Treasury I'm not going to ask a bank to do anything.

C: Yes. Oh I wouldn't. I don't think you ought to ask them.

H.M.Jr: We can do it. We're getting along very nicely. If you haven't had to buy any Francs this afternoon I think that's awfully good - shows that they're not selling in New York. I made a prophecy yesterday that by Friday, which is tomorrow, this thing will all be ironed out.

C: Yes.

H.M.Jr: I hope so.

C: Well I do to but I think we ought to continue to watch it.

H.M.Jr: Oh yes. I guess - another $5,000,000.

C: Alright sir thank you.

H.M.Jr: Thank you.

January 17, 1935 - Thursday.

C: You've got four million 655.

H.M.Jr: I see.

C: We didn't do very much after that last call. The market was quiet at the close - the average rate on all of that was 6.58 -20.

H.M.Jr: Alright.

C: And - that's about all - he said things were a little quieter. Now do you want to give us anything for the afternoon here?

H.M.Jr: Well now I'll tell you what I'll do - I'll give you from now until tomorrow, see? I'll give you another $5,000,000.

C: From now until what?

H.M.Jr: From now until noon tomorrow.

C: Oh from now until noon tomorrow.

H.M.Jr: Yes.

C: That's fine.

H.M.Jr: See? And the reason I'm doing it this way - I'm going to leave here at half past three. I'm flying to Atlantic City - I'm all in, see?

C: Yes.

H.M.Jr: And I'm staying at the Hotel Trayborn.

C: Trayborn

H.M.Jr: And I'll call up once tomorrow - I'll call up Lochhead about half past nine?

C: Yes. That's alright.

H.M.Jr: Then I can be put thru to you you see?

C: Yes. That's $5,000,000 from now till noon tomorrow?

H.M.Jr: Yes.

C: That's fine.

H.M.Jr: That ought to take care of you.

C: Yes that's very good.

H.M.Jr: Now have you talked to them about my smuggling?

C: Oh yes I did. I mentioned that thing to the and he said he would be glad to talk to Dr. Cannier (?) about it. Tannery

H.M.Jr: Who's he?

C: He's the new Governor of the Bank of France.

H.M.Jr: Yes.

C: And he's quite close to the government officials so he may be able to do something.

H.M.Jr: By golly if were were as helpful as they say we were it's better to ask.

C: Oh no doubt we were very helpful.

H.M.Jr: Yes.

C: Now about the rate.

H.M.Jr: Yes.

C: The rate is now 6.58¼ to 3/8ths and I would propose to try and keep it right there - I'm not going to push it up.

H.M.Jr: What's that.

C: I propose to keep it about 6.58¼. I won't push it up any.

H.M.Jr: No that's right.

C: Unless you want me to.

H.M.Jr: No. Now I think looking back over the last three days the people that don't know me don't think we handled it well but I think we handled it very well.

C: Under the conditions that you get --

H.M.Jr: Well nobody will ever know - I've never been talked about

C: People on the outside don't know that.

H.M.Jr: I can't talk about the troubles I've had at but I've had plenty.

C: Yes.

H.M.Jr: All I can tell you is that ---

C: That's pretty good.

H.M.Jr: Yes.

C: Now listen, Mr. Secretary, I'm planning to be in Washington Monday.

H.M.Jr: That's O.K.

C: But I don't think we'll have any trouble.

H.M.Jr: Is the Governor going to be back?

C: Well I don't know - I think he is but I'm not sure.

H.M.Jr: Well I think the worst is over now.

C: So do I.

H.M.Jr: Well don't get lost over there.

C: No I won't.

H.M.Jr: I want to see you while you're down anyway.

C: Yes I'll come in.

H.M.Jr: Well that takes care of you and then I'll be on the wire tomorrow and then we'll see how things go.

C: Yes. - alright, thank you.

H.M.Jr: Goodby.

January 18, 1935.
Friday.

C: Good morning Mr. Secretary.

H.M.Jr: Good morning. What have you heard?

C: I haven't been able to get Cariguel yet. I've got a call in for him.

H.M.Jr: Yes.

C: But the rates - the bank rate is at 6.58 and 5/16ths.

H.M.Jr: Yes.

C: And the Guaranty Trust has a cable from their Paris office saying that the market opened in Paris at 6.57 - that the Bank of France is a buyer of Francs and put the rate up to 6.58 and 5/16ths - that's where it is now.

H.M.Jr: But you don't know how much it cost us?

C: No but I'll probably know that within five or ten minutes and then I'll call you.

H.M.Jr: Will you?

C: I put the call in about 15 or 20 minutes ago.

H.M .Jr: Fine - the minute you get it call me.

C: Alright

H.M.Jr: Thank you.

C: Goodby

January 18, 1935.
Friday.

January 17, 1935.

The Interdepartmental Loan Committee met with the President of the United States in the Executive Offices at the White House at 2:00 P.M. Those present were:

Franklin D. Roosevelt, President of the United States,

Henry Morgenthau, Jr., Secretary of the Treasury and Chairman of the Committee,

Harold L. Ickes, Secretary of the Interior,

F.F. Hill, Deputy Governor, Farm Credit Administration,

Scott Hovey, General Counsel Farm Credit Administration,

John H. Fahey, Chairman of the Federal Home Loan Bank Board,

Chester C. Davis, Administrator of the Agricultural Adjustment Administration,

Warren L. Pierson, General Counsel, Export-Import Bank,

Lynn P. Talley, President, Commodity Credit Corporation,

Leo T. Crowley, Chairman, Federal Deposit Insurance Corporation,

Jesse H. Jones, Chairman, Reconstruction Finance Corporation,

Marriner S. Eccles, Governor, Federal Reserve Board,

James A. Moffett, Administrator, Federal Housing Administration,

T. Jefferson Coolidge, Undersecretary of the Treasury,

J.F.T. O'Connor, Comptroller of the Currency,

Herman Oliphant, General Counsel for the Treasury Department,

D. W. Bell, Acting Director of the Bureau of the Budget,

C.B. Upham, Secretary, Interdepartmental Loan Committee.

The following agenda of legislative proposals for consideration at the meeting was presented to the President, and followed by him.

1. Reconstruction Finance Corporation.
2. Second Liberty Bond Act Amendment.
3. Export-Import Banks.

4. Federal Deposit Insurance Corporation.
5. Farm Credit Administration.
6. Comptroller of the Currency.
7. Home Owners' Loan Corporation and Federal Home Loan Bank Board.
8. Federal Housing Administration.
9. Federal Reserve System.

The synopsis of draft bill extending the functions of the Reconstruction Finance Corporation and for other purposes, dated January 16, 1935, was considered and agreed to.

The explanation of the bill proposing further amendments to the Second Liberty Bond Act was considered and agreed to.

The legislative recommendation for the Export-Import banks was considered, and, after discussion, it was agreed that the provision for an extension of the banks should be incorporated in the RFC bill.

It was agreed that the power of the banks to act as guarantor would be omitted, that the ten per cent limitation on loans to any one borrower would be omitted, and that rediscounting would only be permitted with the approval of the Secretary of the Treasury.

The outline of bill proposed by Federal Deposit Insurance Corporation to amend Section 12B of the Federal Reserve Act as amended (Outline of Salient Points) dated January 17, and marked 4th Rev., was considered. The President remarked that the officers of the largest banks were objecting to the assessment of one-eighth of one per cent on all deposits, uninsured as well as insured, and said he understood they had a compromise to offer, and were planning to see Mr. Morgenthau and Mr. Crowley at an early date on that.

Mr. Crowley indicated that the proposal might be a little unfair to the larger banks, and pointed out that the assessment in the case of the First National Bank of New York, the deposits of which will be only one per cent insured, will jump from $14,000 to $530,000. The President remarked that that would be just "too bad". Mr. Coolidge was of the opinion that the assessment should be one-eighth of one per cent on net deposits. He pointed out that the larger banks, with large portions of their assets in tax-exempt securities, are especially favored in some ways with respect to their support of the Government, and that this assessment, running about one-tenth of earnings, is perhaps not excessive.

The President was of the opinion that the bill could be passed. He asked if it contained provisions to tie in with Senator Glass' ideas about duplication of examination, and Mr. Crowley replied that it did not take care of that situation very effectively. Mr. O'Connor remarked that there really is no duplication.

The FDIC bill was agreed to.

The legislative program for the Farm Credit Administration was considered and agreed to.

The brief abstract of Comptroller's recommendations to Congress, January, 1935, was considered.

The President asked if this legislation could not be combined with the FDIC bill, and stated that he was worried about the multiplicity of bills. Mr. O'Connor was of the opinion that they were quite different in character, and on wholly unrelated matters. Mr. Coolidge pointed out that the 1933 proposals of the Comptroller of the Currency, referred to in the abstract, had not been checked by the Interdepartmental Loan Committee, to which Mr. O'Connor replied that the President and the Secretary had agreed to it a year ago. It was decided that they should be rechecked. The President suggested that Mr. O'Connor check with Mr. Morgenthau and Mr. Eccles on any other proposals to be added to the bill, and perhaps a method of amending bills now in the Congress, instead of pushing this one. The President indicated that the Comptroller's bill should be combined with that of the FDIC.

Mr. Coolidge suggested that the ninth proposal, with respect to double liability on bank stock, would be very difficult to work out and suggested that it be eliminated. This was agreed to.

The memorandum of proposed legislation affecting the Federal Home Loan Bank Board and its agencies, and the summary of amendments to the National Housing Act, the National Bank Act and the Federal Reserve Act recommended by the Federal Housing Administration were considered.

There was some discussion of the paragraph to be inserted in this and other bills giving the Bureau of the Budget control over the administrative expenses of the emergency agencies and others. Mr. Fahey indicated that their Counsel regarded it as an involved and ambiguous statement, and they would like an opportunity to thrash out changes in the language. He stated that it gave the Budget an absolute veto with no appeal to Congress or anyone else. Mr. Morgenthau pointed out that there is an appeal to the President, and that it will give the Budget the same control as it now has over the regular departments.

Speaking in reference to the proposal to increase the authorized borrowing power of the Corporation from $3 billion to $4.5 billion, Mr. Fahey said that there had been a difference of opinion as to how to do this, and the committee had decided to put it in this way for discussion. The proposal is a billion for new loans to take care of applications now in, $100 million for modernization and repairs, and $400 million for purchase of debentures of Home Loan Banks and stock of Federal Savings and Loan Associations.

Mr. Coolidge said that he had taken the position that the $500 million for new loans was competing with the FHA.

Mr. Morgenthau commented that he had understood the function of the HOLC to be loaning on existing mortgages, and that of the FHA to arrange for new construction financing.

Mr. Fahey made the point that by furnishing funds for the Home Loan Banks and the Federal Savings & Loan Associations, a multipled result will be achieved.

Mr. Eccles pointed out that the Home Loan Banks are mortgage discount banks, and that giving them money will help them to help their member institutions. If it is not done in this way, he said consideration should be given to letting the Home Loan Banks become members of the Federal Reserve System and get liquidity that way, or let them get the money from the RFC.

Mr. Coolidge said that what troubles him is that there is plenty of 2 and 2-1/2 per cent money in the banks, and that this will be an attempt to do business with dearer money. He would like to see insured mortgages in the savings banks rather than in the National Mortgage Associations. Mr. Fahey indicated that the savings banks did not reach many of the smaller loans made by members of the Home Loan Banks.

The President asked how it would be to insist upon borrowers going to FHA first, then to their local savings banks, and then to HOLC as a last resort. Mr. Fahey was of the opinion that FHA and HOLC could control that, working together.

Mr. Eccles and Mr. Coolidge pointed out the added cost of making use of the National Mortgage Associations, and suggested modifications of the regulations under Title II of the Housing Act.

The President asked why Title III of the Housing Act could not be forgotten and said he had never had much enthusiasm for National Mortgage Associations anyway. He suggested giving the asked for allocation to HOLC with the proviso that borrowers exhaust all other remedies before coming there.

Mr. Moffett said that if Title III can be torn up, the regulations under Title II can be liberalized. He thought, however, that the Title should be given a chance, as a method of permitting private industry to take care of new financing. He suggested that mortgages should not be sold direct to the public, and mentioned the difficulty in getting $5 million capital for National Mortgage Associations. He believed that if national banks could buy their stock, they could be formed. This proposal was definitely rejected.

The President suggested that the Housing sub-committee meet again and agree upon some program for HOLC and FHA, and to combine the two sets of legislative recommendations in one bill.

Mr. Morgenthau said that he though perhaps $500 million additional authorization was enough for HOLC, and suggested a little more home work on the cleavage between the functions to be exercised by HOLC and FHA. The President suggested that perhaps it would be well to do a little more spade work on that section of the recommendations.

Mr. Eccles referred to the excess funds in banks, stated that there is no liquidity in National Mortgage Associations when really needed, suggested that the eligibility requirements of the Federal Reserve System be changed to permit borrowing against mortgages. He would like to see the $14 billion of savings funds in banks go directly into the mortgage market. He would like a five per cent rate on mortgages, and no service charge, and quarterly or semi-annual payments instead of monthly. He would like to see any institution made an approved mortgagee and National Mortgage Associations forgotten for the time being.

The President referred the matter back to Mr. Moffett, Mr. Fahey, Mr Eccles and Mr. Coolidge with instructions to put the legislative proposals of HOLC and FHA into one bill.

It was agreed that consideration of Federal Reserve legislation would be postponed and that Mr. Morgenthau, Mr. Eccles and Mr. Coolidge would agree upon that and bring it to the President when ready.

The meeting ended at 4:00 o'clock.

SUMMARY OF ACTION

Interdepartmental Loan Committee

White House

January 17, 1935.

1. The Reconstruction Finance Corporation Bill was approved. It will include the Export-Import Bank extension.
2. The bill amending the Second Liberty Bond Act was approved for separate introduction into the Congress.
3. The Comptroller's bill and the FDIC bill are to be combined, if possible. Mr. O'Connor is to check with the Secretary and the Undersecretary and Mr. Crowley on that, and with the Secretary and Mr. Eccles on combining his bill with one that has already been introduced on the Hill. The bankers want to be consulted on this and on the feature of the FDIC bill providing for basing the assessment on total deposits.
4. The Farm Credit Administration bill was approved for separate introduction.
5. The HOLC and FHA proposals were referred back to Mr. Fahey, Mr. Moffett, Mr. Eccles and Mr. Coolidge for development of a program to take the load from HOLC, and to draw a line of distinction between the fields of the two agencies, if possible. The two sets of proposals should be in one bill.
6. The President will see the Secretary, the Undersecretary and Governor Eccles separately on Federal Reserve legislation within the next few days.

January 18th

H. M. Jr. said that the flurry in exchanges are pretty well straightened out.

He had a good meeting with the President yesterday on the various Lending Agencies who were all present at the White House.

H. M. Jr. told Coolidge to ask Tom Smith to come to Washington to help on the banking legislation.

H. M. Jr. told Oliphant to get to him before anything else his study on the first and second districts in New York and Chicago as the Judges were not co-operating on sentences with the illicit liquor problem. He said that we must get co-operation from the Judges or we will never be able to lick this thing.

COPY FOR SECRETARY MORGENTHAU

3.2 60M 1-34

FEDERAL RESERVE BANK
OF NEW YORK

FFICE CORRESPONDENCE

DATE January 18, 1935.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH MR. CARIGUEL OF THE BANK OF FRANCE.

M J. E. Crane

Mr. Cariguel of the Bank of France telephoned at 12:50 p. m. today to report that he had sold for us an aggregate of $4,655,000 at an average rate of 15.1929+ (6.5820+). He said that the demand for dollars had quieted down a good deal as the Paris exchange market closed at about 6 p. m. their time. He said that he felt the market would need support again tomorrow and he asked me to send him a cable tonight if we wanted him to do anything for us.

I told Mr. Cariguel what Secretary Morgenthau asked me to pass along to him regarding the island of St. Pierre.

I telephoned to Secretary Morgenthau at 1:45 p. m. and advised him of the foregoing information received from Mr. Cariguel. The Secretary said that he would authorize us to use up to $5,000,000 from now to tomorrow noon. He agreed that we should try to keep the franc rate here this afternoon about 6.58 1/4 and should not try to push it any higher.

JEC:KMC

C. 3.2 60M 1-34

FEDERAL RESERVE BANK
OF NEW YORK

FFICE CORRESPONDENCE

DATE January 18, 1935.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH MR. CARIGUEL OF THE BANK OF FRANCE

ROM J. E. Crane

Mr. Cariguel of the Bank of France telephoned to me at 10:05 a. m. today to report that his sales of dollars for our account had increased to an aggregate of $4,090,000 at 3 p. m. Paris time. The dollar rate, he said, had remained at about 6.5840 and the demand for dollars had increased both on account of short covering and also for commercial purposes. Mr. Cariguel said he was afraid our order of $5,000,000 might not be sufficient to last him until the closing of the Paris market. I told him that I would telephone to him in a short time to let him know whether he could go beyond $5,000,000 today.

I telephoned the foregoing to Secretary Morgenthau who authorized me to let Mr. Cariguel sell the unused balance amounting to $1,300,000 on our $5,000,000 order of yesterday. I thereupon called Mr. Cariguel and told him that he could sell today for us a total of $6,300,000.

JEC:KMC

COPY FOR SECRETARY MORGENTHAU

F. 3.2 60M 1-34

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 18, 1935.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH MR. CARIGUEL OF THE BANK OF FRANCE.

FROM J. E. Crane

I telephoned to Mr. Cariguel of the Bank of France at 9:10 a. m. today to inquire about the exchange market. Mr. Cariguel said that up to noon Paris time, he had sold only $370,000 for our account but by two o'clock their time, total sales of dollars for us had amounted to $2,270,000. He said he was holding the market at 6.5840 and that the dollars sold for us had been done at that rate or better. Mr. Cariguel stated that the exchange market was a little more active than yesterday and that the demand for dollars seemed to be coming from London. I told him that he should continue until six o'clock his time and that we would do nothing here for the present. Mr. Cariguel said that he thought it was important that the franc rate should not drop in New York to a lower level than the closing rate in Paris.

I telephoned the foregoing to Secretary Morgenthau shortly after I had finished with Mr. Cariguel.

JEC:KMC

[redacted]

January 19, 1935.

The sub-committee on Housing of the Interdepartmental Loan Committee met at 2:30 P.M. in the office of the Governor of the Federal Reserve Board. Those present were:

John H. Fahey, Chairman, Home Owners' Loan Corporation,
James A. Moffett, Administrator, Federal Housing Administration,
Marriner S. Eccles, Governor, Federal Reserve Board,
T. Jefferson Coolidge, Undersecretary of the Treasury,
H.B. Hackett, Division of Housing, Public Works Administration,
Horace Russell, General Counsel, Home Owners' Loan Corporation,
C. B. Upham.

Mr. Fahey stated that the question before the meeting was how far the FHA through the insurance route could take the burden from the HOLC, and to what extent the HOLC should attempt to work through members of the FHLBS and FS&LA's. The extent of the help to HOLC turns largely in his opinion upon what is to be done with Mutual Mortgage Insurance Fund, what type of mortgages they are to insure, and also upon the extent to which private institutions will be willing to take the HOLC type of mortgages.

Mr. Coolidge stated that another problem involved is the question as to whether selling guaranteed bonds isn't merely creating that much bigger deficit in the budget. The one half billion asked for for the HOBS members and for the FS&LA's is new money. It isn't substituting bonds for mortgages but selling them for cash --- just the same as selling Government bonds. Mr. Coolidge placed before the committee a memorandum which he had prepared, containing four points upon which he thought a vote might be taken and possible agreement reached.

Mr. Fahey was of the opinion that all could check on the first point in the Coolidge memorandum --- that HOLC should cease taking mortgages unless the holder can show real need for cash, and that private institutions should hold their mortgages and make new ones. Mr. Fahey referred to the fact that HOLC is taking no new applications. Unless the door is closed to new applications, HOLC is in for good. There are 26 bills in Congress for extending the powers of the HOLC, including the making of direct loans, loans to take up taxes, etc. Congressmen say the private institutions are not coming back into the field. Advices are in hand from the Mortgage Bankers Association, the life insurance companies, the American Bankers Association, the savings banks organization, the U.S. League of Building and Loan Associations that their institutions are willing to make reasonable loans. The Prudential is making fifteen year five per cent loans, but on a much more conservative basis than the HOLC, of course. They are larger loans, 66-2/3 appraisal value, selective risks, etc. Mr. Fahey said that he regards it as unwise not to make sufficient provision to clean up the distress this year once and for all on the applications now in hand. There was no disagreement on that but Mr. Coolidge said the money should be put in institutions that will use the funds, not just in those that want to get rid of their mortgages.

There has been an increase in the foreclosures since the HOLC closed the door to new applications, Mr. Fahey said.

Mr. Russell said that the number of necessitous cases will depend upon what is done to help the normal mortgages market. If nothing is done, the HOLC problem never ends. The HOLC is asking for $400 million to help the normal mortgage market. If FHA takes a billion off the mortgage market in the next twelve months, that will help.

Mr. Coolidge observed that the regular institutions should take some of the mortgages. They have money and they are not alarmed as they were a year ago.

Mr. Russell said that some phases of private mortgage lending are not coming back. The $400 million will not do much alone. The FHA may do a billion but cannot do all. The insurance companies may do a half billion but can't do much alone. There will have to be two or three methods of lending if there is a reasonable expectation of bringing back fifty or sixty per cent of the normal mortgage market. If any one is neglected, the HOLC will be permanent. He was unable to see any substantial difference as far as the budget is concerned between bonds to be exchanged for mortgages and bonds to be exchanged for debentures of HLB's or stock of FS&LA's.

Mr. Coolidge said that he could see a difference. He fears the unbalanced budget and inflation. It is one thing, he said, to guarantee an old mortgage, where no new funds are involved, and another to put out money for new construction, or for banks to lend. New money is a budget matter.

Mr. Fahey indicated that the HOLC has on hand $2.8 billion of applications. Of this $1.5 billion the private institutions will not take. They are not insurable. They must be refinanced. At the time the door was closed to new applications, they were being received at the rate of 8,000 and for $90,000,000 a month.

Mr. Moffett suggested a gradual foreclosure policy and liquidation so the mortgages can be picked up by new mortgagors on an insurable basis. Mr. Fahey said that is being done. Mr. Eccles was of the opinion that without new construction, there is no hope. Mr. Russell said that there is no hope for new construction unless there is a reasonable adjustment of the present debt structure. Mr. Coolidge made the point that there is lots of cheap money available.

Mr. Eccles said that if the Home Loan Bank system would announce that they would rediscount at three per cent mortgages made by their members at not over five per cent, either new or old, that the members would make some loans. This would induce the members to adjust their rates and make new loans too. Today the Home Loan Banks have no funds to give them this assurance-- that they can so rediscount. HOLC is asking funds for that purpose (they may not even be used) but they will enable the policy to be adopted. The money must come from the RFC, the HOLC or the FRS.

Mr. Coolidge said he thought the regular institutions should go in. If commercial banks can't take mortgages, they should not be permitted to take savings.

Mr. Eccles remarked that the Home Loan Bank members make many small loans that other institutions will not bother with. He favors putting the $14 billion of savings in the banks at work in the mortgage field, through the facilities of the FHA and the insured mortgages. Forget the National Mortgage Associations for the time being.

Create marketability through eligibility. Mr. Eccles said. The banks will make and hold mortgages if they have a potential market. Fix it so there can be no excuse for financial institutions to bring pressure unless in case of extreme distress. Rates will come down if there is a three per cent discount rate. That takes care of one class. Then say to the banks that they can get their mortgages insured if they are not over five per cent and that they are eligible for rediscount at Federal Reserve banks. They will not hesitate to put their idle funds in insured mortgages. Then permit the sale of insured mortgages to individuals, trust funds, institutions generally. They can be sold elsewhere than at home because the FHA will service them. Later, perhaps when there is a supply of insured mortgages, there may be a place for the National Mortgage Associations. All national bank and Federal Reserve examiners should be instructed to not make classification of mortgages as slow, and they would not be slow if they were eligible for rediscount. This would change the whole psychology of the picture for the public, especially if insurance and eligibility are given enough publicity.

Mr. Russell referred to the attitude which prevails in Congress. He said it would be necessary to ask for enough to take care of distress and to show that there are two or three plans for new mortgages. They will not accept one plan alone.

Mr. Fahey agreed to the necessity for getting interest rates down in the Home Loan Bank system. They now charge four and four and a half per cent and are making money. They cannot market their debentures at less than four and then they are in competition with the money market. The people who get our bonds sell them and pay off loans. If there were a three per cent discount rate, this would be corrected. Referring to the budget aspect of the situation, Mr. Fahey suggested that a Home Loan Bank debenture (with no risk of loss) was an even better security than a HOLC bond (with some sure loss).

Mr. Eccles said that if the market could be gotten down, the debentures would sell at three per cent and then the funds being asked for would not be needed.

Mr. Coolidge said that he would like to see the Home Loan Banks borrow from the public, but not from the Government.

Mr. Eccles asked if the Government wanted to take the risk of guaranteeing HOLC bonds much above the $1 billion or use a lesser amount through the Home Loan Bank's and FS&LA's to get private institutions to functioning.

Mr. Fahey said HOLC needs a billion and a half to make loans, but he thought it would be much better to use a half billion of it in the indirect method.

Mr. Eccles suggested a compromise plan for a vote. It had three points.

1. The HOLC is authorized to clean up present applications with repsect to mortgages in distress.
2. The minimum amount needed to take up existing applications is $1 billion, of which $100 million can be used for modernization.
3. Give $200 million to the Home Loan Banks and $50 million to the Federal Savings and Loan Associations, reducing the Home Loan Bank rediscount rate to three per cent to apply to mortgages made at not exceeding five per cent or possibly six.

All this on the assumption that FHA will cooperate by amending its proposals and forget National Mortgage Associations for the time being, and that insured mortgages will be made eligible for rediscount at Federal Reserve Banks, and that FHA will adopt rules and regulations to permit sale of mortgages to private persons and institutions, and continue to service them, the rate on insured mortgages to be five per cent. Place no bar in the way of the organization of National Mortgage Associations of $2 million capital or even $1 million. Do not abandon the National Mortgage Associations altogether, but fix it so that the insured mortgage can work without them.

Mr. Moffett made the point that the committee was to deal with legislation only and not regulations and rules of FHA. Moreover, he could not see how $900 million was going to take care of $1.5 billion of distress mortgages. He suggested that resort be had to foreclosure and junking of properties in default. The FHA is not an emergency institution, but a long term proposition and they should be left free to educate the public and build it up. The state legislatures are passing law permitting 80 per cent loans, the uncertainty about Public Works operations will be cleared up. People say the National Mortgage Associations are essential. The widow in Bangor, Maine does not want to have her insured mortgage turn into a debenture and a certificate in a few years. Mr. Moffett said that he had seen the President in the morning and that he certainly favors the National Mortgage route, and that he feels the debenture route to the public better and sounder than the insured mortgage direct route.

Mr. Moffett said that he would like to present one new suggestion, a liberalization of Title I of FHA to make loans for industrial modernization loans. There is $1.5 billion of that kind of work to be done. He thought the RFC should set up a corporation for the larger loans, say up to $50,000.

Mr. Eccles thought the FHA should do it itself, rather than letting RFC.

Mr. Coolidge, before leaving, said that he favored giving to the HOLC a certain amount of funds for loans and repairs, but that he wanted his vote recorded against money for the Home Loan Banks and Federal Savings and Loan Associations. He favored getting the FHA under way quickly. He thinks the National Mortgage Associations ineffective, and has no great faith in making mortgages eligible for borrowing at Federal Reserve Banks.

Mr. Russell said that such a program would mean several more billions for HOLC eventually. Mr. Coolidge replied that he could not answer that argument, that it was for the Secretary and the President to decide that. Mr. Coolidge said he had a fundamental feeling that the forces of the depression have been spent, and that a little laissez faire will not hurt now.

Asked by Mr. Eccles if he would object to the one billion two hundred fifty million compromise, Mr. Coolidge replied that he would put in a plea for no Government funds for the Home Loan Banks and Federal Savings and Loan Associations. Mr. Coolidge suggested that Mr. Fahey and Mr. Moffett draw up their recommendations, and others make suggestions, and put it up to the Secretary and the President for decision. Mr. Eccles was of the opinion that the committee had been given a job to do and asked to make definite recommendations, and that there should be a vote, and the majority vote prevail.

The meeting continued for some time in the form of two conversations, one between Mr. Coolidge and Mr. Russell, and one between Mr. Eccles and Mr. Moffett. Later, it developed that Mr. Eccles, Mr. Moffett and Mr. Fahey were agreeable to the Eccles compromise proposition.

January 21st

Mr. Morgenthau called in Oliphant, Coolidge, Crane and Lochhead this morning and decided that should the Supreme Court render an adverse opinion, Mr. Morgenthau would give out the following statement to the newspapers:

> "I will buy or sell any quantity of gold of spot or future delivery at $35 per fine ounce."

Mr. Crane then called Mr. Charles Cariguel in France. Cariguel told him that the market was wild and that there was a demand for dollars from all over the world and that the French Franc was down to 6.54-7/8.

Mr. Morgenthau then called the President and gave him this information. He also told him that we have already supported the French market with $17,000,000. H. M. Jr. told the President that we were going to buy Francs to the equivalent of $3,000,000 here to-day.

While we were discussing just what statement I would give to the newspapers, one would think that Oliphant agreed entirely with me, whereas yesterday he tried his best to get me to put the price of gold up to 35.24 to impress the people that we were going ahead. What I really think he wanted was to begin to move upward to get gold to 42. (dictated by HMJr.)

January 21st

Marvin Jones telephoned Mr. Morgenthau and said: "In regard to that bill of mine of $40,000,000 crop loan, you better say O.K. otherwise it will be $100,000,000".

H. M. Jr. told him what the President had said that anything outside of the budget will have to be raised by taxes.

Mr. Jones then said: "Very well then I will introduce the bill".

Mr. Morgenthau told Mr. Jones that he would have to stick by the President's budget and that anything outside he could not approve.

H.M. Jr. suggested that he talk to Colonel McIntyre before he did anything.

H. M. Jr. immediately telephoned Marvin H. McIntyre at the White House before Congressman Jones could get him and told him the entire conversation.

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Mr. Morgenthau telephoned Commissioner Landis and asked whether he would cooperate with him in closing all the exchanges should the Supreme Court render an adverse opinion and, therefore, the stock market go to pieces.

As I understand it, Mr. Morgenthau also telephoned Joe Kennedy in California and asked him to fly to Washington but weather conditions were very unfavorable and Mr. Kennedy could not fly.

Mr. Landis promised to cooperate in every way with Mr. Morgenthau.

Mr. Morgenthau then telephoned the operator at the White House and made arrangements to install an additional telephone in the Cabinet Room so that he could have direct contact with Commissioner Landis' office during the time that the exchanges were closed, if that were necessary.

About an hour later Colonel McIntyre telephoned and was very disagreeable and resented the fact that Mr. Morgenthau gave the White House operator an order directly instead of doing it through him.

Mr. Morgenthau instead of resenting this bit of impertinence, when one of the most important events of the administration was taking place, simply said: "Well, Mac, you know I always work beautifully with you. It is just simply a case of having to work under such teriffic pressure that it didn't occur to me to call you on such a small matter".

EMERGENCY RELIEF APPROPRIATION

HEARINGS CONDUCTED BY THE SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS, HOUSE OF REPRESENTATIVES, IN CHARGE OF DEFICIENCY APPROPRIATIONS, ON THE DAYS FOLLOWING, NAMELY:

MONDAY, JANUARY 21, 1935.

APPROPRIATIONS FOR PUBLIC WORKS AND RELIEF

STATEMENTS OF HON. HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY; REAR ADMIRAL CHRISTIAN J. PEOPLES, DIRECTOR, PROCUREMENT DIVISION; D. W. BELL, COMMISSIONER OF ACCOUNTS AND DEPOSITS (ACTING DIRECTOR OF THE BUDGET BUREAU)

The CHAIRMAN. We have before us a House joint resolution providing for the appropriation of $4,000,000,000 for work relief, to continue available until June 30, 1937, and, also, providing for the reappropriation of unexpended balances in various departments aggregating $880,000,000.

Secretary Morgenthau, Admiral Peoples, Director of the Procurement Division, and Mr. Bell, Acting Director of the Budget Bureau, are present. As the Secretary has some very important business, we will hear from him first. We will allow each witness to complete his statement, after which any member of the committee may ask such questions as he desires.

First, we will include in the record at this point the House joint resolution.

(The House joint resolution referred to is as follows:)

[H. J. Res. 117, 74th Cong., 1st sess.]

JOINT RESOLUTION Making appropriations for relief purposes

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That in order to protect and to promote the general welfare, by (1) providing relief from the hardships attributable to widespread unemployment and conditions resulting therefrom, (2) relieving economic maladjustments, (3) alleviating distress, and/or (4) improving living and working conditions, there is hereby appropriated, out of any money in the Treasury not otherwise appropriated, to be used in the discretion and under the direction of the President in such manner, and for such purposes and/or such projects (including, but not limited to, slum clearance, rural housing, rural electrification, reforestation, soil erosion, blighted area and submarginal land reclamation, improvement of existing road systems and construction of national highways, grade-crossing elimination, Civilian Conservation Corps work, and other useful Federal or non-Federal work) as shall be adapted to the accomplishment of any one or more of the objectives specified in clause (1), (2), (3), or (4), to be immediately available and to remain available until June 30, 1937, the sum of $4,000,000,000, together with the separate funds established for particular areas by proclamation of the President pursuant to section 15 (f) of the Agricultural Adjustment Act (but any amounts thereof shall be available for use only for the area for which the fund was established) ; not exceeding $500,000,000 in the aggregate of any savings or unexpended balances in funds of the Reconstruction Finance Corporation; and not exceeding a total of $380,000,000 of such unexpended balances as the President may determine are not required for the purposes for which authorized, of the following appropriations, namely: The appropriation of $3,300,000,000 for national industrial recovery contained in the Fourth Deficiency Act, fiscal year 1933, approved June 16, 1933 (48 Stat. 274); the appropriation of $950,000,000 for emergency relief and civil works contained in the act approved February 15, 1934 (48 Stat. 351); the appropriation of $899,675,000 for emergency relief and public works, and the appropriation of $525,000,000 to meet the emergency and necessity for relief in stricken agricultural areas, contained in the Emergency Appropriation Act, fiscal year 1935, approved June 19, 1934 (48 Stat. 1055) and any remainder of the unobligated moneys referred to in section 4 of the act approved March 31, 1933 (48 Stat. 22). The specific powers hereinafter vested in the President shall not be construed as limiting the general powers and discretion vested in him by this section.

SEC. 2. The appropriation made herein shall be available for use in the United States and its Territories and possessions, including the Philippine Islands. The provisions of the act of February 15, 1934 (48 Stat. 351), relating to disability or death compensation and benefits shall apply to those persons receiving from the appropriation made herein, for services rendered as employees of the United States, security payments in accordance with schedules established by the President: *Provided*, That so much of the sum herein appropriated as the United States Employees' Compensation Commission, with the approval of the President, estimates and certifies to the Secretary of the Treasury will be necessary for the payment of such compensation and administrative expenses shall be set aside in a special fund to be administered by the Commission for such purposes; and after June 30, 1936, such special fund shall be available for these purposes annually in such amounts as may be specified therefor in the annual appropriation Acts. The provisions of section 3709 of the Revised Statutes (U. S. C., title 41, sec. 5) shall not apply to any purchase made or service procured in carrying out the provisions of this joint resolution when the aggregate amount involved is less than $300.

SEC. 3. In carrying out the provisions of this joint resolution the President may (a) authorize expenditures for contract stenographic reporting services; supplies and equipment; purchase and exchange of law books, books of reference, directories, periodicals, newspapers and press clippings; travel expenses, including the expense of attendance at meetings when specifically authorized; rental at the seat of government and elsewhere; purchase, operation, and maintenance of motor-propelled passenger-carrying vehicles; printing and binding; and such other expenses as he may determine necessary to the accomplishment of the objectives of this joint resolution; and (b) accept and utilize such voluntary and uncompensated services, appoint, without regard to the provisions of the civil-service laws, such officers and employees, and utilize such Federal officers and employees, and, with the consent of the State, such State and local officers and employees, as may be necessary, prescribe their authorities, duties, responsibilities, and tenure, and, without regard to the Classification Act of 1923, as amended, fix the compensation of any officers and employees so appointed.

SEC. 4. In carrying out the provisions of this joint resolution the President is authorized, to such extent and in such manner as he finds and prescribes as necessary to the efficient and coordinated administration of the powers exercisable under this joint resolution, to—

(a) Establish and prescribe the duties and functions of governmental agencies (including corporations with corporate authority only as approved by the President and within the scope of this joint resolution);

(b) Utilize and prescribe the duties and functions of any governmental agency (including a corporation);

(c) Consolidate, redistribute, abolish, or transfer the functions and/or duties of, and transfer the property and/or personnel of, any governmental agency (including a corporation); and upon the transfer to another agency and/or the abolition of all the functions and duties of any agency, such agency shall cease to exist;

(d) Postpone, but not beyond June 30, 1937, the termination of the existence of any existing governmental agency (including a corporation) designated and utilized under this section; and

(e) Delegate the powers conferred on him under this joint resolution to any governmental agency (including a corporation).

SEC. 5. In carrying out the provisions of this joint resolution the President is authorized (within the limits of the appropriation made in section 1)—

(a) To guarantee loans to, or payments of, needy individuals;

(b) to make grants and/or loans and/or contracts; and

(c) he may also acquire, by purchase or by the power of eminent domain, any real or personal property or any interest therein, and improve, develop, maintain, grant, sell, lease (with or without the privilege of purchasing), or otherwise dispose of any such property or interest therein: *Provided*, That any real property or interest therein acquired hereunder shall be reserved for the purposes of the project or projects for which it is acquired and shall not be included within the unreserved portion of the public domain.

SEC. 6. The President is authorized to prescribe such rules and regulations as may be necessary to carry out this joint resolution, and any violation of any such rule or regulation shall be punishable by fine of not to exceed $5,000 or imprisonment for not to exceed two years, or both.

SEC. 7. A report of the obligations incurred under this appropriation shall be submitted to each of the next three regular sessions of Congress before the 10th day of January.

SEC. 8. This joint resoluton may be cited as the "Emergency Relief Appropriation Act of 1935."

The CHAIRMAN. Now, Mr. Secretary, if you will proceed, we will be glad to hear you.

GENERAL STATEMENT OF SECRETARY MORGENTHAU

Secretary MORGENTHAU. Mr. Chairman and members of the committee, as the Treasury is vitally concerned with any program involving the large expenditure of public funds, I have been present at all the conferences held by the President for the purpose of fixing the amount of funds to be requested of Congress for relief and recovery operations during the period beginning February 1, 1935, and ending June 30, 1936. It was necessary to give careful consideration to the amount fixed for this purpose with respect to its effect upon the Budget and upon the Government's credit.

The Budget for the fiscal year 1936 shows a much improved position over the fiscal year 1935. It is believed that the funds requested for recovery and relief, as set forth in the 1936 Budget, will be sufficient to accomplish the purposes set out in the President's annual message. I am reasonably certain, in view of the favorable reaction of the bond market to the Budget message, that the funds required to finance this relief and recovery program can be raised upon reasonable terms without interfering with the present market for Government securities.

Every safeguard will be thrown around the expenditure of this fund. It is hoped it will not be necessary to expend the entire amount, and I can assure you that no more will be spent than is necessary to accomplish the purposes intended. To the extent that business continues to improve and people are taken from the relief rolls for employment, the requirement of funds for relief purposes will be reduced.

The fact that representatives of the Treasury are here before your committee furnishing it information on the joint resolution under consideration, should not be taken as an indication that the Treasury is to administer the fund. As previously explained, this Department is vitally interested both from a budgetary and financing standpoint and is here to furnish you such information as it has. Insofar as the actual expenditure of the funds is concerned, it is not possible for me to give you detailed information as to cost and the particular projects that will be involved in this program. Those, as yet, are undetermined. Admiral Peoples will, however, furnish you types of projects which will be illustrative of those classes of projects which are to be studied so as to ascertain those which will furnish the largest amount of direct employment.

AVERAGE ANNUAL INTEREST RATE ON INTEREST-BEARING DEBT

I have another statement with reference to the average annual interest rate on the interest-bearing debt.

The CHAIRMAN. We will be glad to hear it, Mr. Secretary.

Secretary MORGENTHAU. The average annual interest rate on the interest-bearing debt on January 31, 1933, was 3.407 percent; whereas on December 31, 1934, the average rate was 2.96 percent, a reduction of 0.447 percent. The interest charge on January 31, 1933, amounted to $697,000,000, whereas on December 31, 1934, it amounted to $827,000,000. The gross debt on January 31, 1933, was $20,801,000,000, and on December 31, 1934, was $28,478,000,000.

If the average annual rate of 3.47 percent on January 31, 1933, had continued up to the present time, the amount of the annual interest charge would today be approximately $952,000,000 instead of the actual charge of $827,000,000, or a saving of $125,000,000 as a result of the reduction in the average rate. On December 31, 1933, with a gross debt of $23,814,000,000 the average annual rate was 3.296 percent. If this latter rate had continued up to the present time, the annual interest charge today would be $921,000,000, or a saving of about $94,000,000.

A statement containing this data, beginning January 31, 1933, follows:

Public debt data

[In millions of dollars]

	Gross debt	Interest-bearing debt	Annual interest charge	Annual average interest rate
1933				*Percent*
Jan. 31	20,801.7	20,454.1	696.9	3.407
Feb. 28	20,934.7	20,384.3	698.8	3.395
Mar. 31	21,362.5	20,991.6	719.2	3.427
Apr. 30	21,441.2	21,087.0	721.3	3.421
May 31	21,853.4	21,468.8	732.5	3.412
June 30	22,538.7	22,157.6	742.2	3.350
July 31	22,609.9	22,239.8	743.7	3.344
Aug. 31	23,098.5	22,722.6	754.9	3.318
Sept. 30	23,050.8	22,671.8	751.2	3.313
Oct. 31	23,050.3	22,668.9	750.3	3.310
Nov. 30	23,534.1	23,161.4	771.7	3.332
Dec. 31	23,814.5	23,450.3	773.0	3.296
1934				
Jan. 31	25,071.1	24,716.9	797.1	3.225
Feb. 28	26,055.1	25,707.3	822.5	3.200
Mar. 31	26,157.5	25,698.2	831.1	3.234
Apr. 30	26,118.3	25,599.1	817.1	3.192
May 31	26,155.0	25,587.8	813.0	3.178
June 30	27,053.1	26,480.5	842.3	3.181
July 31	27,189.2	26,604.6	845.1	3.177
Aug. 31	27,079.9	26,495.1	843.1	3.182
Sept. 30	27,189.6	26,626.1	830.2	3.118
Oct. 31	27,188.0	26,643.0	809.6	3.039
Nov. 30	27,298.9	26,761.0	808.4	3.021
Dec. 31	28,478.7	27,944.0	827.1	2.960

Mr. TABER. Mr. Secretary, the reduction in the interest rate is due almost entirely to the continued deflation of business and lack of demand for funds for business enterprises.

Secretary MORGENTHAU. I am sorry, I do not agree with you at all. Quite the contrary, the reason for the reduction in the interest rate is increased confidence in the Government.

Mr. TABER. Prices increased, but not so much the volume.

Secretary MORGENTHAU. The physical volume of business increased.

Mr. TABER. Not much. The statistics of the Department of Commerce indicate an increase in the price schedule throughout the year 1934 of approximately 10 points, and an increase in volume of approximately 5 or 6 points.

Secretary MORGENTHAU. I still maintain that the reason the interest rate went down and the prices of Government bonds went up was due to the confidence that the investing public had in the Government.

Mr. TABER. Now, I want to ask quite a lot of questions with reference to those funds which have already been appropriated. Now, do you care to answer them yourself, or would you rather Mr. Bell or someone from the Budget Bureau should answer them?

The CHAIRMAN. Mr. Bell is here for that purpose.

Mr. TABER. I mean funds already appropriated.

The CHAIRMAN. Yes; and proposed to be reappropriated here.

Mr. TABER. Not only that, but other funds of an emergency character that have been appropriated. I want to go down the line of the table as it appears in the Treasury's statement, and go into that.

Secretary MORGENTHAU. Mr. Bell has a statement on that, and I think, after he has read it, it may answer some of your questions.

Mr. TABER. He would be the one to answer the questions then, rather than you, on that subject?

Secretary MORGENTHAU. Yes.

Mr. TABER. With reference to the appropriations that are already made, you will leave that discussion to someone else?

Secretary MORGENTHAU. I do not quite understand that.

Mr. TABER. As to the new funds, or as to the desirability of appropriating other funds, you are leaving that to someone else to justify, rather than attempting to do it yourself.

Secretary MORGENTHAU. May I answer that?

Mr. TABER. I understood that you were here to talk on the present conditions.

Secretary MORGENTHAU. That is right.

Mr. TABER. But you are leaving the justification of the appropriations themselves to someone else, or to some other department.

Secretary MORGENTHAU. No, sir. I feel this way, as to the need for funds, I think that is adequately taken care of in the President's message.

The CHAIRMAN. You are leaving to Admiral Peoples the explanation of the plans under which the expenditures will be made for the recovery program that is prescribed, and which we hope will bring it to a final conclusion.

Secretary MORGENTHAU. Yes.

RESPONSIBILITY FOR ALLOTMENT OF FUNDS

Mr. TABER. Who is it proposed will have direct charge of allotting the funds for the different projects contemplated?

Secretary MORGENTHAU. As I understand it, under the present system, the final approval of allotment of funds for specific purposes has been with the President, and I understand that the final approval under this joint resolution also will be with the President.

Mr. TABER. Will direct charge of the allotments of funds be in the hands of Secretary Ickes as head of the P. W. A. as it has been in the past?

Secretary MORGENTHAU. I do not know.

Mr. TABER. It will be up to the President to specify that later—is that the program?

Secretary MORGENTHAU. It will be up to the President.

Mr. TABER. There is nothing in the nature of a set-up as to how that shall be done under this resolution?

Secretary MORGENTHAU. There is nothing.

NEED OF AMOUNT OF FUNDS REQUESTED

Mr. THURSTON. I have a few questions: First, if Congress should reassemble next January, would we be able to get along with one-half of this amount in the interim?

Secretary MORGENTHAU. I would say not.

Mr. THURSTON. Why?

Secretary MORGENTHAU. Because what the President is proposing to do is to take three and a half million people who are on relief rolls and put them to work. Now, in order to do that, they have many plans; engineers will have to prepare their work, and contracts will have to be let.

Mr. THURSTON. There will not be any contracts under this program, will there?

The CHAIRMAN. The resolution specifically provides for contracts, in the discretion of the President.

Secretary MORGENTHAU. If the program is to be a success, many plans will have to be made in advance, and for this reason it is necessary that the entire amount be appropriated at this time. With only half of the funds provided, he could plan for only one-half of the program. That is my personal belief.

ABILITY OF GOVERNMENT TO OBTAIN FUNDS

Mr. THURSTON. In view of the tremendous issues that the Government has been constantly selling, what effect ultimately will this have upon the ability of the Government to obtain funds, if we are to have such tremendous amounts invested in tax-exempt securities?

Secretary MORGENTHAU. I can only say what I said in the page and a half just read, that in the week following the President's Budget message and his annual message to Congress, the bond market steadily improved. Therefore I would say that the investing public regarded favorably the program announced by the President. I think that is the acid test of it.

Mr. THURSTON. In other words, the greater the Government's debt, or the more it increases, the cheaper the rate of interest that will obtain.

Secretary MORGENTHAU. No. There were two important things covered by the President's Budget message in that regard. One was that the Budget, except for relief, would be balanced, and the second was that the estimated deficit for the fiscal year 1936 is less than for 1935. Those were the two most important points, financially, covered in his Budget message. That, in my opinion, is what gave the investing public reassurance and confidence in the financial and fiscal policy of the President's program.

The CHAIRMAN. Then, I take it, under those conditions, you regard this appropriation as well justified?

Secretary MORGENTHAU. Yes, sir.

Mr. BACON. When you say that the Budget is balanced except as to relief, does not that leave out of consideration the sum of eight or nine hundred million dollars for the sinking fund for the public debt?

Mr. BELL. Yes, sir; an amount of $636,000,000. The point is that there will be no increase in the public debt on account of the normal operations of the Government.

UNEXPENDED BALANCES OF APPROPRIATIONS FOR EMERGENCY PURPOSES

Mr. TABER. There are still unexpended balances of appropriations that have been made in one way or another for emergency purposes, totaling approximately $5,700,000,000. Is that correct?

Mr. BELL. That is right; but a large part of those funds are obligated.

Mr. TABER. You are proposing here how much new money?

Mr. BELL. Four billion dollars.

Mr. TABER. The rest of it is represented by re-appropriations of some funds that have already been appropriated.

Mr. BELL. That is right.

Mr. TABER. Within what time do you expect this $5,700,000,000 and $4,000,000,000 which you are asking for here will be expended?

Mr. BELL. The Budget shows that for recovery and relief for the fiscal year 1935, the present fiscal year, it is estimated that we will spend $5,260,000,000; and for the fiscal year 1936, $4,582,000,000.

Mr. TABER. That is the amount you are going to expend, or planning to expend, and there is an additional $3,000,000,000 in this fiscal year?

Mr. BELL. Yes, sir; for the last 6 months of this fiscal year, but that amount is included in the $5,260,000,000 just mentioned.

Mr. TABER. For that purpose?

Mr. BELL. Yes, sir.

Mr. TABER. That would mean, if the program goes along, an addition to the public debt of approximately $5,000,000,000 this year beyond what we now have.

Mr. BELL. Approximately $4,600,000,000 for the entire fiscal year 1935.

Mr. TABER. It means an addition to the public debt in the fiscal year of how much?

Mr. BELL. About $4,600,000,000 for 1935.

Mr. TABER. I take it that you are planning to expend in the fiscal year 1936 and in the fiscal year 1935 approximately 7 billion dollars for emergency purposes.

Mr. BELL. In 1935?

Mr. TABER. For the balance of 1935, $3,000,000,000; and for 1936, $4,000,000,000. That amounts to $7,000,000,000.

Mr. BELL. That is right for 18 months beginning January 1, 1935.

Mr. TABER. With the money that has already been appropriated, you will have $9,700,000,000 available over those 2 years, and that means that, at the end of 1936, a year and a half ahead of us, there will be of these funds, according to your estimates at this time, $2,700,000,000 does it not?

Mr. BELL. That is right, but a large part is already obligated and furthermore a large sum is definitely earmarked, such as for the Agricultural Adjustment Administration, and allocated funds of the R. F. C.

Mr. TABER. Unexpended.

Mr. OLIVER. But not necessarily unobligated.

ADDITIONAL TAXES NOT CONTEMPLATED

Mr. TABER. I appreciate that. Now, Mr. Secretary, let me ask you this question: Is anything contemplated in the nature of a tax to meet this $7,000,000,000?

Secretary MORGENTHAU. The answer to that is "no."

The CHAIRMAN. Perhaps there will be a renewal of taxes now in force.

Mr. TABER. I mean new taxes.

Secretary MORGENTHAU. No new taxes, but the President has asked that the taxes which expire in June and July be extended or renewed.

EFFECT OF PRESIDENT'S BUDGET MESSAGE UPON BOND MARKET

Mr. TABER. What effect will this additional $7,000,000,000 of bonds have on the bond market?

Secretary MORGENTHAU. I think the public has answered that this past week. That is the only answer. They had the program in the greatest detail in the President's Budget message. They had the President's message, which went into greater detail than any Budget message that had gone in to them before; they have had time to study it; they have been kind enough to say that it was the most detailed Budget that was ever submitted, and their answer, in effect, has been, "We will take more Government bonds."

The CHAIRMAN. In other words, if the Budget message was to have had any effect on the bond market, it has already been reflected?

Secretary MORGENTHAU. If the reception had not been favorable, you would have had the reaction then and not afterwards.

Mr. BACON. Does the Treasury's statement show how many Government bonds are held by banks and how many by individuals?

Mr. BELL. No, sir; it does not show that.

Mr. BACON. Do you have any figures that show that?

Secretary MORGENTHAU. We have figures on that. The Comptroller's previous call—not the one on the 31st, but the previous one—went into an analysis and break-down of that information for the first time. That information is available. I think it has been published.

Mr. ARNOLD. In the hearings on the Treasury Department appropriation bill you will find that information set forth pretty much in detail.

Let me ask you this question: What was the amount of the allocation of bonds, in the last financing, with reference to the subscriptions?

Secretary MORGENTHAU. On the long term, if I remember correctly, the allotment was around 18 percent of subscriptions in excess of $10,000, and on the short term, 14 percent; that is, the man who subscribed for $100,000 in bonds was allotted $18,000. That was for the long term, and if he subscribed for $100,000 of short-term obligations he got $14,000.

INCREASE IN INCOME AND INHERITANCE TAXES NOT PROPOSED

Mr. THURSTON. In view of the unusually heavy expenditures, do you feel that the Government should materially and sharply increase income and inheritance taxes.

Secretary MORGENTHAU. Shall I answer that on the record?

Mr. THURSTON. I think the public is entitled to know the position of the Treasury on this very important question.

Secretary MORGENTHAU. I am perfectly willing to answer, but these questions are usually taken up before a different committee. The position that the Treasury Department has taken, since I have been there, is that we never recommend forms of new taxes. If Congress asks us how different kinds of taxes will operate, or how much revenue they will raise, we furnish it all the information that is available to the Treasury. However, we never recommend new forms of taxation.

Mr. WOODRUM. You take the position that whatever types of taxes should be levied is a matter peculiarly within the province of the legislative branch?

Secretary MORGENTHAU. That is my understanding, and as long as I am Secretary of the Treasury I will adhere to that policy.

Mr. THURSTON. What did you mean by the statement a moment ago with reference to some extensions of taxes now being assessed? You are interested in that, are you not?

Secretary MORGENTHAU. The chairman raised that point. He made that suggestion and I followed his lead. It came from him.

Mr. THURSTON. So there is no definite proposal looking to an increase of income and inheritance taxes?

Secretary MORGENTHAU. So long as I am Secretary of the Treasury, I will not recommend to Congress any new form of taxes, but when called upon for information, everybody in the Treasury Department is at the service of Congress to advise them as to how much revenue can be raised from the kind of taxes they want.

The CHAIRMAN. It is a matter of policy for Congress to prescribe what taxes they want.

Secretary MORGENTHAU. Yes, sir.

The CHAIRMAN. I think you are correct in that.

Mr. WOODRUM. I would like at this point—and I think it is apropos this discussion—to read section 206 of the Budget Act:

No estimate or request for an appropriation and no request for an increase in an item of any such estimate or request, and no recommendation as to how the revenue needs of the Government should be met, shall be submitted to Congress or any committee thereof by any officer or employee of any department or establishment, unless at the request of either House of Congress.

So you really have no authority to make such a recommendation.
Secretary MORGENTHAU. So I was advised when I went into office, and I have lived up to it.
Mr. TABER. What is your opinion on that subject?
Secretary MORGENTHAU. I do not have any.

GREATER RETURN FROM TAXATION UPON BUSINESS RECOVERY

Mr. TABER. How long do you expect we will run deficits of $4,000,000,000?
Secretary MORGENTHAU. I am unable to answer that question.
Mr. OLIVER. With the recovery in business, of course, there will be a larger return from the present system of taxation.
Secretary MORGENTHAU. I think the President made it perfectly clear that as business increases employment, he will decrease the spending of money for relief.
The CHAIRMAN. In other words, as private enterprise takes these people off the Government's relief roll, these expenditures will diminish. That will be the result as business increases, and, of course, it may not be necessary to spend all of this money.
Mr. TAYLOR. The President in his message said he was in favor of paying lower wages than private industry for the purpose of inducing them to go off the Government's pay roll and into the employ of private enterprise.
Mr. OLIVER. As business improves, there will be larger returns in the way of taxes.
Secretary MORGENTHAU. Yes, sir.
The CHAIRMAN. From taxes now imposed?
Secretary MORGENTHAU. Yes, sir.

AMOUNT AVAILABLE FOR RELIEF EXPENDITURES FISCAL YEARS 1935 AND 1936

Mr. WOODRUM. Mr. Taber asked a question and I do not know whether you or Mr. Bell answered it, indicating that you have available for relief during the remainder of the fiscal year 1935 and for the fiscal year 1936 about $9,700,000,000. I think that was the figure. As I understand it, you have available for expenditure for the remainder of the fiscal year 1935 and for the fiscal year 1936 the total sum of $9,700,000,000, and the present estimate of the amount needed is $7,000,000,000, so that at the end of 1936 there would be remaining of that fund $2,700,000,000. Now, you did not mean to commit the program of the President or of the Administration to the fact that you will have that amount of money remaining, because it may be necessary to expend it, and, if required, it will be used.
Mr. BELL. The $2,700,000,000 includes authorizations by Congress for specific purposes, such as the Agricultural Adjustment Admin-

January 21, 1935.

Honorable Guy T. Helvering,
Commissioner of Internal Revenue,
Washington, D. C.

Re: United States v. Dan W. Jones, et al.
(Universal Aviation Corporation.)

Sir:

Reference is made to your letter of June 1, 1934 (GC:P:TCU 275258), and supplemental correspondence proposing criminal proceedings against Halsey Dunwoody, Dan W. Jones, and others in connection with the alleged evasion of income taxes of Universal Aviation Corporation for the period January 1 to August 1, 1929. On June 20, 1934, two indictments were returned in the District Court of the United States for the Eastern District of Missouri.

The first indictment charged Halsey Dunwoody and George B. Schierberg with willful attempt to defeat and evade the income taxes of the Universal Aviation Corporation for the period stated, in violation of Section 146 (b) of the Revenue Act of 1928. The second indictment charged Dan W. Jones, Halsey Dunwoody, George B. Schierberg, Graham B. Grosvenor, A. O. Cushny, Frederick J. King, William Dewey Loucks and Alex H. Beard with conspiracy to defeat and evade the tax of Universal Aviation Corporation for said period and conspiracy to defraud the United States. The defendants demurred to the conspiracy indictment, and on or about October 25, 1934, Judge Faris overruled the demurrers. The case was thereupon set for trial January 21, 1935. Upon the application, however, of the defendants the Court continued the case and reset it for February 18, 1935, basing his action principally upon the fact that one of the principal attorneys was confined to a hospital.

Under date of January 9, 1935, Mr. R. S. Pruitt, Vice President (and General Counsel) of The Aviation Corporation, submitted to this Department an offer of settlement, together with a check for $349,532.34. Enclosed is a photostatic copy of Mr. Pruitt's letter. From this it will be observed that the amount tendered is the amount of the liability of The Aviation Corporation as transferee, including the additional tax for 1929, as adjusted, together with 50 per cent penalty and interest. It will be noted that Mr. Pruitt's letter provides that any error in computation in favor either of the Government or the taxpayer will be adjusted.

The check which accompanied Mr. Pruitt's letter is being retained in this Department pending action upon the offer. Such check was drawn by The Riggs National Bank of this city to the order of Mr. Pruitt as Vice President of The Aviation Corporaion but was not endorsed by him.

Mr. Pruitt tenders the amount involved "in full settlement of said alleged tax liability, upon the understanding that you will receive the same in such full settlement and at once dismiss the indictments heretofore handed down in connection with said transaction, in the District Court of the United States for the Eastern District of Missouri, and take no further proceedings, criminal or civil, against any party or interest."

There have been numerous conferences at the request of the defendants with the Attorney General and other representatives of this Department and with representatives of your Bureau. In these conferences the attorneys for the defendants have urged as grounds for a settlement of the case that there was no criminal intent to evade taxes, but a genuine belief on the part of the attorney (Mr. Loucks) that the steps taken were legal and proper, and that he did not personally benefit by the same; that the other defendants followed such advice given them in good faith; that it was competent and legal to rescind the original arrangement of May 17, 1929, and to enter into an option agreement whereby the Aviation Corporation would have the option of purchasing from Universal Aviation Corporation the Fokker stock involved; that such being the case no additional tax accrued; that if there was an additional tax because the transaction fell short of the legal requirements, there was no fraud and the facts were fully disclosed, and consequently the assessment of the additional tax is barred; that the Aviation Corporation is not liable as a transferee and there is no one else from whom collection could be made; and if the Aviation Corporation is liable as transferee it is liable only for the additional tax and interest without the 50 per cent penalty.

This Department desires to have your recommendation as to the action which should be taken upon the offer in compromise. It will be appreciated, therefore, if you will submit a recommendation at as early a date as possible in order that appropriate consideration may be given thereto at such time as not to interfere with the continued preparation of the case for trial on February 18, 1935, in the event that it is to go to trial on that date.

Respectfully,

For the Attorney General,

FRANK J. WIDEMAN,
Assistant Attorney General.

Enc. 396672

January 21st - New York Times

'S OFFICE

BONDS.

Under Present Authority.

Total issuable		$28,000,000,000
Total issued:		
Liberty bonds	$14,948,096,150	
Treas. bonds	10,502,390,965	25,450,487,115
Balance now issuable		2,549,512,885
Total authorized		$28,000,000,000
Total issued		25,450,487,115
Total retired		11,975,539,465
Total outstanding		13,474,947,650

Under Proposed Amendment.

Total which may be outstanding at any one time		$25,000,000,000
Now outstanding:		
Liberty bonds	$3,194,086,650	
Treas. bonds	10,280,861,000	13,474,947,650
Balance issuable		$11,525,052,350

NOTES.

Under Present Authority.

Total which may be outstanding at any one time	$10,000,000,000
Now outstanding — Treasury notes	9,586,377,400
Balance issuable	413,622,600

CERTIFICATES OF INDEBTEDNESS AND TREASURY BILLS.

Total which may be outstanding at any one time		$10,000,000,000
Now outstanding:		
Certificates of indebtedness	$158,300,000	
Treas. bills	1,954,168,000	
		2,112,468,000
Balance issuable		$7,887,532,000

UNDER PROPOSED AMENDMENTS.

Notes, Certificates of Indebtedness and Treasury Bills.

Total which may be outstanding at any one time		$20,000,000,000
Now Outstanding:		
Notes	$9,586,377,400	
Certificates of indebtedness	158,300,000	
Treas. bills	1,954,168,000	
		11,698,845,400
Balance issuable		$8,301,154,600

ny Times.

Ask Mrs Chauncey

H.M.Jr: Hello - Knoke

Knoke: Yes.

This is Mr. Morgenthau.

K: Good morning Mr. Secretary.

H.M.Jr: Have you heard what they've done with the last $5,000,000.

K: Not yet - no.

H.M.Jr: Well who's going to call them up?

K: calling now.

H.M.Jr: Well when?

K: Within the next 15 minutes.

H.M.Jr: Well I've got to go on the Hill - I want to know.

K: Alright then I'll see that we get it before then.

H.M.Jr: I'd go ahead and call him.

K: Yes - alright I'll do that.

H.M.Jr: Now are you going to talk to him?

K: Yes.

H.M.Jr: Alright when you talk to him - hello

K: Yes.

H.M.Jr: Ask him if he's got any message for me about the Island of St. Pierre.

K: Alright sir.

H.M.Jr: You know about that?

K: I know.

H.M.Jr: What?

K: I know about it - yes.

H.M.Jr: Well you ask him if he's got any message for me about the Island of St. Pierre.

K: Yes - alright I'll let you know in a few minutes.

H.M.Jr: Alright.

January 21, 1935 - Monday.

COPY FOR SECRETARY MORGENTHAU

3.2 60M 1-34

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 22, 1935.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH MR. CARIGUEL OF THE BANK OF FRANCE.

FROM J. E. Crane

I telephoned to Mr. Cariguel at the Bank of France about 9:15 a. m. today to ask him about the exchange market. He said that the dollar market in Paris was steady, that they had sold for us so far today about $2,110,000 and that the only other important sellers of dollars in the market were Lazard (Paris) who had done about $6,000,000 and the Guaranty who had sold around $1,000,000. The Chase, Mr. Cariguel said, was doing nothing. He gave me the latest rate as 15.20 1/2 (6.5768). Mr. Cariguel also told me that he had transmitted to Governor Tannery the message which I had given him yesterday afternoon from the Secretary of the Treasury regarding St. Pierre.

JEC:KMC

January 22d

Bell told me yesterday that he got instructions from Tugwell to send over 67 million dollars that had been earmarked for him and which the President had held back. I argued with myself all day whether I should do anything about it and finally decided that I would. I called the President ostensibly on silver. Told him that Japan wanted to know if we wished to buy their newly mined silver and what we should do. The President said, "do nothing. Confine your purchases to North and South America".

I then said to the President, "I understand that you are giving Tugwell the balance of the 67 million dollars earmarked for him". The President immediately on the defensive said, "if I should not have given it to him why did Bell send it over?" He then got rather nasty about Bell which was very unfair, as later in the evening I had learned that Bell had called up McIntyre and told him to warn the President not to sign the authorization. The President said, "I have signed it. What can I do about it?" I said, "I do not know but as I understand it you were not going to allot any more money until you had another meeting with Hopkins and Ickes. I can assure you that Hopkins and Ickes are going to be sore." He said, "well Rex tells me he needs the money" and I said, "he has hardly spent any that you have already given him and you are going to need this money badly for relief before July 1." The President said, "I will tell you what you do. Have Bell write a letter" 'By direction of the President' instructing Tugwell that he cannot obligate a single cent of this money unless it is passed on by the Budget." I said, "all right".

This is so typical of the President. He assured me and Harry Hopkins that he would not allot any more money until we had another meeting. I understand a couple of weeks ago he allotted Hopkins $125,000,000 secretly. Next Tugwell appeals to him directly and he gives him what he wants. The result is that everybody is angry and frothing at the mouth. Then when I draw his attention to it, instead of doing the straightforward thing and cancelling Tugwell's authorization which could not have yet reached him, he double crosses Tugwell by telling me to tell Bell that Tugwell cannot have one cent until the budget passes on it. This maes a complete circle and everybody will be sore and nobody will be satisfied.

COPY FOR SECRETARY MORGENTHAU

SC. 3.2 60M 1-34

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 23, 1935.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH MR. CARIGUEL OF THE BANK OF FRANCE.

FROM J. E. Crane

Mr. Cariguel of the Bank of France telephoned at 12:45 p. m. today to report that he had sold a total of $3,500,000 for our account at an average rate of 15.2118 (6.5738498). He added that the Guaranty Trust Company had sold $9,000,000, Lazard (Paris) $2,000,000 and the National City Bank of New York $1,500,000. This made a total in the Paris market today, he said, of $16,000,000 and indicated a very strong demand for dollars. The market closed at 15.21 (6.57462195), Mr. Cariguel added.

JEC:KMC

COPY FOR SECRETARY MORGENTHAU

C. 3.2 60M 1-34

FEDERAL RESERVE BANK
OF NEW YORK

FFICE CORRESPONDENCE

DATE January 23, 1935.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH MR. CARIGUEL OF THE BANK OF FRANCE.

OM J. E. Crane

I telephoned to Mr. Cariguel at the Bank of France at 9:15 a. m. today to inquire what he had done in the exchange market for us. He told me that the market was quieter but that dollars were still in strong demand and that he had sold so far $2,115,000. I asked him whether any of the banks were operating in the exchange market and he said that the Guaranty Trust Company had sold $5,000,000 and Lazard (Paris) $2,500,000. The current rate for dollars in the Paris market, Mr. Cariguel said, was 15.21 1/4 (6.5735).

I asked Mr. Cariguel whether he had heard anything further about St. Pierre and he replied in the negative.

JEC:KMC

Y FOR SECRETARY MORGENTHAU.

C. 3.2 60M 1-34

FEDERAL RESERVE BANK
OF NEW YORK

FFICE CORRESPONDENCE

DATE January 24, 1935.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH MR. CARIGUEL OF THE BANK OF FRANCE.

OM J. E. Crane

Mr. Cariguel telephoned to me at 1:15 p. m. today to say that the exchange market in Paris had closed fairly quiet, that they had sold for us a total of $3,500,000 at an average rate of 15.27+, that the Guaranty Trust Company had sold in all $2,000,000 and Lazard (Paris) had done nothing today.

Mr. Cariguel said that the last boat from Europe which would bring gold to New York before February 4 was sailing tomorrow and after that boat departed he was fearful that the banks which had been shipping gold this week would remain out of the exchange market and that the dollar might therefore rise sharply.

JEC:KMC

COPY FOR SECRETARY MORGENTHAU. 204

F. 3.2 60M 1-34

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 24, 1935.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH MR. CARIGUEL OF THE BANK OF FRANCE.

FROM J. E. Crane

I telephoned to Mr. Cariguel of the Bank of France at 9:15 a. m. today and asked him what he had done in the exchange market for our account. Mr. Cariguel said that there was a very strong demand for dollars, that he had sold so far $1,368,000 for us, that the Guaranty Trust Company had sold $2,000,000 and otherwise there were no important sellers of dollars in the market. He said that he had not tried to keep the dollar rate down because he had so little ammunition from us and he was afraid if he tried to do so he would run into a very heavy demand for dollars. His objective had been, he said, to keep the market orderly, let the dollar rate rise gradually and not sell any more dollars for us than he had to. The latest rate, he said, in the Paris market was 15.29 (6.54022236). In response to my question he said he had heard nothing further regarding the attitude of his Government with respect to St. Pierre.

JEC:KMC

January 24th

Had lunch with Bullitt to-day. He said he would give anything to see France go off the gold standard as Litvinoff has been getting his strength from France. If this should cease then Bullitt could swing Russia our way and they would have to come to us.

January 24th 1935

H. M. Jr. called the President at 9:30, January 23d. He told the President that he has cut the French down to $3,500,000. Sterling is steadily climbing. It is up to 4.88-7/8.

Parker Gilbert was at my house last night. He suggested something very interesting. He said if you will buy $2,500,000 of British currency you will have them come over on the next boat. This would worry them very much and they would come across to see you. Of course H.M.Jr. said he is thinking of our going off gold entirely and then just stabilize with the pound and forget about the Franc.

H. M. Jr. also told the President that Switzerland is having a national referendum on gold and that they may vote to go off gold.

H.M.Jr. also told the President that the Senate struck out the clause in the RFC bill about giving the Director of the Budget control over their spending. The President said he could fix this by Executive Order. H.M.Jr. said of course he is a Director of the R. F. C. and is not worried about them but he is concerned about the other indenpendent agencies should they do the same thing with all the others.

Mr. Morgenthau had the following people to his house last night for dinner at 7:30:

Professor George F. Warren	Mr. Eccles
Professor J. H. Williams	Mr. Haas
Mr. Coolidge	Mr. Parker Gilbert
Mr. Oliphant	Mr. Lochhead

After everone left Mr. Morgenthau asked Mr. Coolidge and Mr. Eccles to stay. Mr. Coolidge had told Mr. Morgenthau that Mr. Burgess of the Federal Reserve had told him that Mr. Eccles was against the open market committee selling any long time bonds at this time. Mr. Morgenthau had a show-down with Eccles and discovered that the story that was told Mr. Morgenthau was not correct and that Eccles wanted to go along with Mr. Morgenthau in having the open market committee sell long-time bonds.

H.M.Jr: Hello Jesse.

Jesse Jones: Kind of wet out.

H.M.Jr: Yes it's good. I see in this morning's paper that the Senate - Section 10.

J: Yes.

H.M.Jr: Were you there when they did it?

J: Yes.

H.M.Jr: What happened?

J: that section, Henry, and it was unanimous.

H.M.Jr: Unanimous.

J: Yes. Somebody I don't remember who did it.

H.M.Jr: Is it in the bill in the house?

J: It's in the bill in the house yes.

H.M.Jr: It's in the bill in the house.

J: Yes.

H.M.Jr: They didn't strike it out?

J: They haven't acted yet but they asked me a number of questions about it when I was there three days ago.

H.M.Jr: I see but in the Senate they just struck it out?

J: They just struck it out and I don't think we need it - I mean I don't care. I think you just make - you know you've got control anyway.

H.M.Jr: Well it isn't --

J: Well we're not going to do anything over there that is not in keeping with your plans.

H.M.Jr: Well it's up to the President.

J: I'm not arguing with you but I'm just telling you I think - I don't think it's worth arguing about from your standpoint.

H.M.Jr: Well I mean I'm not going to - if the President.

J: ---------------------------.

H.M.Jr: Of course he could do it by Executive Order if he wants to.

J: Why certainly -------------. on the board and he's not ever going to vote on that board against the Treasury. And there's not ever going to be.

H.M.Jr: No that isn't the point. I mean I'm not ---

J: What's that?

H.M.Jr: In my official position I don't enter into this anyway.

J: Well they regard you as director in your Department.

H.M.Jr: Well of course I'm not.

J: Well I'm just explaining how they feel about it.

H.M.Jr: Yes.

J: So this board is never going to make a vote against the Treasury. In the first place we can't do it without getting the money from you, if we wanted to. And there's nobody ever going to do it.

H.M.Jr: Well that isn't true of some of the other agencies.

J: Well it is with us.

H.M.Jr: Yes. I mean I've never had any trouble but it isn't true with some of the other agencies.

J: Well I think probably ------------------------------

I suppose that's what you should have.

H.M.Jr: Exactly.

H.M.Jr: And yours happened to come up first.

J: I explained Saturday in the House that you already had that advice and that you ------------- that you never had.

H.M.Jr: Well that isn't true of the other agencies.

J: I know that.

H.M.Jr: And this is protection for the President on some of the other agencies.

J: I understood that. And I explained in he Senate too the same thing.

H.M.Jr: Some of the other agencies are very and its going to be a boomerang and he's going to take the final blame.

J: Yes I think . But I explained that both in the Senate and the House.

H.M.Jr: But if we singled out one or two particular agencies we had in mind it would be a direct slap back.

J: Yes. But one of them were slapped already wasn't he?

H.M.Jr. Yes. Well---

J: Please understand that I was not surprised in the least ----

H.M.Jr: There are certain things which I feel the Treasury has got to have and I'll always say so - privately and publicly.

J: Yes.

H.M.Jr: And you know me well enough for that. But this is something the President either has to say he wants it or he doesn't. See?

J: Well you are a member of our board and there's never going to be a vote over that.

H.M.Jr: When are we going to have our picture taken?

J: Well I think we at least ought to try to get two more members, either with or without.

H.M.Jr: What's the matter are you short a Democrat?

J: Yes and a Republican.

H.M.Jr: A Republican

J: Been short a Republican about a year and a Democrat for four months.

H.M.Jr: Alright, Jesse, goodby.

J: Goodby.

Janury 24, 1935.
Thursday. A.M.

January 24th

Henry Morgenthau, Sr. phoned to-day to tell H. M. Jr. that he wanted to take Judge Payne's place at the Red Cross - Payne having died this morning. He said he wanted to round out his life and that this would mean a great deal to him. H. M. Jr. immediately phoned the President and the President said, "Happy thought. The only question in my mind is that there will be two members of the same family in the service, otherwise I am for it a million percent".

H.M.Jr: Hello - Mr. Mayor.

LaGuardia: Oh good morning, Mr. Secretary.

H.M.Jr: How are you.

LaG: Oh snowbound.

H.M.Jr: Snowbound. Alright this is what I have in mind. I am very much worried about the sale of non-tax paid liquor in New York City.

LaG: Yes.

H.M.Jr: I had a man up there for the last two weeks and the conditions are about the worst of anywhere in the United States.

LaG: In the city.

H.M.Jr: In the city. Now I called up Herbert Lehman last night and told him that I'd like to start a three cornered drive of Federal, State and City on the non-tax paid liquor in New York and I asked him if we could have Mulrooney - I tried to get you and you were on the train last night coming from Albany.

LaG: That's right.

H.M.Jr: Now would you go along with us?

LaG: Oh sure.

H.M.Jr: Now what we'd like to suggest is this: I can put 300 men in Greater New York, starting in Manhattan and I'd like as many plainclothes men as you can give us to work right along with our men side by side. We want to make a block to block canvass of all places that sell liquor because we are only interested in non-tax paid liquor but your city people and the state people would pick up the state and city violators of ordinances.

La G: Oh absolutely. We have a common purpose and then I think in addition to that the state will have to study, Mr. Secretary, is that whether we've reached the point that taxes are so high that bootlegging pays.

H.M.Jr: Well there's that question and the other one is whether we have sufficient authority. Our people feel that the federal Judges in the First and Second Districts

	are giving us the worst cooperation of any judges in the United States.
LaG:	We take them right into our State Court here and I send them over to the Chief Magistrate and I'll assure you we hold them and if we find any untaxed liquor in a licensed place we won't take them to Court - we'll take them right straight down to Mulrooney and he'll cancel the license.
H.M.Jr:	Well you see what I'm going to do - I've got a man - Harold Graves - I don't know whether you know him.
LaG:	No.
H.M.Jr:	Used to be Administrative Assistant to the Postmaster General and he's right under me and he's got charge of all this liquor business and I mean he was Administrative Assistant in the old administration - not of the present one. And I'd like to have him come up Saturday and meet Mulrooney and meet whoever you designate. To plan the thing out and then we'd like to start Monday.
LaG:	Right. Now you know Mr. Secretary Mulrooney has no enforcement powers or agencies.
H.M.Jr:	No.
LaG:	And he can only be helpful to us if we find untaxed liquor in one his licensed places.
H.M.Jr:	That's right.
LaG:	Then he'll close it immediately.
H.M.Jr:	That's right.
LaG:	The conference will be with Commissioner Valentine and Sullivan and they can map out the program Saturday and we'll be ready to go along with you Monday.
H.M.Jr:	Well now supposing I have Harold Graves go to Commissioner Valentine's office.
LaG:	That's right.

H.M.Jr: And say supposing he's there at say 10 o'clock Saturday morning?

LaG: 10 o'clock Saturday morning.

H.M.Jr: At Commissioner Valentine's.

LaG: Yes.

HM.Jr: Now Graves is a tip-top fellow and he's handled this whole alcohol thing for me.

LaG: Well I'll tell you what we could do so that I ---- make that appointment for 10 o'clock Sunday in my office.

H.M.Jr: In your office.

LaG: And then we'll organize and -------------------.

H.M.Jr: Now the only thing I can suggest is I'd like to work about a week before we give out any publicity.

LaG: Absolutely.

H.M.Jr: I'm one of these fellows - I like to have something to show before I talk.

LaG: Absolutely - otherwise they'll -------.

H.M.Jr: They'll what?

LaG: Otherwise they'll -------- . I'm fully agreed with you - there won't be a word said.

H.M.Jr: I'd like to work for about a week.

LaG: Yes.

H.M.Jr: And then see where we get and I told Herbert Lehman I want his Counsel to watch this thing from the standpoint of whether we need any more laws or not.

LaG: Alright. Well let him walk into Valentine's office - that'w the best plan.

H.M.Jr: Let him walk into Valentine's office.

LaG: At 10 o'clock Saturday.

H.M.Jr: 10 o'clock Saturday. At Commissioner Valentine's office.

LaG: And then I'll talk with the Commissioner and we'll leave everything right with the Commissioner and I think we ought to cover the whole city.

H.M.Jr: Well we've got 100 men to start Monday, and we'll build that force up to 300 men and we want to cover every block in the Greater City.

LaG: Yes. Well now will you tell Mr. Graves after he's finished with the Police Commissioner and Valentine he should see me and I'll arrange with the Chief Magistrate so that he'll instruct all his judges what we're trying to do.

H.M.Jr: I'll have him go to see Valentine, and then come down and see you?

LaG: Yes. And then before we start to be sure and see me --.

H.M.Jr: Fine.

LaG: I'll co-operate 100 per cent.

H.M.Jr: Thank you. Goodby.

LaG: Goodby.

January 24, 1935.
Thursday.

Crowley: Mr. Secretary.

H.M.Jr: Yes Leo.

C: I don't like to bother you about Federal Deposit. I got a memorandum from Danny Bell last night about the fellows coming in and I'm happy to have that but one of the newspaper boys came over here and said that he was tipped off that the President is going to investigate the Federal Deposit Insurance and, of course, you know I don't think we ought to have the Federal Deposit kicked around. After the Chief gets it and you get it, if there's anything there that's different.

H.M.Jr: Yes.

C: But right now their legislation and the bankers driving at it on account of the cost and everything else it will hurt us in a legislative way and also I don't like to have any fellows around the country getting the idea that this thing hasn't been effective enough. I don't know where they got that thing but I wish that you would try and stop it from getting any publicity. If the fellows come in--

H.M.Jr: Have you spoken to Bell about it?

C: No I didn't call Dan - I called you up.

H.M.Jr: Of course he's the Director of the Budget - I'm not.

C: Yes I know that.

H.M.Jr: He takes his orders from the President.

C: I see - well I thought maybe that you knew something about it -- ~~corporation~~.

H.M.Jr: Well if - I think that you ought to talk to him and if there is anything that he can do to stop publicity he ought to do it.

C: Yes. The thing I thought that Bell might be able to do would be to - as Director of the Budget he's got a perfect right to come in and look over our organization and know what we have for the purpose of the budget and I thought it could be done on that basis - because you know a lot of employees - if it comes in that there is an investigation it soon gets on the street and --.

H.M.Jr: Well I'd much rather have you talk to him directly, because anything like that he does he must do under direct orders of the President.

C: I see.

H.M.Jr: And I'd much rather you called him up.

C: Alright I'll call him right up.

H.M.Jr: On all of this budget stuff I'm very careful to keep out of it unless the President calls me in.

C: I see - that's perfectly alright. I realize that position.

H.M.Jr: He has the different heads of departments on the budget and all that - once in a while I sit in but more often I don't.

C: Yes.

H.M.Jr: I'd much rather you called him.

C: Alright I'll do that.

H.M.Jr: Thank you.

January 24, 1935.
Thursday.

H.M.Jr: Hello George?

George: Hello Henry, I'm glad to hear you.

H.M.Jr: How are you?

Harrison: Well I'm getting along very well at last - I had a good check up this morning.

H.M.Jr: Did you?

H: And I feel first rate and for the last three days I've gotten my strength back so I'm feeling pretty good.

H.M.Jr: Good.

H: I didn't think it was wise for me to go down there Friday because the doctor asked me not to as I just got back.

H.M.Jr: I see.

H: I wanted to come but I thought -- and they both said it wouldn't be necessary for me to.

H.M.Jr: Alright.

H: But I'm watching you with a good deal of interest and I ----------------- to have a real talk with you because I like to do that periodically.

H.M.Jr: Well I would too George. We got by to-day in pretty good shape.

H: Well now your Sterling thing is ----------working both the pound and the Franc very effectively.

H.M.Jr: It worked very nicely, didn't it?

H: I was just talking to Joe (?) about it and I said to him ----------------------I was just raising the question because you are running one risk and thats to ----------------------.

H.M.Jr: Well I know that.

H: And I ---.

H.M.Jr: Well I thought to-day was particularly interesting. The way the thing went.

H: But I have a little feeling that the gold ------------------------------would have reacted more directly and with less expense than-----------------the guilder or some of the others------------------. It would have been cheaper and you would have got your gold. Where now it takes a little more money - I think it covers the same thing and you've got part paper.

H.M.Jr: Well let's see how it works.

H: Whether the risk is justified depends on what your judgment is.

H.M.Jr: Well we'll try it for another day the same way.

H: Yes.

H.M.Jr: And see what happens.

H: Alright sir ------------------ but I would like some day to have a talk with you.

H.M.Jr: I'd love to.

H: We're having a meeting down there next week and --- I might have a long talk with you.

H.M.Jr: Well would you mind having someone in your office get in touch with Mrs. Klotz?

H: Yes I'll do that. ----------------.

H.M.Jr: Thank you.

H: Alright Henry thank you.

January 25, 1935.
Monday.

Cablegram Received January 26 From The Bank For International Settlement in Basle No. 15 - Confidential for Crane, Federal Reserve Bank, N. Y.

(1) Supplementing yesterday's message local bank* reports loss to Paris during last ten days primarily in protecting local relation to dollar exchange of gold in the amount of 150,000,000 Swiss francs not all of which will appear in public statements owing to secret reserves.

(2) Acting exclusively on their own initiative they inquired why direct operations between New York and Switzerland could not take place through our intermediary and they suggested direct sales of gold by them to us here for your account against dollars.

(Signed) Leon Fraser

* Local bank - Swiss National Bank.

OPY FOR SECRETARY MORGENTHAU

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. 3.2 60M 1-34

FEDERAL RESERVE BANK
OF NEW YORK

FFICE CORRESPONDENCE

DATE January 28, 1935.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH MR. CATTERNS OF THE BANK OF ENGLAND.

M J. E. Crane

I telephoned to Mr. Catterns at the Bank of England at 9:25 a. m. today and told him that I wanted to inform him of our recent and prospective operations in the London market. I referred to the gold purchases which we have been making in London and with which he is familiar and also told him that from time to time we were buying silver in the London market. I added that I understood he was aware of our silver operations in a general way and that we had not thought it necessary to keep him advised of them currently because we did not regard them as an important factor in the exchange market. Mr. Catterns said that he agreed with me on that point.

I referred to the strength of the dollar in the past week or so because of the uncertainty about the Supreme Court decision in the gold cases and told him that we had been buying moderate amounts of francs to keep the dollar from rising too rapidly and on Saturday had bought a small amount of sterling which we had asked them to keep for us in a special account. I explained to Mr. Catterns that all of these exchange operations were carried out on a day-to-day policy and were designed to keep the dollar from going too high. I asked him whether it would be agreeable to the Bank of England to hold for us in a special account such amounts of sterling as we might buy from time to time. Mr. Catterns replied that the Bank of England would be glad to do so and he wondered whether I could tell him what we were going to do with the sterling. I told him that I could not at this time but would hope to later on. He thanked me very much for calling, told me that the exchange market

C. 3.2 60M 1-34

FEDERAL RESERVE BANK
OF NEW YORK

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OM J. E. Crane

in London was erratic and excited, that he was afraid we were going to have a bad week and that he hoped some decision would be rendered on February 4. I told him I thought it likely that we would get a decision ther but that it was not a certainty. He gave me the latest rates in the exchange market in London and told me that the sterling-dollar rate was rising rather rapidly at the present time.

JEC:KMC

HM.Jr: I got the rates - have you got them?

C: 4.85 is the last rate.

H.M.Jr: Yes.

C : It's up a little.

H.M.Jr. Yes.

H.M.Jr: Well is Knoke in yet ?

C: No but I got the ticker (?) is that what you want?

H.M.Jr: No but I have them too. How fast are you going to get this this morning - is it the Guaranty?

C: The Guaranty is doing it.

HM.Jr: Yes - how often do they let you know?

C: Oh they let us know just as soon as they hear from the other side - they're off and on all the time. They're calling up every few minutes.

H.M.Jr: I see. Well now you're going to call up London, aren't you.

C: Yes I'm going to call up the Bank of England and I wanted to just give you a little idea as to what I thought I'd say. I'd thought I'd tell them that I was calling just to keep them informed about what we're doing in their market. That we'd been buying some gold and for the past week or so the dollar has been very strong and we'd been buying some Francs in and recently we bought some Sterling with the idea of keeping the dollar down.

HM.Jr: That's right.

C: And it's just a day to day policy and we'll keep them informed as to go along as to what we're doing in Sterling.

H.M.Jr: That's right.

C: And - now do you want me to say anything about whether we will put the Sterling into gold or not?

H.M.Jr: No I don't think so.

C: Just not say anything about that?

H.M.Jr: I don't think so.

C: Yes. Well thats about the line I thought I'd ---

H.M.Jr: That's all and you'll let me have the records on these calls the way you do on the French, please?

C: Yes, oh I will.

H.M.Jr: Goodyby - I don't - they've brought it up sort of easily. I'd like to keep very close touch from now till 10 o'clock who will keep me posted - you?

C: Well Knoke is probably in by now and I'll tell him you want to know just the minute they get anything from the gang.

H.M.Jr: Yes and if necessary to talk to London.

C: Yes.

H.M.Jr: I wonder who is the man who got it in London?

C: You mean for the Guaranty?

H.M.Jr: Yes.

H.M.Jr: Isn't it Remington (?)

C: A fellow by the name of Grant (?) is the head of our local office.

H.M.Jr: I notice cables come in here - early morning cables. Are those ---------------?

C: --.

H.M.Jr: Probably are the same thing. ---------------------.

C: I'll tell them to keep you posted as soon as they get any news about it.

H.M.Jr: Let me ask you - do you think it would be alright or don't you to speak directly to the fellow in the Guaranty in London to get a first-hand impression?

C: Why I think it's alright, if you want to do it.

H.M.Jr: Yes.

C : I think --------------.

H.M.Jr: I mean I'd like to hear by his voice. I mean to talk on the telephone with this fellow to find out. Do you think it would show too much interest?

C: No I don't think so.

H.M.Jr: No I don't think so. It's alright to anyway.

C: I'll tell them to keep in close touch with London but I don't know for you to call up the Guaranty in London they might - I don't know - it might be misunderstood or

H.M.Jr: I don't think I ought to do it. Alright just tell Knoke to keep me posted. After you talk to London will you call me?

C: Yes I will.

H.M.Jr: Thank you.

C: Goodby.

January 28, 1935.
Monday.

H.M.Jr: I got your message. I thought I might as well get it first-hand.

Crane: Yes - you mean about

H.M.Jr: Yes.

C: Well he was very nice. I explained to him along the lines that I talked with you and asked him whether they would like to open an official account for him and keep such securities as we might buy. He said yes they'd be glad to do that, that he was very grateful for having called him up and letting him know what we were doing and what we were going to do with the Sterling if I could give him any idea and I said no that I couldn't just now. He told me about the market. He said the London market rather excited and it looked a bad week to him he said. And he said I suppose there's no doubt about getting a decision next Monday. I said I thought that was likely but I didn't think it was set.

H.MJr: The President pulled a good one this morning.

C: What?

H.M.Jr: The President pulled a good one this morning. He said do you know that the Supreme Court is going to hand down a decision on Friday - New Year's Day.

C: (Hearty laughter)

HM.Jr: Everything comes at once.

C: I don't think ---------------------------- if it is handed down next Monday.

H.M.Jr: No. I like the way the thing has been working to-day.

C: Yes I like everything about it except all this Sterling we're getting. I mean I -----

H.M.Jr: That doesn't worry are - I mean I think that if we get the decision by Monday we can get rid of it very quickly.

C: Yes - well you've got about six and a half million now.

H.M.Jr: Well I'd rather have Sterling than I would Francs and the point of staying in London seems to work - I mean they seem to pull the Franc right along.

C: I think it will work ---------------------------------- by keeping the on Paris steady at 74-5/8s. As long as they continue to do that and we put up the Sterling rate here they'll put up the Franc rate.

H. M. Jr: That's the way it seems to work.

C: And it will work that way as long as they keep their rate six months high.

H.M.Jr: I'd rather work in Sterling than I would in Francs.

C: Well I would too, except that when you work in Francs you get gold and when you work in Sterling you get a --------------------------------.

H.M.Jr: Well it might run ahead a bit more in the week - I wouldn't.

Yes.

H.M.Jr: See? I mean for the moment it seems to work alright.

C: Yes, as far as getting up your exchange rates where you want them and putting the dollar down, I think --------------------------.

H.M.Jr: They tell me that the markets are in a bad way. I don't mind.

C: They are.

H.M.Jr: -----------------.

C: Yes we'll just go ahead and try to keep the rate up for you.

H.M.Jr: Right - thank you.

C: Alright, thank you.

H.M.J: If there's anything special call me.

C: Yes, we will.

H:M.Jr. Thank you.

January 28, 1935.
Monday.

H.M.Jr: Hello Jesse.

Jones: How are you?

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

J: On that meeting for 11:30 --

H.M.Jr: Well I'll tell you Jesse what its going to be - how much money is going to go to -

J: Home Loan Banks?

H.M. Jr: Yes and then we go from here over to see the President.

J: Yes. I talked to John Fahey yesterday and got his side and I can talk to Jeff, and-----------------------------.

H.M.Jr: Are you---------------------.

J: Yes and I may be a little late in getting there but I'll try to come.

H M.Jr: Well we're due at the White House at 12:30 so if you get here a little late its alright. Its not a matter of life and death.

J: Alright.

H.M.Jr: Thank you.

January 28, 1935.
Monday.

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To Amend the Second Liberty Bond Act

HEARING

BEFORE

THE COMMITTEE ON FINANCE
UNITED STATES SENATE

SEVENTY-FOURTH CONGRESS

FIRST SESSION

ON

H. R. 4304

AN ACT TO AMEND THE SECOND LIBERTY BOND ACT, AS AMENDED, AND FOR OTHER PURPOSES

JANUARY 29, 1935

Printed for the use of the Committee on Finance

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TO AMEND THE SECOND LIBERTY BOND ACT

TUESDAY, JANUARY 29, 1935

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, in executive session, at 10 a. m., in the Finance Committee room, Senate Office Building, Senator Pat Harrison (chairman) presiding.

Present: Senators Harrison (chairman), King, Walsh, Costigan, Bailey, Clark, Lonergan, Black, Gerry, Guffey, Couzens, Keyes, La Follette, Metcalf, and Hastings.

Also present: Hon. Henry Morgenthau, Jr., Secretary of the Treasury; Hon. T. J. Coolidge, Under Secretary of the Treasury; Hon. D. W. Bell, Acting Director of the Budget; and Hon. William S. Broughton, Commissioner of Public Debt.

The CHAIRMAN. The committee will come to order.

(The committee had under consideration H. R. 4304, which is here printed in full, as follows:)

AN ACT To amend the Second Liberty Bond Act, as amended, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Second Liberty Bond Act, as amended, is further amended as follows:

The first paragraph of section 1 is amended to read as follows:

"The Secretary of the Treasury, with the approval of the President, is hereby authorized to borrow, from time to time, on the credit of the United States for the purposes of this act, to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills of the United States, and to meet expenditures authorized for the national security and defense and other public purposes authorized by law, such sum or sums as in his judgment may be nesessary, and to issue therefor bonds of the United States: *Provided*, That the face amount of bonds issued under this section and section 22 of this act shall not exceed in the aggregate $25,000,000,000 outstanding at any one time."

SEC. 2. The first sentence of subsection (a) of section 5 is amended to read as follows: "In addition to the bonds and notes authorized by sections 1, 18, and 22 of this Act, as amended, the Secretary of the Treasury is authorized, subject to the limitation imposed by section 21 of this Act, to borrow from time to time, on the credit of the United States, for the purposes of this Act, to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness or Treasury bills of the United States, and to meet public expenditures authorized by law, such sum or sums as in his judgment may be necessary, and to issue therefor (1) certificates of indebtedness of the United States at not less than par (except as provided in section 20 of this Act, as amended) and at such rate or rates of interest, payable at such time or times as he may prescribe; or, (2) Treasury bills on a discount basis and payable at maturity without interest."

SEC. 3. Section 5 is further amended by striking out the final sentence of subsection (a) thereof, reading as follows: "The sum of the par value of such certificates and Treasury bills outstanding hereunder and under section 6 of the First Liberty Bond Act shall not at any one time exceed in the aggregate $10,000,000,000."

SEC. 4. Subsection (a) of section 18 is amended to read as follows:

"In addition to the bonds and certificates of indebtedness and war-savings certificates authorized by this Act and amendments thereto, the Secretary of the Treasury, with the approval of the President, is authorized, subject to the limitation imposed by section 21 of this Act, to borrow from time to time on the credit of the United States for the purposes of this Act, to provide for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills of the United States, and to meet public expenditures authorized by law, such sum or sums as in his judgment may be necessary and to issue therefor notes of the United States at not less than par (except as provided in section 20 of this Act, as amended) in such form or forms and denomination or denominations, containing such terms and conditions, and at such rate or rates of interest, as the Secretary of the Treasury may prescribe, and each series of notes so issued shall be payable at such time not less than one year nor more than five years from the date of its issue as he may prescribe, and may be redeemable before maturity (at the option of the United States) in whole or in part, upon not more than one year's nor less than four months' notice, and under such rules and regulations and during such period as he may prescribe."

SEC. 5. The Second Liberty Bond Act, as amended, is further amended by adding a new section, as follows:

"SEC. 21. The face amount of certificates of indebtedness and Treasury bills authorized by section 5 of this Act, certificates of indebtedness authorized by section 6 of the First Liberty Bond Act, and notes authorized by section 18 of this Act shall not exceed in the aggregate $20,000,000,000 outstanding at any one time."

SEC. 6. The Second Liberty Bond Act, as amended, is further amended, by adding a new section, as follows:

"SEC. 22. (a) The Secretary of the Treasury, with the approval of the President, is authorized to issue, from time to time, through the Postal Service or otherwise, bonds of the United States to be known as "United States Savings Bonds." The proceeds of the Savings Bonds shall be available to meet any public expenditures authorized by law and to retire any outstanding obligations of the United States bearing interest or issued on a discount basis. The various issues and series of the Savings Bonds shall be in such forms, shall be offered in such amounts within the limits of section 1 of this Act, as amended, and shall be issued in such manner and subject to such terms and conditions consistent with subsections (b) and (c) hereof, and including any restriction on their transfer, as the Secretary of the Treasury may from time to time prescribe.

"(b) Each Savings Bond shall be issued on a discount basis to mature not less than ten nor more than twenty years from the date as of which the bond is issued, and provision may be made for redemption before maturity upon such terms and conditions as the Secretary of the Treasury may prescribe: *Provided*, That the issue price of Savings Bonds and the terms upon which they may be redeemed prior to maturity shall be such as to afford an investment yield not in excess of three per centum per annum, compounded semiannually. The denominations of Savings Bonds shall be in terms of their maturity value and shall not be less than $25. It shall not be lawful for any one person at any one time to hold Savings Bonds issued during any one calendar year in an aggregate amount exceeding $10,000 (maturity value).

"(c) The provisions of section 7 of this Act, as amended (relating to the exemptions from taxation both as to principal and as to interest of bonds issued under authority of section 1 of this Act, as amended), shall apply as well to the Savings Bonds; and, for the purposes of determining taxes and tax exemptions, the increment in value represented by the difference between the price paid and the redemption value received (whether at or before maturity) shall be considered as interest. The Savings Bonds shall not bear the circulation privilege.

"(d) The appropriation for expenses provided by section 10 of this Act and extended by the Act of June 16, 1921 (U. S. C., title 31, secs. 760 and 761), shall be available for all necessary expenses under this section; and the Secretary of the Treasury is authorized to advance, from time to time, to the Postmaster General from such appropriation such sums as are shown to be required for the expenses of the Post Office Department, in connection with the handling of the bonds issued under this section.

"(e) The board of trustee of the Postal Savings System is authorized to permit, subject to such regulations as it may from time to time prescribe, the withdrawal of deposits on less than sixty days' notice for the purpose of acquiring Savings Bonds which may be offered by the Secretary of the Treasury; and in such cases to make payment of interest to the date of withdrawal whether or not a regular interest payment date. No further original issue of bonds authorized by section 10 of the Act approved June 25, 1910 (U. S. C., title 39, sec. 760), shall be made after July 1, 1935.

"(f) At the request of the Secretary of the Treasury the Postmaster General, under such regulations as he may prescribe, shall require the employees of the Post Office Department and of the Postal Service to perform, without extra compensation, such fiscal agency services as may be desirable and practicable in connection with the issue, delivery, safe-keeping, redemption, and payment of the Savings Bonds."

SEC. 7. Section 1126 of the Revenue Act of 1926 is amended by adding at the end thereof the following: "In order to avoid the frequent substitution of securities such rules and regulations may limit the effect of this section, in appropriate classes of cases, to bonds and notes of the United States maturing more than a year after the date of deposit of such bonds as security. The phrase 'bonds or notes of the United States' shall be deemed, for the purposes of this section, to mean any public-debt obligations of the United States and any bonds, notes, or other obligations which are unconditionally guaranteed as to both interest and principal by the United States."

We have a bill here, H. R. 4304, which is an act to amend the Second Liberty Bond Act, and the Secretary of the Treasury is here, also the Under Secretary of the Treasury and the Director of the Budget.

Mr. Secretary, will you proceed, please?

STATEMENT OF HON. HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY

Secretary MORGENTHAU. Mr. Chairman and gentlemen of the committee: I will be as brief as possible.

The draft of bill under discussion appears more complicated than it really is, due to the fact that it repeats whole sections of existing legislation with the amendments which the Treasury proposes. The bill does four things only:

First: It replaces the present authority to issue up to $28,000,000,000 of bonds with authority to issue bonds up to a total amount outstanding at any one time of $25,000,000,000. This is the more satisfactory manner of fixing the maximum amount to be borrowed upon bonds and follows the laws authorizing the other classes of securities since 1917.

Senator CLARK. It reduces the amount of the authorization from $28,000,000,000 to $25,000,000,000?

Secretary MORGENTHAU. What has happened in this: At present, every time we call in a billion dollars' worth of bonds, it reduces our authority by that much, until at present our authority is reduced to $2,500,000,000.

The CHAIRMAN. What act is that?

Secretary MORGENTHAU. 1917.

The CHAIRMAN. And specifically, it gave you authority at that time to issue up to what amount?

Secretary MORGENTHAU. To $28,000,000,000.

The CHAIRMAN. But it did not give you authority, if you took any of them in, that it might be a credit on the proposit on; it just reduced it to that amount?

Secretary MORGENTHAU. Yes, sir.

The CHAIRMAN. What you are seeking to do is to put it in a revolving manner?

Secretary MORGENTHAU. Yes, sir.

The CHAIRMAN. So that when they are released you can issue others if necessity arises, but at no time to an outstanding amount in excess of how much?

Secretary MORGENTHAU. $25,000,000,000. It does not give us the authority to issue any bonds other than if we are given the authority by Congress.

The CHAIRMAN. Does that include short-term notes?

Secretary MORGENTHAU. A little bit further down I explain about the short-time notes.

The CHAIRMAN. I see.

Secretary MORGENTHAU. Under the law as it now stands we have issued approximately $25,500,000,000 in bonds, leaving approximately $2,500,000,000 which may still be issued; yet, only about $13,500,000,000 are in fact outstanding.

Second: As I have stated, securities other than bonds may now be issued up to fixed maximum amounts outstanding at any one time. In the case of notes the amount is $10,000,000,000, of which about $9,500,000,000 is now outstanding.

The CHAIRMAN. That is not included in this $25,000,000,000?

Secretary MORGENTHAU. No.

In the case of certificates of indebtedness and Treasury bills the amount is also $10,000,000,000, but only about $2,000,000,000 is outstanding. As you gentlemen know, the demand in the market shifts from time to time from securities of one maturity to those of another. It is the belief of the Treasury that the Government may be saved substantial amounts and may work toward lengthening the maturities of a larger portion of its public debt if more flexibility is granted in the issuance of the notes, certificates, and bills. For this reason it is suggested that the two authorities, each for $10,000,000,000, be consolidated into a single authority permitting $20,000,000,000 of these three classes outstanding at any one time.

The first five sections of the bill, then, have no other effect than the two I have just described, except that while we were amending the law we eliminated certain obsolete language. The succeeding sections of the bill contain entirely new matter which would accomplish two things.

Third: The first new proposal is an authorization for the issuance of a series of bonds which we have called United States savings bonds.

The CHAIRMAN. Before we come to that, are there any questions which any member of the committee wishes to ask with reference to these certificates or short-time obligations?

Senator KING. There is no authority in this bill for issuing bonds, long term or short term, other than as grants may be made by Congress?

Secretary MORGENTHAU. Only that.

Senator KING. You would not look to this for a specific grant to incur additional indebtedness?

Secretary MORGENTHAU. Positively not.

Senator KING. It would not give you authority to issue another dollar of indebtedness other than that authorized by Congress heretofore?

Secretary MORGENTHAU. No.

Senator CLARK. It gives you, however, flexibility in issuing from one class to another of these securities?

Secretary MORGENTHAU. Yes. We have the right to issue $2,500,000,000 more bonds. We have $1,800,000,000 of the Fourth Liberties which come due on the 15th of April. That would leave us an authority of only $700,000,000, and if we wanted to call any more of these Fourth Liberties and refinance at a lower rate, we could not do it because our authority is exhausted.

Senator KING. When you call bonds and they are retired, then you have no authority to make reissue for a shorter or longer period or for conversion?

Secretary MORGENTHAU. As we call these, each time it is deducted from the $25,000,000,000 until our authority is now down to $2,500,000,000, and we have called $1,800,000,000, which we have to refinance between now and the 15th of April, and our authority is now down to $2,500,000,000, and if we wanted to call the balance of the Fourth Liberties, we could not do it.

Senator HASTINGS. Are you limited in the rate of interest that you may pay?

Secretary MORGENTHAU. Four and a quarter.

Senator GUFFEY. That is the maximum?

Secretary MORGENTHAU. Four and a quarter on the bonds.

The CHAIRMAN. What are you paying now?

Secretary MORGENTHAU. The average rate of interest—I have a statement on that, and I might as well give it now.

The average annual interest rate on the interest-bearing debt on January 31, 1933, was 3.407 percent, whereas on December 31, 1934, the average rate was 2.96 percent, a reduction of 0.447 percent. The interest charge on January 31, 1933, amounted to $697,000,000, whereas on December 31, 1934, it amounted to $827,000,000. The gross debt on January 31, 1933, was $20,801,000,000, and on December 31, 1934, was $28,478,000,000.

If the average annual rate of 3.407 percent on January 31, 1933, had continued up to the present time, the amount of the annual interest charge would today be approximately $952,000,000 instead of the actual charge of $827,000,000, or a savings of $125,000,000 as a result of the reduction in the average rate. On December 31, 1933, with a gross debt of $23,814,000,000, the average annual rate was 3.296 percent. If this latter rate had continued up to the present time, the annual interest charge today would be $921,000,000, or a saving of about $94,000,000.

In other words, the rate of interest during this past year has come down about one-half of 1 percent.

Senator WALSH. Are you asking for authority in this bill to recall at your convenience or at your wishes the new issues?

Secretary MORGENTHAU. We have been calling them just as rapidly as we can.

Senator WALSH. These are past issues?

Secretary MORGENTHAU. Old issues.

Senator WALSH. What about the future that you are going to issue as a result of this legislation?

Secretary MORGENTHAU. Under our present authority, if we wish to raise new money, we cannot do that either unless we get this additional authority from Congress.

Senator WALSH. I am wondering how fixed or stable the new issues will be that you may issue as a result of this legislation.

Secretary MORGENTHAU. It would have to be within the limits of the $25,000,000,000 worth of bonds or $20,000,000,000 of notes and certificates. It would have to stay within those two limits.

Senator WALSH. I understand that as to the amount, but suppose in another year you wish to refund some of those bonds, can you do it without coming before the Congress, or not?

Secretary MORGENTHAU. Oh, yes, sir; this will take care of us for quite a while.

Senator WALSH. You can as you please call and recall bonds?

Secretary MORGENTHAU. Up to the extent of $25,000,000,000.

The CHAIRMAN. But you could not do it if you did not have this legislation, except up to $700,000,000?

Secretary MORGENTHAU. That is right.

The CHAIRMAN. He says that they have reached the limit after this next issue of $1,800,000,000, and they will only have authority then to issue $700,000,000 more of bonds unless we pass this legislature. If we do, then they have the authority.

Senator HASTINGS. There is this difference also, if I understand it. Under the present law, when you have retired bonds, that automatically reduces the amount. This legislation proposes to change that so that if you retire bonds in the future, it does not reduce the maximum amount outstanding of $25,000,000,000. That is, if after the issue, you should call in $5,000,000,000, that does not reduce the amount from $25,000,000,000 to $20,000,000,000—and that is different from the old law.

Secretary MORGENTHAU. That is right.

Senator HASTINGS. That is as I understand it.

Senator WALSH. Is there any precedent, Mr. Secretary, for such wide latitude of power?

Secretary MORGENTHAU. If you don't mind my saying it, Senator——

Senator WALSH (interposing). You are asking for legislation to permit you—I am not criticizing your purpose—but to permit you to refund as you choose $25,000,000,000.

Secretary MORGENTHAU. Mr. Coolidge says we have that authority now in notes and certificates; but may I say it does not give us any authority other than to take advantage of the existing money rates and to refloat the Government debt and take advantage of a time of low-money rates. The situation changes rapidly. It was just a year ago that I borrowed for the Treasury for 13 months and paid 3 percent interest, and the last loan I was able to borrow, $1,800,000,000 at 3⅛, so the situation changes so fast that if the Treasury is tied down so that it cannot take advantage of the bond market when it is there, I think the Government would suffer through not being able to take advantage of the lowest interest rates available. The thing shifts so fast within a year.

Senator COUZENS. Is there any definition of the references as between bonds, certificates of indebtedness, and Treasury bills?

Secretary MORGENTHAU. Could Mr. Coolidge answer that?

Senator COUZENS. Yes; I would be glad to have an answer. That has never been done. I have never been able to see any authority for the definition.

Mr. COOLIDGE. The Government bonds must have a maturity in excess of 5 years.

Senator COUZENS. Is that provided by statute?

Mr. COOLIDGE. That is provided by statute, as I understand it. The notes must have a maturity between 1 and 5 years. The bills and certificates less than 1 year or not in excess of 1 year.

Senator COUZENS. Referring to section 21, page 4, there is reference to certificates of indebtedness and Treasury bills, but no reference to notes. Where do the notes take place in this bill? You have four classifications—bonds, notes, certificates of indebtedness, and Treasury bills. What do you refer to when you mention notes?

Mr. COOLIDGE. The notes have a maturity between 1 and 5 years.

Senator COUZENS. And when must Treasury bills mature?

Mr. COOLIDGE. They must mature not in excess of a year. At the present time we are selling 6-month Treasury bills.

Senator HASTINGS. What is a Treasury bill?

Mr. COOLIDGE. It is a bill sold on a discount basis and it is sold to the highest bidder. There is no interest attached to it.

Senator COUZENS. No coupon?

Mr. COOLIDGE. No coupon.

Senator COUZENS. What is a certificate of indebtedness then?

Mr. COOLIDGE. That is a note, except that it is less than a year and has a different name.

Senator COUZENS. Does that bear interest?

Mr. COOLIDGE. Yes; and the authorization provisions in the bill have minor differences.

The CHAIRMAN. The only difference between a certificate of indebtedness and a Treasury bill is that one bears interest and the other does not, and both are for not more than 1 year?

Mr. COOLIDGE. Yes; and for convenience they are sold in a somewhat different manner in practice.

Senator COUZENS. What objective do you have in mind for the issuance of certificates of indebtedness and Treasury bills? They both mature within a year, as I understand it. What is the purpose of having the two kinds of indebtedness?

Mr. COOLIDGE. The practice has been in the past to sell certificates of indebtedness in rather large amounts at a public offering. In the bills, the way has been to sell weekly to the highest bidder. In recent months we have sold no certificates of indebtedness, and there are none now outstanding except for private accounts.

Senator COUZENS. Can you tell us just by what process you arrived at the fact that you wanted a $25,000,000,000 limitation on bonds, and a $20,000,000,000 on certificates of indebtedness and Treasury bills?

Mr. COOLIDGE. The amounts were placed so that they would, under the conditions that we can foresee for the next year, we can give ample leeway to use whichever was best suited to the market conditions without exceeding those limits.

Senator COUZENS. Yes. How do you arrive at the $20,000,000,000 for these notes and bills and certificates of indebtedness?

Senator HASTINGS. And Treasury bills. There are three, aren't there?

Senator COUZENS. Notes are not referred to. There are only two.

Mr. COOLIDGE. In part, we use the same figures as already in the bill. At the present time we have a right to issue $10,000,000,000 each, and we combined those, not to change the terms of the bill, into $20,000,000,000. That amount is ample, because what it permits is the issuance if bonds are not promptly salable, of $8,000,000,000, which is enough to take care of any probable needs. If bonds are salable we would not use the full $20,000,000,000.

Senator COUZENS. May I ask you further——

Senator HASTINGS (interposing). Pardon me, Senator. Before you leave that point, I want to call your attention to the fact that the notes are mentioned. On line 15 it says, "And notes authorized by section 18." So that it includes three classes.

Senator COUZENS. It has been stated in discussions among financiers, as I understand, that the Government borrowing powers are hazarded by the fact that you have so many short-time securities out. Is that a fact?

Mr. COOLIDGE. That might be a question of opinion. I would feel that that was not the case. I would feel that it would be unwise to have too many additional short-time securities.

Senator COUZENS. What do you mean by "additional short-time securities"?

Mr. COOLIDGE. Well, I would very much prefer to raise a larger part of our money in the future in long-time securities.

Senator COUZENS. Why? That is what I want to get at. I do not see the purpose. I want to get enlightenment.

Mr. COOLIDGE. It is a matter of judgment that there might be two sides to. The short-time securities have to be paid at maturity in the near future by new borrowing. They are subject to change in the rates for money, and they are too large an amount to constantly refund. It gives an uncertain atmosphere.

Senator COUZENS. All right. The rates though are so much smaller on the short-time securities than they are on the long-time securities, and I still am unconvinced that there is a need for it.

Mr. COOLIDGE. That is true temporarily. We never know what may take place in 2 or 3 years. Rates may change.

Senator COUZENS. So you think there is a hazard; you agree with that philosopy that there is a hazard in having too many short-time securities out?

Mr. COOLIDGE. Too many. The question in my mind would be what amount is too many.

Senator COUZENS. What percentage of the whole would you say was safe to have in short-time securities?

Mr. COOLIDGE. That is a very hard question and it depends a good deal upon what is called "short-time securities."

Senator COUZENS. What do you call "short-time securities"?

Mr. COOLIDGE. That is again a hard question. For instance, if you call, as would be quite proper, 3- and 5-year securities short time, you could stand a very much larger amount of 3 and 5 year with perfect safety than if you call short time less than a year.

Senator COUZENS. Take 90 days and those less than a year, and 3- and 5-year securities, do you call all of those short-time securities?

Mr. COOLIDGE. I ordinarily do, but it might vary, depending upon the topic of conversation. If I were talking to a banker and he was talking of his short, quick portfolio, he would go under a year. From the Government's point of view on short term, I would go up to 5 years.

Senator COUZENS. What do you call "long-time"? Ten years?

Mr. COOLIDGE. Our bonds. In my own mind, I sort of have a vision of bonds being long-time securities and others short-time securities.

Senator COUZENS. So all of this business is more or less hazy?

Mr. COOLIDGE. Elastic rather than hazy. It must necessarily be.

Senator HASTINGS. The recommendations, Senator Couzens, if you ask what proportion by percentage this $20,000,000,000 has against $25,000,000,000.

Senator COUZENS. That is why I asked it in the first place. I have not received an answer yet, but I must confess that I am in accord with his views that the whole picture is hazy. No one seems to have any definite views with respect to finance.

Mr. COOLIDGE. I think the answer is, Senator, that we placed considerable leeway to give the Treasury power to use their judgment from time to time as to what is best suited for sale.

Senator WALSH. Mr. Coolidge, the banks have to meet this same problem of how much they should take in short-time securities and how much in long-time securities?

Mr. COOLIDGE. Surely.

Senator WALSH. What percentage do they usually invest of their funds in short-time securities?

Mr. COOLIDGE. That varies enormously with the different banks.

Senator WALSH. It does?

Mr. COOLIDGE. Enormously.

Senator WALSH. There is no point at which they seek to invest in short-time securities?

Mr. COOLIDGE. I have had figures prepared from some of the capital statements which would indicate that perhaps—I am going from memory—that perhaps something over one-quarter of our Treasury bonds are held by banks, whereas close to one-half of the Treasury notes are held by banks.

Senator WALSH. That does not quite answer my question. What percentage? Take the First National Bank of Boston—what percentage of their assets is in short-time securities, on the average?

Mr. COOLIDGE. In Government short-time purchases?

Senator WALSH. No; in all short time.

Mr. COOLIDGE. Well, I have never looked at their statement exactly that way. When they show a quick statement, I should think, offhand, 60 or 70 percent would be short-time securities, although with their large holdings of Governments, most of their long-time securities would be in Government bonds, presumably.

Senator COUZENS. What is the amount of outstanding Government securities that are eligible for securing currency?

Mr. COOLIDGE. There are about $800,000,000 of the old 2-percent consols and Panama bonds that are eligible in themselves for currency. There is a law which is expiring this July making bonds yielding not more than 3⅜ eligible up to a bank's capital for the issuance of currency. That is at present in effect.

Senator COUZENS. Do you know how many of those are outstanding?

Mr. COOLIDGE. Those are outstanding far in excess of the power of the banks to use them; six and a half billion.

Senator COUZENS. You say there are 6½ billions which are eligible if the banks' capital permitted?

Mr. COOLIDGE. Yes.

Senator COUZENS Do you intend to ask a continuance of the authority to use these securities for currency?

Secretary MORGENTHAU. No.

Senator COUZENS. Do you intend to let it expire?

Secretary MORGENTHAU. Yes, sir.

Senator COUZENS. So that these 6½ billion will not, after July, be eligible to secure currency?

Mr. COOLIDGE. That is right.

Mr. BROUGHTON. Except pre-war.

Senator COUZENS. I mean with the new securities that were authorized in the last banking act.

Mr. COOLIDGE They will automatically cease on July 15.

Senator COUZENS. That is what I am trying to find out—if you intend to ask for authority to extend that.

Secretary MORGENTHAU. They say the $700,000,000 consols do not expire on the 1st of July.

Senator COUZENS. No; they have always been eligible for currency. I am talking of the authority given in the new banking act.

Secretary MORGENTHAU. They expire in July next.

Senator COUZENS. After July 1, those securities will not be eligible to secure currency?

Secretary MORGENTHAU. That is right.

The CHAIRMAN. Are there any further questions?

Senator KING. I suppose, Mr. Coolidge, the proposed appropriations, one for $4,880,000,000, and then the appropriations which will be made for the Home Loan and so on, will affect the market for securities and will call for increased borrowings, will they not?

Mr. COOLIDGE. As that money is spent, it will call for increased borrowings surely.

Senator KING. What do you anticipate may be the necessity or the amount of increased borrowings that will be required during the next 1 or 2 years?

Mr. COOLIDGE. There are outstanding today $5,000,000,000 of old Liberty bond issues. Those all bear rates of interest above prevailing rates, and if conditions stay as they are, they all should be refunded.

Senator KING. But I am speaking of new borrowings.

Mr. COOLIDGE. That is $5,000,000,000 there.

Senator KING. I am speaking of new indebtedness; not conversions, but new indebtedness.

Mr. COOLIDGE. That is a question of the expenses the Treasury has to pay from laws passed by this Congress.

Senator KING. I understand that; but I was just wondering if this bill had in contemplation very large increased borrowings, not conversions or transfers from one form of indebtedness to another.

Mr. COOLIDGE. We feel the authority is ample for anything that is expected to be required within whatever we may be asked to raise. We feel that bill has authority.

Senator KING. That would be within the $45,000,000,000?

Mr. COOLIDGE. Yes.

Senator KING. If this bill which is now before us passes in its present form, do you feel that there would be authority to make conversions of short-term to long-term or conversions from long-term to short-term or to increase borrowings up to $45,000,000,000 in the aggregate?

Mr. COOLIDGE. The authority is there if it is needed to meet the expenses of government.

Senator KING. If Congress makes the appropriations?

Mr. COOLIDGE. If Congress makes the appropriations.

The CHAIRMAN. You do not change, as I understand it, so far as the certificates of indebtedness, Treasury bills, and short-time notes—you do not change the right now of the Treasury? You have the right for $20,000,000,000.

Mr. COOLIDGE. That is correct.

The CHAIRMAN. And you do not change that?

Mr. COOLIDGE. No.

The CHAIRMAN. The only change that is made is made with reference to the amendment of this Liberty Loan Act that authorizes you up to $25,000,000,000 to have outstanding issues of bonds at any time; that is right, isn't it?

Mr. COOLIDGE. That is right.

Senator COUZENS. Is that quite correct? Because I understood you to say previously that you had increased the amount from $10,000,000,000 to $20,000,000,000 for short-time securities.

Mr. COOLIDGE. We combined the two amounts. At the present time we have a right to issue $10,000,000,000 notes and $10,000,000,000 certificates and bills. We have been issuing notes and we have not been issuing bills.

Senator COUZENS. So you are just combining the two?

Mr. COOLIDGE. We are combining the two so that we are able to issue notes in excess of the present amount outstanding.

Senator COUZENS. There is one other point, going back to these eligible Government securities for currency. Do you know how many of those new eligible securities have been used for currency?

Mr. COOLIDGE. About $250,000,000. There is very little demand for it, because the banks have to pay a tax of one-half of 1 percent on the currency they issue, and they do not care to spend that.

Senator WALSH. The figures in this bill do not change in the authorization of the Treasury Department now in its hands?

Mr. COOLIDGE. Oh, yes.

Senator WALSH. How much?

Mr. COOLIDGE. They change in respect to the bonds. At the present time we have authority to issue only $2,500,000,000 additional bonds, and that prevents us from the conversions or from raising additional funds by bonds in excess of that amount.

Senator WALSH. How much more would this bill give you?

Mr. Coolidge. Under the present authority we would have authority to issue $11,000,000,000 in new bonds.

Senator Walsh. What do you think the effect is going to be upon the country at the present time to have it announced that the Treasury Department is asking for authority to issue $11,000,000,000 more than it has ever before been authorized to issue?

Mr. Coolidge. I think that this bill would have no effect upon the country to that extent, because it merely gives the Treasury the power that it needs very badly to refund in the proper manner.

Senator Walsh. Would it not be better for the sake of indicating safety of borrowing in the future to try to keep as close to the present authorization as possible? I am thinking of the psychological effect it would have.

Mr. Coolidge. We have in a sense reduced the present authorization. Back in 1917 the Treasury was given authority to issue $28,000,000,000. They did not give the revolving authority. We are now asking for $25,000,000,000 but are asking to be able to repay our present bonds with new bonds.

Senator Walsh. Yes; but as I understand, the total authorization here is $11,000,000,000 more than the Treasury has had in the past.

Mr. Coolidge. More than it has today; not more than it had before it began refunding. You see, what has happened is that we have been constantly reducing our authority by paying off old issues, which automatically reduced the authority.

Senator Walsh. I am disturbed about how that can be used.

Senator Hastings. Following Senator King's suggestion, as I understand it, this bill takes care of the Federal Treasury and the Federal debt up to $45,000,000,000.

Mr. Coolidge. I would not feel that, Senator, because——

Senator Hastings (interrupting). You would not feel that, but isn't it true?

Mr. Coolidge. It would not take care of a debt of $45,000,000,000 promptly. Our hands would be tied; we could issue the proper securities. It takes care of a debt of about $35,000,000,000.

Senator Hastings. But the limit would be, if you used all of this authority, you could not exceed $45,000,000,000; $25,000,000,000 in bonds, and $20,000,000,000 for the three other classes.

Mr. Coolidge. That is true.

Senator Hastings. That is what I wanted to bring out.

Mr. Coolidge. I would feel it took care of a debt of $35,000,000,000 in proper form.

The Chairman. I think you stated for the record there how much was outstanding now of these certificates of indebtedness and Treasury bills and short-time notes, didn't you? That is in the record, is it not?

Secretary Morgenthau. Yes; I think that was included in the statement which I read.

Senator King. What was the highest amount of indebtedness at the close of the war or immediately following the war?

Mr. Coolidge. My recollection is in the neighborhood of $28,000,000,000.

Senator King. And our indebtedness now is what?

Mr. Coolidge. About the same; slightly higher, I believe. I am told, Senator, that I was incorrect; that the peak was $26,500,000,000. I still would like to check those figures.

Senator King. When you are speaking of the present indebtedness, does that include the loans to the R. F. C. and to the Home Loan?

Mr. Coolidge. No; the guaranteed obligations are not included in such statements.

Senator King. How are they?

Senator Couzens. It includes all of the R. F. C. but not the Home Owners' Loan?

Mr. Coolidge. No; not the Home Owners' Loan or the Farm Credit, and I believe it does not include about $200,000,000 R. F. C. owned notes.

Senator King. I had supposed until the statement was made in the Senate a day or two ago, that all of the loans made by the R. F. C. and collected would either be used in a revolving fund or returned to the Treasury. I was informed that $500,000,000 of the loans, of the money loaned or advanced to the R. F. C. and which it had loaned and which had been repaid, had been used by Mr. Hopkins under the authority of the President, for relief, and that $500,000,000 more had been sequestrated or at least earmarked for that purpose, so that $1,000,000,000 that I had thought would be returned to the Treasury will not be returned to the Treasury but will be used for relief.

Mr. Coolidge. May I have the Director of the Budget answer that question? I am not familiar with it.

Senator King. At any rate, you have not gotten that $1,000,000,000 back into the Treasury.

Senator Couzens. And never will.

Senator King. And never will, probably.

Mr. Coolidge. I would rather have the Director of the Budget answer that.

Mr. Bell. Last year, in the Emergency Appropriation Act in June, Congress gave us authority to take $500,000,000 of the unobligated balances of the R. F. C., which has been taken and used and will be exhausted the first week in February. In the $4,880,000,000 bill, now pending, it is contemplated—it gives the President authority to take a further $500,000,000 of the unobligated balances.

Senator King. He has not the authority now?

Mr. Bell. No, sir; and every time he has taken it, it has been given to him by Congress. He has no authority otherwise.

The Chairman. Are there any other questions?

Senator Hastings. I want to ask one other question: Aren't there bonds issued by the Home Owners' Loan Corporation, Government bonds, or some other of these various agencies?

Mr. Coolidge. The Home Owners' Loan and the Farmers Credit are the two organizations which issue their own bonds, which are guaranteed both as to interest and principal by the Federal Government.

Senator Hastings. Then those bonds are not included in this?

Mr. Coolidge. They are not included in this.

Senator Couzens. Are we quite correct in saying that the Farm Credit bonds are guaranteed by the Federal Government?

Mr. Coolidge. Not all of them; but some of them.

Senator COUZENS. Just what are issued? Are the consolidated bonds guaranteed?

Mr. COOLIDGE. Not the consolidated, but they have authority and are issuing bonds for new loans and to help the farmers repay their present indebtedness, and those bonds today are guaranteed by the Federal Government as to interest and principal.

Senator COUZENS. What would you think of it as a sound financial policy to include those in the Government obligations, those that are, like the Home Owners' Loan Corporation and the Farm Credit obligations? They are obligations of the Federal Government if they are guaranteed.

Mr. COOLIDGE. They show on our statements as contingent liabilities.

Senator COUZENS. But when any reference is made to the Government debt, they only refer to $28,000,000,000 that is outstanding, outside of those.

Mr. COOLIDGE. That is true, and that is very customary in other countries. It is true, for instance, as to the English public debt.

Senator COUZENS. You would not as a banker, though, look very favorably upon a statement that did not include the contingent liabilities.

Mr. COOLIDGE. I would expect the contingent liabilities would be shown, but as contingent liabilities and not to include them in the direct debt.

Senator KING. What would you say the total indebtedness of the Government today is, exclusive of the guaranteed obligations, and then I shall ask if you have the figures to give us the amount of the guaranteed or contingent liabilities, as you call them?

Mr. COOLIDGE. On December 1, the total gross debt was $28,478,000,000 and odd.

The CHAIRMAN. Now, the contingent guaranteed.

Mr. COOLIDGE. This statement of the contingent liabilities is as of September 30. I will have to bring it up to date, but the total there at that time is $1,895,000,000, divided amongst the Federal Farm Mortgage $739,000,000; the Home Owners' Loan $908,000,000; and the Reconstruction Corporation $247,000,000.

Senator COUZENS. Might I ask how it is that they claim that the H. O. L. C. authority has been extended, they have I understand up to $3,000,000,000, and you have less than $1,000,000,000 in your contingent liabilities statement.

Mr. COOLIDGE. This is actually issued as of September 30. They are constantly being issued and will continue to be issued. They have got commitments outstanding, but the bonds have actually not not been issued.

Senator KING. The commitments absorb the $3,000,000,000?

Mr. COOLIDGE. That is the information they give us.

Senator KING. Of course, if they issue bonds, then the contingent liability there would be the $3,000,000,000.

Mr. COOLIDGE. Yes, sir; surely.

Senator HASTINGS. I suppose it would be difficult for you to give us the direct Government commitments over and above this actual indebtedness, as well as the commitments on the guaranties?

Mr. COOLIDGE. I could not give it this morning. We would have to spend some time to figure that out.

Mr. BELL. We might put that in the record.

Senator HASTINGS. I would like to have the commitments to date, just as you would make it for a bank if you were going to borrow money.

Senator WALSH. You would have to get the total authorization as well as the $3,000,000,000 for the Home Owners' Loan by the authorizations.

Senator KING. Apparently they have exhausted the $3,000,000,000 and are going to ask for $125,000,000 more.

Senator LONERGAN. Has the Treasury Department estimated the maximum borrowing power of the United States?

Mr. COOLIDGE. Under the present?

Senator LONERGAN. Under existing conditions; yes, sir.

Secretary MORGENTHAU. May I answer that? All that you can do is this: In the President's Budget message he estimated that the public debt for the coming fiscal year ending June 30, 1936, will be increased by $4,000,000,000, or a total of $34,000,000,000. That has been stated in his message. The point I want to make is this, gentlemen, that, after all, the President's message has been out now for a couple of weeks. Our requesting this additional authority has been out and has passed the House, and since the President's message the bond market has steadily gone up, and by that I mean both with and without the gold clause, so it has nothing to do with the Supreme Court. So that if the country felt that what we are asking for, either in the President's message or this additional authority, were to undermine the Government credit, the bond market would have reacted unfavorably, but it has not; it has gone up.

Senator COUZENS. The higher it goes up, the less it costs you for your money?

Mr. MORGENTHAU. That is correct. So that I feel that I could say that up to the next fiscal year—and we cannot see beyond that—that we are well within the realm of sound Government credit.

Senator COUZENS. May I ask you about these Government savings bonds which are generally called "baby bonds"?

The CHAIRMAN. We stopped you when you got to that. Please go ahead. Mr. Secretary, with your explanation of the baby bonds.

Secretary MORGENTHAU. The first new proposal is an authorization for the issuance of a series of bonds which we have called "United States savings bonds." This issue of bonds is designed to meet the needs of the small investor who wants to put his savings into Government bonds. As these small investors will wish to keep their interest as well as the principal invested and not have the inconvenience of cashing and reinvesting their coupons, it is proposed to issue the bonds on a discount basis and pay what amounts to interest at the maturity of the bonds or on earlier redemption. To limit these bonds to the individual investor, the maximum amount which may be acquired in any one year was fixed at $10,000. This manner of meeting the needs of the investor has been very successful in Great Britain to the extent of $2,000,000,000, and it is hoped may meet with favor in our country. For the convenience of these investors it is proposed to make the bonds available at post offices and other convenient agencies. It is to be noted that in figuring the maximum amount of bonds which may be outstanding under the Liberty Loan Act, as amended in the first section of the draft bill, these saving bonds will be included in the $25,000,000,000 revolving fund.

In order to avoid confusion, it is provided that the issuance of Postal Savings bonds shall be discontinued after July 1935, of which there are about $88,000,000 now outstanding.

The CHAIRMAN. Is that proposed in this legislation?

Secretary MORGENTHAU. Yes, sir.

Fourth: The last section contains the other new proposal. Various departments of the Government have received requests to accept bonds guaranteed as to principal and interest by the United States just as United States bonds are acceptable in lieu of surety bonds. As there is no reason why these guaranteed bonds should not be accepted as security, this section amends existing law so as to permit the deposit of the wholly guaranteed bonds equally with the primary obligations of the United States.

Senator HASTINGS. Will you explain that $88,000,000 of Postal Savings bonds. What are they?

Secretary MORGENTHAU. They now have the authority to buy a 20-year bond from the Postal Savings. This has been out, but most people have forgotten about it. There are $88,000,000 of those outstanding. In order that, if Congress gave us the authority to issue this new amount of bonds, that there should not be confusion in the minds of the people who would go to the post offices, we suggested that we cancel the right to issue any more of that amount of the 20-year bonds and issue these instead.

Senator HASTINGS. What is the peculiarity of those bonds? Were they bonds that were payable in installments?

Mr. BROUGHTON. Any person who has money can deposit in the Postal Savings, and twice a year can elect to convert his savings into one 20-year bond.

Senator HASTINGS. In what amount?

Mr. BROUGHTON. He can deposit up to $2,500.

Senator HASTINGS. And how small an amount?

Mr. BROUGHTON. The denominations now issued are $20, $100, and $500.

Senator COUZENS. And you want to cancel that authority?

Secretary MORGENTHAU. Yes, sir.

Senator HASTINGS. On the theory that it is not necessary if we do this?

Secretary MORGENTHAU. Yes, sir.

Senator COUZENS. There is no limit in the bill to that amount? The baby bonds?

Secretary MORGENTHAU. Except that they will come under the $25,000,000,000.

Senator COUZENS. But there is no amount that you have in contemplation under that operation?

Secretary MORGENTHAU. No; except that it would come under the same authority of the $25,000,000,000. Do you mean how much there could be outstanding?

Senator COUZENS. Yes.

Secretary MORGENTHAU. No, sir.

Senator COUZENS. Have you in mind how many you can sell, from your investigation?

Secretary MORGENTHAU. There is a considerable difference of opinion. I happen to be more enthusiastic than some others. I

think that over a period of a year or two we might get out between $500,000,000 to $1,000,000,000. Some of my associates think I am too enthusiastic.

The CHAIRMAN. What denominations will they be?

Secretary MORGENTHAU. From $25 up to $10,000.

Senator HASTINGS. What rate of interest?

Secretary MORGENTHAU. In the bill as we have suggested it, between 2 and 3 percent.

Senator COUZENS. Not more than 3 percent?

Secretary MORGENTHAU. Not more than 3 percent.

Senator HASTINGS. That would leave it to the Treasury to decide as between 2 and 3 percent?

Secretary MORGENTHAU. Yes. We would price them in accordance with what the interest was.

Senator COUZENS. On that discount bond, the sample of which you have shown us, that is figured at 2½?

Secretary MORGENTHAU. Two and a half; yes, sir.

Senator HASTINGS. Would you, for instance, issue these bonds beginning in June, we will say, at 2 percent, and then change it in July or August? Change it to, say, 2½?

Secretary MORGENTHAU. Senator Hastings, what we are proposing is to get out an issue on the first of each month. And the interest would be fixed. It would have to be fixed for the life of the bond. We could not vary it during the life of the bond.

The CHAIRMAN. Anybody could buy those? It would not be restricted to the people who had postal savings at all?

Secretary MORGENTHAU. Anybody could buy them.

The CHAIRMAN. Anyone?

Secretary MORGENTHAU. Anyone.

Senator HASTINGS. How do you enforce the provision that nobody should have more than $10,000?

Secretary MORGENTHAU. The names would be registered with the post office. They are nontransferable.

Senator HASTINGS. They are nontransferable?

Secretary MORGENTHAU. They are nontransferable. We do not want them dealt in.

Senator GUFFEY. What is the amount of the postal savings at the present time?

Secretary MORGENTHAU. About a billion and one.

Senator HASTINGS. Do you mean that a person who has bought one of these bonds when he is prosperous could not transfer it and get his money out if he got into trouble?

Secretary MORGENTHAU. What we propose is that he can come in at any 6-month period and we will cash it for him, but we do not want them dealt in.

Senator HASTINGS. The Treasury itself will cash them for the value that they then have?

Secretary MORGENTHAU. The face value.

Senator COUZENS. The value is on the face of the bond itself.

Secretary MORGENTHAU. Yes, sir.

The CHAIRMAN. They differ from those bonds in that respect?

Secretary MORGENTHAU. Yes. We thought it would be much wiser not to have them dealt in. They are really savings.

Senator HASTINGS. The criticism against them has been the possibility of their being dealt in; that is the criticism I have seen of them.

Secretary MORGENTHAU. There was that, but when we have explained that they would not be dealt in, and furthermore that the person that has not got a safe-deposit box, we propose to keep them for him and just give him a receipt like a money order. If a man wants to buy a $25 bond for his little child or for himself and has no safe keeping, he can leave it and we will take care of it and just give him a receipt.

The CHAIRMAN. That is a matter of regulation; that is not in the law.

Secretary MORGENTHAU. I do not think so.

Senator COUZENS. Do you contemplate issuing any with coupons, or all discount bonds?

Secretary MORGENTHAU. All discount bonds. We feel that in this way we can reach a small investors' class who want to invest their money. The savings banks are largely concentrated in the Northeast; there are lots of places where there are no savings banks, and at the same time it gives the Government an additional place to go to borrow money.

The CHAIRMAN. How does the Post Office Department feel about this? About the abrogation of this law?

Secretary MORGENTHAU. We have cleaned it all with the Post Office. It is agreeable.

The CHAIRMAN. It is satisfactory?

Secretary MORGENTHAU. Entirely so.

Senator HASTINGS. Did you consider the war saving policy that existed?

Secretary MORGENTHAU. This is something approaching that, except that the unit is $25 rather than what it was.

Senator COUZENS. Of course, the Treasury will make a lot of money, like they do in currency, if a lot of them are not cashed.

Secretary MORGENTHAU. You would not begrudge us that, Senator?

Senator KING. Won't there be a vast amount of detail work imposed upon the Treasury and its agencies, whether they be in the various towns and cities, with the banks, as a result of this plan?

Secretary MORGENTHAU. The paper work and clerical work would be entirely handled by the Post Office, like the Postal Savings.

Senator GUFFEY. It is very little more than the money-order system.

Secretary MORGENTHAU. The people are all there.

Senator GUFFEY. In the Postal Savings now they issue what is equivalent to a money order.

Senator HASTINGS. Are these Postal Savings bonds on the market?

Secretary MORGENTHAU. No.

Senator HASTINGS. Do you propose to redeem them?

Secretary MORGENTHAU. Surely. When they come due, the man will get his money.

Senator HASTINGS. Do you leave them out until they come due, or are you going to try to clean them up?

Mr. BROUGHTON. The board of trustees is prepared to purchase at par any offered for sale, as part of their investment.

Senator HASTINGS. And those that are not offered?

Mr. BROUGHTON. They can keep them until they are matured, and then they get their money back.

Senator HASTINGS. So that what you propose to cancel is the authority to issue more?

Mr. BROUGHTON. That is correct.

Senator KING. In giving the amount of the obligations of the Government, which was given here a few moments ago, were these Postal Savings obligations included?

Mr. BELL. The $88,000,000 of outstanding Postal Savings bonds were included in the gross debt.

Senator COUZENS. But not the deposits in the Postal Savings?

Mr. COOLIDGE. They are entirely secured either by bank balances or Government bonds, but they are not added to the gross.

Senator COUZENS. I was going to ask you a question in that connection. Because of the very low money rates at the present time, are the Postal Savings able to turn these all over to the banks and get their interest?

Mr. COOLIDGE. What has been happening is, the banks have been turning back the money, and the Postal Savings has been buying Government bonds, so they hold larger amounts of Government bonds and less of bank deposits.

Senator COUZENS. Do you know, out of that $1,100,000,000 of Postal Savings, how much of it is in the banks?

Mr. COOLIDGE. I am not up-to-date on tnat. A little while ago it was about half.

Secretary MORGENTHAU. May I say, Senator, I think I am right, that during the past year we were able to double the net earnings of the Postal Savings. We were able to double the net earnings of Postal Savings.

Senator COUZENS. How?

Secretary MORGENTHAU. Through investing them in long-term Governments.

Senator COUZENS. At what rate?

Secretary MORGENTHAU. At the market.

Senator COUZENS. The market does not seem to me to be in such a position to enable you to do that, if you were heretofore depositing these Postal Savings in the banks at 2½ percent.

Secretary MORGENTHAU. What happened was this: Each month for the last 6 months the banks returned from $30,000,000 to $50,000,000 of deposits because they had to pay the Government 2½ percent, and they did not want to pay it. As that $30,000,000 to $50,000,000 came in we invested it in long-term Governments.

Senator COUZENS. They are all below 3 percent, though, aren't they?

Secretary MORGENTHAU. The average earnings for Postal Savings now on their investment is just a fraction under 3, and they pay out 2, so they have a spread of not quite 1 percent, and in that way we have been able in this past year to double the earnings of Postal Savings.

Senator HASTINGS. This bill does not in any way affect the Postal Savings now in existence except for this right to purchase?

Secretary MORGENTHAU. That is correct.

Senator KING. I am not clear in respect to your bookkeeping; what the books should show with respect to this $1,100,000,000 in relation to which Senator Couzens just referred. Is that treated in any Treasury statement as a liability?

Mr. BELL. It is a contingent liability, and shown on our public-debt statement every month; just the same as the Home Owners' Loan and the Farm Credit Corporation.

Senator KING. What have you back of it to relieve the Government of any liability? Government bonds?

Mr. BELL. As an investment you have Government bonds, and where it is deposited in the banks you have collateral security issues of Government bonds and State bonds, usually.

Senator KING. Assume then, to get my mind clear, that all of this billion dollars plus deposits were demanded now by the owners of those deposits, how would you pay them?

Mr. BELL. We would call them from the banks and sell Government securities.

Senator KING. So that there is a contingent liability there of over a billion dollars?

Mr. BELL. Yes; but secured.

Senator KING. What collateral have you that you could sell for the purpose of indemnifying the Government for the $1,100,000,000 which it would be compelled to pay to the depositors?

Senator HASTINGS. Money and Government bonds.

Mr. COOLIDGE. We have half a billion dollars in the banks of the country, and over $600,000,000, I am talking rough figures, in Government bonds that we bought in the market and can resell.

Senator HASTINGS. That is probably the best collateral you have for any contingent liability shown on your statement, isn't it?

Senator KING. And those $600,000,000 bonds are shown on the books as a Government liability?

Mr. COOLIDGE. They show as a Government liability; surely.

Senator LONERGAN. Are the certificates issued to the ex-service men kept as contingent liabilities of the Government?

Mr. BELL. Only to the extent that Congress appropriates money every year for the sinking fund; in other words, the $3,500,000,000 issued is not a liability until 1945. Unless Congress appropriates for the sinking fund——

Senator COUZENS (interposing). We used to appropriate $200,000,000 a year.

Mr. BELL. $112,000,000 a year.

Senator COUZENS. As a fund to pay off those issues.

Mr. BELL. Yes.

Senator COUZENS. In the absence of that, there is no contingent liability shown on the books, as I understand it?

Mr. BELL. That is right.

Secretary MORGENTHAU. Could we take just a minute? We have a new thing in the Treasury for the last few months, a new kind of a statement which we issue once a month, and if Mr. Bell could take a minute to explain it, I think it might clear up a lot of misunderstanding. It has never been done before and we think we have everything out now in black and white.

Senator COUZENS. You could not have done anything that would have made it worse than it was.

Secretary MORGENTHAU. Then this is an improvement.

The CHAIRMAN. All right, Mr. Bell.

Senator KING. Does that statement go back to 2 years prior to this?

Senator COUZENS. It goes away back, as I understand it.

Mr. BELL. I am sorry that I have not one with me, but we had quite a demand for information as to just what the assets of the Government were in all of these corporations and agencies which have been created. We undertook to get out what was termed a "Government balance sheet" with respect to the assets in those corporations. We started that last August, and we issued every month, showing the various corporations and agencies, their assets and liabilities, the kind of securities they own, and the interest of Government, the Government's proprietary interest in those organizations.

Senator COUZENS. But no profit-and-loss items?

Mr. BELL. No profit-and-loss statement. But the proprietary interest in the capital and surplus is shown.

Senator HASTINGS. Do you make any estimate as to the value of those?

Mr. BELL. No, sir; they are the book value.

Senator COUZENS. When you say "book value", you mean the purchase value?

Mr. BELL. In some cases. In a few, they have reserve set up for losses. But we take the value on the books of the organization.

Senator COUZENS. In other words, if you bought Government bonds at a substantial premium, you would show the premium plus the face value and the book value?

Mr. BELL. We would show the book value, and that may be an amortized value in some cases.

Senator COUZENS. You mean where they have amortized the premiums?

Mr. BELL. That is correct.

Senator KING. How do you show the assets of the intermediate credit banks and those various financial structures that were set up by the Government for the relief of agriculture?

Mr. BELL. We show their balance sheets as it exists. We show the interest of the Government in the net assets.

Senator KING. Did you show the liability—that is, did the assets with respect to those intermediate banks show any loss, any book loss?

Mr. BELL. No, sir; they are making money. One organization has, since their creation.

Senator KING. Of which organization are you speaking?

Mr. BELL. The Federal Intermediate Credit Bank.

Senator KING. There was one farm bank which was set up under the auspices of the Government, or, rather, for which the Government was not responsible, that incurred a great deal of loss, heavy loss, did it not?

Senator BLACK. Is that not the Joint Stock Corporation you are referring to?

Mr. BELL. Some of them incurred losses; yes, sir. But they are being liquidated at the present time, as I understand it, and the production credit and the bank cooperatives.

Senator KING (interposing). Take the Joint Stock. Does the statement which you put out show the assets and the liabilities of that organization?

Mr. BELL. The Joint Stock?

Senator KING. Yes.

Mr. BELL. No, sir; we have no liabilities. We own no capital stock in the Joint Stock Corporation.

Senator KING. An effort was made, as I understood—I have a very dim recollection of it—to have the Government get behind those joint stock organizations.

The CHAIRMAN. We are behind the land banks, but not the joint stock.

Mr. BELL. We are not behind the land banks in the sense of a direct obligation. We own stock. They may be a moral obligation.

Senator BAILEY. That is printed on the back of the bonds, isn't it?

Mr. BELL. That is right. It is provided in the act.

Senator BAILEY. It was done with the knowledge and consent of the officials of the country.

Mr. BELL. As I understood, that was done for constitutional reasons.

The CHAIRMAN. Are there any other questions?

Senator HASTINGS. Mr. Secretary, may I inquire, does this form of baby bond provide for the Treasury redeeming it within 6 months of the bond itself?

Secretary MORGENTHAU. No; that would be a regulation.

Senator HASTINSG. Don't you think it would be helpful if it did?

Secretary MORGENTHAU. Those amounts stated on the face are the redemption values every 6 months.

Senator HASTINGS. And the Government itself agrees to redeem it within these various periods, on the face of it?

Secretary MORGENTHAU. Yes.

Mr. BROUGHTON. That text is tentative; it may be changed.

Senator HASTINGS. I understand that.

The CHAIRMAN. If there is no objection, this resolution will be reported out favorably.

We will meet tomorrow morning at 10 o'clock.

(Whereupon, at 11:15 a. m., the committee adjourned.)

SUPPLEMENT

Public debt data submitted by the Secretary of the Treasury

	Gross debt	Interest bearing debt	Annual interest charges	Annual average interest rate
			Percent	*Percent*
Jan. 31, 1933	$20,801,700,000	$20,454,100,000	696.9	3.407
Feb. 28, 1933	20,934,700,000	20,584,300,000	698.8	3.395
Mar. 31, 1933	21,362,500,000	20,991,600,000	719.2	3.427
Apr. 30, 1933	21,441,200,000	21,087,000,000	721.3	3.421
May 31, 1933	21,853,400,000	21,468,800,000	732.5	3.412
June 30, 1933	22,538,700,000	22,157,600,000	742.2	3.350
July 31, 1933	22,609,900,000	22,239,800,000	743.7	3.344
Aug. 31, 1933	23,098,500,000	22,732,600,000	754.9	3.318
Sept. 30, 1933	23,050,800,000	22,671,800,000	751.2	3.318
Oct. 31, 1933	23,050,300,000	22,668,900,000	750.3	3.313
Nov. 30, 1933	23,534,100,000	23,161,400,000	771.7	3.332
Dec. 31, 1933	23,814,500,000	23,450,300,000	773.0	3.296
Jan. 31, 1934	25,071,100,000	24,716,900,000	797.1	3.225
Feb. 28, 1934	26,055,100,000	25,707,300,000	822.5	3.200
Mar. 31, 1934	26,157,500,000	25,698,200,000	831.1	3.234
Apr. 30, 1934	26,118,300,000	25,599,100,000	817.1	3.192
May 31, 1934	26,155,000,000	25,587,800,000	813.0	3.178
June 30, 1934	27,053,100,000	26,480,500,000	842.3	3.181
July 31, 1934	27,189,200,000	26,604,600,000	845.1	3.177
Aug. 31, 1934	27,079,900,000	26,495,100,000	843.1	3.182
Sept. 30, 1934	27,189,600,000	26,626,100,000	830.2	3.118
Oct. 31, 1934	27,188,000,000	26,643,000,000	809.6	3.039
Nov. 30, 1934	27,298,900,000	26,761,000,000	808.4	3.021
Dec. 31, 1934	28,478,700,000	27,944,000,000	827.1	2.960

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