Mrs. Klotz:

Speaker please.

McH

Mrs Harrison

Nov. 7, 1934.

Did Judge (?) tell you what I told him about Belgium ?

H. M. Jr: That the Belgium bank offered you some gold.

Yes, that's right. Well that 's right - I just wanted to let you know because I thought it was interesting.

H. M. Jr: How much are they offering?

He just spoke to me about your continued interest in our - the thing I talk to you about - about getting somebody on the bond business.

H. M. Jr: Yes.

He suggested that I give you my report that I started to explain to him.

H. M. Jr: Yes.

You know how I feel about it and I had to change my mind.

H. M. Jr: Yes.

The difficulty/has been this - I've been doing a lot of work on it.

H. M. Jr: Yes.

There are two different types of men that we might have in mind. My first thought was to get a technician - a fellow who had been a trader and knew the bond market as an operator from the beginning - from the ground up.

H. M. Jr: Yes

And such a man is Garner,for instance, in the Guaranty

H. M. Jr: Yes.

Now I've talked to the heads of two or three banks and some of those men and they all say, including Garner and Potter and Reynolds and the rest with whom I've talked that they think I won't get what I want by getting such a technician because their only value - I mean Garner's only value to them is his continued trading in the market. When it comes to here he stops trading and, therefore, he loses that value and he hasn't got anything other than what we've already got in the bank and they all agree to that Garner himself says for instance if I should come here I would be a fish out of water becaue I - my only interest is trading and he said my only value to the bank is that I am continually trading.

H. M. Jr: Yes.

He says I finally think I could be more use to you where I am than doing that.

H. M. Jr: Yes.

And I think that method of solving the problem isn't any good.

H. M. Jr: Well I'd like to talk to you about that because I don't agree with him.

Well now wait a minute - the other thing I had in mind was an entirely different type of man who would be more senior in rank, who has been born and brought up in the market, so to speak - knows the whole money market, stock exchange, bonds, corporate bonds and everything else like a partner in some of these firms.

H. M. Jr: Yes.

And I found him when I reached these other fellows about my first thought. I found it on the second theory and I think that that's the best theory myself if I can get that man.

H. M. Jr: Well George I'd like to talk to you about it sometime.

Well I'd be glad to.

H. M. Jr: We've got all these Home Owner Loans and all these Farm Credit bonds to sell.

Yes.

H. M. Jr: And the thing that I'd like is a fellow who wants to come up from the bottom, you see?

Yes.

H. M. Jr: Because you take Lochhead here ---

Yes.

H. M. Jr: It's not coming out of the Treasury?

Well I think some of it is.

H. M. Jr: What?

I think some of it is

H. M. Jr: Well you may--

But I'll talk to you about that sometime. But as a matter of interest I think some of it is.

H. M. Jr: Alright, George. Well I'm very much interested because you're handling millions and millions of dollars for us.

Yes.

H. M. Jr: And I'd like to see somebody there now.

Well you know how I feel I ----

H. M. Jr: Well the suggestion came originally from you.

Sure. Sure.

H. M. Jr: Alright, George.

And I think we'll do a pretty good job for you.

for the week of 16,000

Yes.

H. M. Jr: That's fine.

I think things look a little bit better - I was talking to Rosen (?) and all our figures indicate - the last figures of last week - that they're running ahead even of the seasonal improvements.

H. M. Jr: Alright George.

Well I'm going to be down there on the 12th and and 13th so I'll see you then.

H. M. Jr: Right.

Goodby

H. M. Jr: Goodby

H. M. Jr: He doesn't trade anything but the reason Lochhead is as good as he is is because he was a trader.

Yes.

H. M. Jr: And the fact that he was a trader, he can analyze a lot of these things that these people are doing.

Yes.

H. M. Jr: But we could have an economist sitting here and he wouldn't be a damn bit of use.

Yes, but the other fellow that I had in mind will be able to do that.

H. M. Jr: Well the only point that I stress I'd like to have a fellow who did have the trading experience, see?

Yes.

H. M. Jr: I mean he may be a partner to-day in a big house.

Yes. Well that's what I'm working for as a matter of fact and I have such a man in mind and I immediately tried to get in touch with him and found out that he'd gone abroad. Now he's coming back next week.

H. M. Jr: That's time enough.

So I'll see him next week when he gets back. My difficulty is it will be very hard to get such a man as that to leave the partnership and come into the bank when there's all this bad talk about doing away with the Federal Reserve System.

H. M. Jr: Who talked about that?

Well you see it in the newspaper everyday.

H. M. Jr: Well I don't know where it's coming from.

Well I've got suspicions where some of it's coming from.

Nov. 7, 1934

November 7th

I spoke to Chip Robert today in regard to the location of gold. He told me that he had discussed it with Colonel Harry Roosevelt and MacArthur. I suggested that they have it at Denver and Washington and a third place to be somewhere in the Allegheny Mountains, to be selected by the Army and Navy.

November 8th

Dr. Feis called me and said he attended a dinner last night in N.Y. of the Foreign Relations Committee and Sir George Schuster was present, big mining interests and Mr. Leffingwell of Morgan's.

The chief consensus of opinion was that as long as the United States government was going to go ahead with their program that the interests that this group represented would hold back their silver for higher prices. Sir George Schuster controls the 400 million ounces of silver for the Indian government.

November 14th

Mr. Morgenthau asked the question as to what would be the estimated cash balance available on March 14, 1935, if we borrowed $500,000,000 in new money on December 15th. Based on the estimate of the cash balance on March 1st of $478,000,000, Bell said that he thought the balance on March 14th would be somewhere between $200,000,000 and $300,000,000. Mr. Morgenthau immediately said that this was too low; that he did not want the balance to run materially below $1,000,000,000; and that in view of Bell's estimates, he would insist upon raising at least 1 billion dollars of new money on December 15th. Mr. Coolidge said that he had in mind raising new funds amounting to $500,000,000 on December 15th and raising the other $500,000,000 or whatever may be required to keep the balance at about 1 billion dollars, through the issuance of Treasury bills, raising the present weekly amount of $75,000,000 to $100,000,000 or $125,000,000. Bell then asked the Secretary if he would be willing to have interim financing, say on Feb. 15th of $500,000,000. He said he did not want to deviate from the quarterly financing and that he did not want to increase the weekly amount of Treasy bill offerings beyond $75,000,000. He said it would be his policy, unless strong reasons were presented for changing such policy, to do the major financing on quarterly tax dates and have no further increase in the weekly amount of Treasury bills except in an emergency.

Mr. Coolidge is to be in New York tomorrow, Nov. 15th, to discuss in a general way the December 15th financing. Mr. Morgenthau told him that in discussing these matters he should be guided by this policy. Mr. Coolidge stated that he thought we might have a comparatively easy time raising $500,000,000 of new funds on December 15th and at the same time offer a long-term Treasury bond with a coupon not to exceed 3 1/4%. If, however, the amount of new funds is increased to 1 billion dollars, we might have a very difficult time in offering a bond issue. He asked Mr. Morgenthau if it were found to be more or less impracticable to have a bond issue, would he care so much about the rate to be paid on the short-term financing? Mr. Morgenthau said he was not worried about the rate on the short-term financing, but said he would like to have, if possible, a five-year note so as to get by the period of the large floating debt now facing us. He said this was in line with the five-year maturity on June 15, 1939, and this would come on December 15, 1939. Mr. Coolidge stated that if we come out on December 15 and ask for 1 billion dollars of long-term bonds, it might be taken as an indication that there was a much-improved budget situation, and he did not think the Secretary should create this impression. Mr. Morgenthau said, of course, that he did not want to do this, and if he thought there was danger of this, we should have short-term financing or advise the bankers of the exact situation with regard to the budget. He told him that he might indicate to the bankers that the budget would be practically balanced except for expenditures on account of relief and public works.

Mr. Morgenthau was very emphatic about wanting a three month's supply of money on hand should any crisis come up. He reminded the men that when he first came to the Treasury they paid 3% for a 13 months note and he did not want to have to go thru that again. Coolidge tried his best not to borrow more than $500,000,000 so that the balance could be low and then it would be easy to sell his 30 year long term bonds.

November 14th.

Things accomplished by H.M.,Jr. during the week of Nov. 14th.

1 - Eccles made Governor of the Federal Reserve
2 - Home Owners' Loan stopped making new loans
3 - Arranged for the Committee of Lending Agencies of which H.M.,Jr. was made Chairman

November 21st.

Mr. Morgenthau called Harry Hopkins from Sea Island Beach, Ga. and told him that he could only get $110,000,000 relief money for December and Harry Hopkins wanted $135,000,000.

Mrs. Klotz:

Speaker please. Thank you.

McH

Bill Myers

Nov. 14, 1934.

H. M. Jr:	Good morning Bill.
	Yes Henry.
H. M. Jr:	Do you know Preston Bellano over at Home Owners' Loan.
	No I don't.
H. M. Jr:	Oh - he's General Manager over there?
	I've met him - he's the General Manager - the President?
H. M. Jr:	No General Manager.
	I've met him but I don't know him well. I think Hill might have been in touch with him.
H. M. Jr:	Who?
	Hill.
H. M. Jr:	Well I wondered what they thought of his ability.
	I'll call you - can I call you back?
H. M. Jr:	Will you do that?
	I will - Henry
H. M. Jr:	Yes.
	Are you going to be here in the morning or don't you know yet.
H. M. Jr:	Well, Bill, don't think I'm trying to put it off. What I'm trying to do is this.
	You can play safe with me.
H. M. Jr:	I've got things I'm trying to clean up. I'm going away Friday night.
	Yes.
H. M. Jr:	And these people that I'm working with are something that I have to clean.
	Yes.
H. M. Jr:	Have you got something that is worrying you?

No nothing terrible. When are you coming back?

H. M. Jr: I'll be gone just a week. Well I'll call you tonight. I'd like very much to walk with you but seeing these people that can't wait - that's the point.

Alright, Henry and if I ----

H. M. Jr: You keep yourself open tomorrow and I'll call you.

If it doesn't suit, I'll wait till you come back.

H. M. Jr: Thank you Bill.

Alright.

H. M. Jr: Good-by.

November 14, 1934.
Wednesday.

Colonel Lindbergh speaking.

This is Henry Morgenthau, Jr.

Col. L:	Good morning sir.
H. M. Jr:	How are you.
Col. L:	Fine thank you.
H. M. Jr:	I've got Mr. Irey here in the office with me and we think we can work it out to let you have Wilson for the balance of the month.
Col. L:	Well I think it would be perfectly great if you could.
H. M. Jr:	Yes and I think around the first of December why we can send him up there and let him work with Schwartzkopf.
Col L:	I think it's perfectly great.
H. M. Jr:	Yes. There's sort of a lull in the other case now.
Col. L:	Yes.
H. M. Jr:	And---
Col. L:	Well I can't tell you how much we appreciate that if you do.
H. M. Jr:	Well it can be done. Do you seem to be making any progress?
Col. L:	I've been on a contract for three or four days. I think I've got things fairly well in hand.
H. M. Jr:	Well Wilson will be up there Monday.
Col. L:	He'll be up here Monday.
H. M. Jr:	Yes.
Col. L:	Well I think that's perfectly great. I can't tell you how we appreciate it.
H. M. Jr:	Well we're glad we can do it.
Col. L:	As I've told you many times your Department has been 100% all the way through - they've been wonderful.

H. M. Jr:	Well he'll be up there Monday, and I hope he'll be of some use.
Col. L:	Fine. Well I know he will. There has never been a time when he hasn't.
H. M. Jr:	Alright.
Col. L:	I wish you would please give Mr. Irey my best regards.
H. M. Jr:	I will - he's sitting right here. Good-by.
Col. L:	Thank you very much.
H. M. Jr:	You're welcome.
Col. L:	Good-by

November 16, 1934.
Friday.

Dictated Nov. 27th

Telephoned the President yesterday and told him that I thought we were planning to do everything possible to help Japan. We were doing it thru - one, not coming to an agreement with Russia about her debt to us and thus preventing our doing business with them and - two, thru the increased price of silver we were seemingly deflating China. I told him that silver was being smuggled out of Shanghai and being sold out of Hong Kong. I reminded him that he told me a couple of weeks ago that he wanted the price of silver to be 64½¢ by the time Congress met. I asked him if he would be satisfied if I did not bid above 55¢ for silver for the rest of this week until I had a chance to talk with him and he said that that was o.k. I then said I wanted him to think over the idea that we would tell China that when silver reached 64½¢ that we would try to stabilize it at that point and that I would try and sell this idea to the silver block senators showing them that contrary to their prognostications our export business with China has been falling off. (During the day I learned that while China's imports from the United States were steadily dropping, their imports from Great Britain and Japan were steadily rising.

Walter Lippman called. He had seen the leading French financiers. He gave me a new idea - namely, that we announce defacto stabilization at 4.86 and we would stay at that price unless Great Britain or Japan should devalue their currency under 4.86. In that case we would lower ours. He felt that the advantage of this move would be that it would give the rest of the world confidence that the great hoarding of gold would cease; that gold would come out of hoarding and go into business and consequently raise the gold price of commodities; and that if England did not agree it would let the world know that it was England who was holding back recovery and not the United States as the rest of the world wants people to believe. Lippman said the next move was the President's budget message and that if this showed a balanced budget plus money for relief, provided the total amount asked for was less than in his previous budget message, that this would be such a stimulant to business that we would be definitely on our way. That subsequent to the President's budget message we should then make this move on defacto stabilization. He said tell the English you were going to do it beforehand but do it. I explained to him something about our problem with relief and said that the way I looked at it we needed a new high bred animal which would be a cross betwen public works and relief. He liked the idea. It would be interesting to see if he uses it. I explained that the trouble with public works was that they did not take people off relief. I did not got into any further explanation but I did let him know that I had been spending half of my time on the relief problem. I also told him and hope that he would use it that China's troubles began the day that England went off the gold basis.

November 27th

Chester Davis and McConnell called about their deal with the Caplans and that they should distribute the molasses that the A.A.A. would buy from Porto Rico and the Phil~~l~~ippines. The proposition is to let the Caplans sell the molasses they now have on hand and distribute it in this country as sole agents for the U.S.A. and three or four months later replace this molasses with Porto Rico and Philippine products. I told Davis that if he formally asked the Treasury to o.k. this we would have to say no because the Caplans were under grave suspicion as suppliers of molasses to bootleggers, and I strongly advised him not to enter into a contract with them. He said there is no one else who could do the business and I said that is too bad, but I think you are making a big mistake.

That afternoon I had the first meeting with the lending committee. The only important decision made was that all banking legislation should clear thru this committee. Everybody liked the idea except Eccles who had formed his own committee and wanted things to clear thru him as far as the Federal Reserve went.

Farley lunched with me and told me the following story which he swore me to secrecy. It seems that Sissie Patterson had dinner party at which she invited Mr. & Mrs. Ickes, Jimmy Moffett and Mrs. Moran. Ickes got to talking to her and told Mrs. Moran what a great fellow he was and she kept telling him that she had never heard of him and had a grand time kidding him. Ickes then asked Mrs. Moran to go for a walk in the garden and Ickes tried his best to date her up. Mrs. Moran continued to kid him. He had no idea who Mrs. Moran was. He told her that Glavis of his outfit could find out and then proceeded to tell her all about his troubles at home and how Mrs. Ickes did not understand him and all of this to a complete stranger. Having found out who Mrs. Moran was he continued to call her up on the telephone and tried to get her to let him come up to her house to see her. She wanted to frame Ickes to scare him and as a joke more or less, but Moffett would not let her. Farley says that this fight bebetween Moffett and Ickes naturally is deeper than on the surface because Moffett did not like the idea - to use Farley's words - of having Ickes date up his girl. Farley says that he has had this story from both Moffett and Mrs. Moran and believes it is absolutely true.

Nov. 28th

Mr. Morgenthau asked the President whether he could invite Colonel Lindbergh to be technical advisor to P eoples who is central purchasing agent for all planes - provided Lindbergh has no stock in any company. The President said he did not like it.

November 15th

H. M. Jr. saw Sir George Schuster at 9:45 this morning. As a private individual he came to see Mr. Morgenthau. He left India in May. He said he is not interested in money making and wants to be free to take up other questions. He said he was tracing out where all this expenditure is actually going to because he felt that with the money that we were spending it must begin to fill up the bottom and start the rising tide. Because of our expenditure there should be a greater rise in business than there is. Mr. Morgenthau said that people are constantly interpreting things incorrectly like Parker Willis for instance. He gets mis-information from New York and it goes to London. We make our decisions in the Treasury without consulting Wall Street and, therefore, no one group makes a lot of profit out of information they get from the Treasury. They get the information the same time that anyone else does and, therefore, the information that they send ahead of time to London is incorrect. Sir George said that in England they had a method of consultation which is unique. They have a tremendous public spirit amongst the leading bankers. The Governor of the Bank of England, Norman, goes to the Treasury and has very close contact. H. M. Jr. said we do not have it now but it is coming. H. M. Jr. said business is too optimistic. Most of the wealth is in the agricultural sections. The south is richer than it has ever been as a result of cotton and tobacco. H. M. Jr. told Sir George that the President said his idea was that there was a lot of filling up of holes before the level really rose. People were first discharging old debts. First this takes place before people can buy. Sir George said that he would have a series of questions to ask Mr. Morgenthau. Mr. Morgenthau told him to send them in and he would answer those that he could and if he couldn't he would say so. Some of the questions Sir George wanted to have answered were:

1. How long can the country stand the over-spending more than you are raising in tax revenue?

2. On what scale has it been proceeding?

3. Will it increase?

4. How long can you safely go on?

Sir George said according to what we are doing there is nothing to worry about and H. M. Jr. said according to what England is doing we are doing comparatively little.

Mr. Farley telephoned Mr. Morgenthau and said that he doesn't want anything done on Federal Deposit Insurance until he returns. He is particularly disturbed about McKee.

November 22, 1934.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury.

My dear Mr. Secretary:

In accordance with your instructions, and accompanied by Mrs. Klotz and Mrs. Forbush of your office and a representative of Mr. Hopkins, the writer visited the rehabilitation project in Putnam County, West Virginia, on November 20th. The inspection was made under the guidance of Mr. Meanor, an Architect of Charleston, West Virginia, who designed the project and is now directing the operation.

The following report is based on the writer's observations and on data furnished by Mr. Meanor.

<u>The Property</u> consists of approximately 2200 acres located about 27 miles West of Charleston, on the North bank of the Kanawha River. A branch of the New York Central Railroad and a main East-West highway parallel the river and pass through the developed portion of the property. The railroad station and post office are now located at Red House about two miles East.

Seven hundred acres of level land extending along the river are being developed as the site of the project; the bottom lands adjacent to the river being reserved for the community farm and the home sites being located generally North of the highway on the slightly higher table land.

The adjoining country passed over on the trip to and from the project presented no evidence of agricultural or industrial development. The few hamlets were of uninviting appearances. Immediately West of Charleston are several large industrial plants.

The cost of the property is reported as $56,805.00; the project site being estimated at between $300 and $400 per acre and the northern or hill portion at $1.00 to $5.00 per acre.

The Project consists of one hundred fifty (150) home sites of approximately 3/4 acre each and on which there are being erected a house and a garage. The houses are in various stages of construction; one being completed, the majority completed on exterior, and several in the early stages of construction. All garages are completed and in use as temporary store houses.

The original buildings consist of a very old brick house used as the executive office and a large barn used as the wood working plant. There are several temporary barracks and sheds for housing the workmen and the equipment.

Roads and utilities are in place or under construction as described below.

The land reserved for future community farm has been limed and seeded with rye. The soil is reported as sour and worn-out.

A considerable amount of grading has been completed around the home sites, but no fertilizing, seeding, or planting is contemplated. The soil is dry and light and needs improving.

The Labor, in general consists of men on the relief rolls of the surrounding counties who are transported each Sunday to the site, housed in barracks during the week and returned home the following Sunday. The loss of efficiency on account of this "turnover" is somewhat overcome by placing these men in groups under a small number of competent mechanics who are employed continuously.

In addition, there is a group of men who have been selected as the "home steaders". This group is given continuous employment and all wages earned above the minimum amount necessary for the support of their families are applied toward the rental of a home on the property. One man in this class told of an investment of $450.00 in a home by this method.

A small administrative staff directs the operations. The arrangements for temporary housing, mess, sanitation, and health are excellent. The entire organization appears efficient, conscientious and enthusiastic. The labor was well distributed and there was no evidence of loafing.

All workers are paid the union scale of wages which varies from 45¢ per hour for common labor to $1.33½ per hour for masons. The payroll to November 8th is reported as $180,638.00 of which $92,680.00 was paid to relief roll labor and $87,958.00 to non-relief roll, transportation, designing, supervision, etc.

Plant and Equipment for construction purposes appear to be adequate, and have been procured both by purchase and by hire. There is a concrete block plant and a small saw mill in operation. Bulk materials are unloaded from a railroad siding or from river barges.

Materials for construction are secured within short distances. Cinders for concrete blocks are obtained for cost of freight. Road material is slag from burnt out coal mines. A small quantity of sand is obtained on the property. Lumber is shipped in as mill stock and is pre-cut at saw mill on the property. Millwork is shipped "knocked down". About $180,000.00 has been expended for materials to date.

Design and Construction methods have been carefully studied and, in general are satisfactory. The general plan and engineering are good. The design of the houses has been developed from a unit plan but sufficient variations in size and treatment have been used so as to avoid monotonous repetition, although all houses are constructed of identical materials. With ordinary maintenance the life of the houses should average 15 to 17 years.

The houses are all one story and open attic, varying from a living room, kitchen and bath to a living room, kitchen, bath and two bed rooms in the first story. Additional variations are obtained by increasing the dimensions of the kitchens and bed rooms. All houses have a very small cellar, a porch and a detached garage.

The foundation and first story walls and the first story partitions are of concrete blocks. The exterior faces are brush coated and spray coated with cement and the interior faces are "skin coated" and trowelled with a tinted cement.

Floors, roofs, gables, and porches are frame construction, with all main roofs and gable walls insulated. Roofing is slate coated paper shingles in a variety of color. The millwork is reduced to the minimum; no plastering is used; but little painting is required; and the hardware and lighting fixtures are of the utmost simplicity.

The plumbing is of good quality and grouped to secure economy and accessibility of piping. Water heating is designed for gas and gas stoves for cooking are contemplated.

No heating equipment is used; each living room has a fireplace for coal, wood or gas and provision has been made in chimneys for stove pipes.

In general, the construction has been planned to secure the greatest economy and to provide a type of house suited to the ability of the labor and the needs of the typical family of this locality. Certain apparent defects were noted:

(a) Exterior walls of 8" concrete blocks, without stucco or plaster covering will probably develop leaks, and cause condensation to form on inside. Use of "green" blocks will cause shrinkage at joints and form cracks.

(b) Lack of cellars will cause damp and cold floors. The small cellar provided is inadequate for a heating plant and furnishes little more than a store room and to give access to plumbing pipes. A cellar under the entire house would have cost about $175.00 for the average house.

(c) Inadequate heating. With a small fireplace in the living room and with the use of gas for cooking, it will be necessary for the tenant to provide stoves for at least the bed rooms. A pipeless furnace in an adequate cellar would cost about $125.00, or less, and would solve the heating requirements with comfort and safety.

(d) No fire protection of any type is provided.

(e) Certain minor defects resulting from economy are no balances on window sash, only one closet (other than kitchen cupboard) in each house; omission of gutters and downspouts, and small number of electric outlets.

(f) No landscaping planned. Home sites are treeless.

In general, the workmanship is good. The work has been carefully executed although the rate of production is a house in less than ten days.

<u>Utilities</u>, such as water and sewer systems, are about completed. The water is obtained from two wells and is pumped into a 75,000 gallon steel tank located on a hill near

center of distribution. It is adequate for the project being constructed. Water will be metered.

The sewer system is adequate for a larger project. All houses are connected to mains which discharge directly into the river.

Electric current will be obtained from private utility at about 6¢. No work has been commenced but utility has agreed to install lines.

A well for natural gas is being drilled and is down to about 2200 foot level. A second well is planned. If an adequate supply is obtained, this feature should be self-liquidating and offer possible inducement for the location of industry.

Roads are about completed and total nearly ten miles. These are built of the slag from burnt out coal piles and apparently provides a compact, smooth road bed.

Cost of operations to November 8th is $468,749.00 and the total estimated cost to complete the present plan is $583,000.00. This does not include the development of a community center, playground, or school for which additional funds would be required.

On the basis of total estimated expenditure, as planned, the cost of the average house will be $3700.00.

The actual costs of labor and materials for the completed house are nearly $1900.00 and this is of average size.

On the basis of these figures, it is apparent that carrying charges would be above the ability of the prospective "homesteader". These costs might be reduced by eliminating items such as self-liquidating utilities, roads, inefficiency due to labor "turnover", unused land, etc. By such methods it might be possible to reduce the carrying charges to the $15.00 to $17.00 per month which is the normal expenditure for shelter by families of similar type in the locality of the project.

Plan of Operation as outlined provides for the occupancy of the project by the "homesteader" families this winter. Employment will be provided during this period by the construction of the community center and the school if funds are available.

Two or three small industries will be induced to move to the project and additional employment will be provided by the preparation of the land for crops, the improvement of the home site, dairy farm, or the additional housing if authorized.

Additional housing to the extent of one hundred homes has been planned and it is believed by those in charge locally that such an increase would solve the cost problem by greater distribution of "overhead" and that the community would be strengthened by the larger population.

The average family of the prospective "homesteader" is 5.8 which provides a population of 870 under the present plan and would provide 1450 under the larger plan.

Conclusion. The success of a new and somewhat isolated community such as "Red House" would appear dependent upon the possibility of providing employment through the establishment of one or more industries adjacent to or in the community. The transportation facilities, rail, highway or water, and the possibility of low cost gas fuel offer excellent inducements, but although there appears to be considerable local interest in the project no definite prospect for the introduction of industry has been developed to date.

It also appears that the cost of the project is more than can be justified by the accommodations provided in the present plan. The cost of individual units must be adjusted by a fair appraisal, and the unabsorbed costs liquidated or distributed in future construction when such construction is warranted.

Respectfully,

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: November 22, 1934.

TO Secretary Morgenthau

FROM Mr. Haas

Re: Brief Summary of Preliminary report on British Tax system by Roswell Magill, L. H. Parker and Eldon P. King.

Note: For fuller explanations see the more detailed summary which is attached.

The salient points made in the report may be summarized, without comment by the present writer, as follows:

1. The British System of income tax administration is much more decentralized than the American.
   Perhaps more field men should be employed in the United States and given greater authority to settle cases on the spot.

2. Steps should be taken to improve the quality of the personnel employed to administer the taxes.

3. Steps should be taken to keep the Board of Tax Appeals current in its work.

4. The taxpayer's privilege to petition for a revision of his assessment should be further restricted.

5. Steps should be taken to enlist the cooperation of the taxpayers through the codification and simplification of tax law and the substitution of equitable principles at many points in the law now held by technicalities.

6. Among the Special features of the British Income tax may be noted:

   (1) They tax imputed income from property occupied by the owner on the basis of average rental value.

   (2) They tax wages and salaries paid out by the government.

   (3) They collect almost 70 per cent of their income at the source, but the tax on salaries and wages is not ordinarily so collected and the surtax is not so collected.

(4) The British taxpayer does not compute the tax and transmit it with his return. He is assessed by the government under five separate schedules A-E.

(5) A corporation is taxed on all its profits, but is entitled to deduct and retain for dividends paid out an amount corresponding to the tax on that paid out portion of the profits. Pyramiding of the tax on dividends due to intercompany transactions is avoided.

(6) The British have only a negligible amount of tax free bonds.

(7) They do not tax capital gains unless the taxpayer makes transactions in such assets his business. Neither do they allow deductions for capital losses.

(8) They do not permit deductions for depletion. (mines)

(9) Depreciation for absolescence is not allowed until and unless the machineryis actually replaced.

(10) Depreciation for buildings is not allowed except in cases where they are peculiarly subject to depreciation, in which case the allowance is arbitrarily limited to one-sixth of the annual rental value.

(11) Depreciation on machinery and equipment is allowed at a constant rate but upon a written down cost of the depreciable property.

(12) They allow business losses to be carried forth for as long as six years and they may be used to offset income of other sources as well as subsequent business gains.

(13) They do not apply the statute of limitations until after six years, instead of three as in Revenue Act of 1934. (U.S.)

(14) They do not permit consolidated returns.

7. Personal exemptions for income tax purposes are much lower than in U. S. Single £100; married £150; first child under sixteen or at recognized school £50; additional children each £40.

8. The income tax rates are higher on the lower incomes.

Normal rate:	on first £175 of taxable income	11¼%
	on remainder	22½%
Surtax rates:	do not apply on first £2,000 of income	
	on next £500 rate is 5.5%	
	maximum of 41.25% is reached on income over £50,000	

The maximum normal and surtax rate together is 63.75% in Great Britain and 63% in U. S.

9. The British exemptions for the Estate Duty are much lower than in the U. S. They exempt estates under £100 whereas we exempt estates under $50,000.

10. The British Estate Duty rates are much higher than ours. They start with 1% on estates £100-500 and rise to 50% on estates in excess of £3,000,000, but their rates are applied by totality (on the entire amount of the estate) rather than by bracket as in the U. S.

11. The British have very many stamp taxes.

12. The British taxes on intoxicating spirits, tobacco and entertainments are on the whole much higher than the American.

13. The British derive substantial revenue from customs duties on tea, coffee, and cocoa, the U. S. none.

14. The United Kingdom derives relatively more revenue from its death duties and less from excises than is the case in the U. S.

15. The British local property taxes are higher than the American.

16. The British localities rely much more upon the central government and public utilities for revenues to supplement those derived from the property taxes and this has practically eliminated the competing jurisdiction problems involving Federal, State and local interrelationships.

17. The motor vehicle license fee, though locally administered, is uniform throughout the country.

18. The per capita tax burden in Great Britain for the year 1933-34 was 45% more than the per capita burden in the U. S.

19. The American per capita public expenditures for the fiscal year 1934 were 16% more than the British.

20. The per capita British debt burden is about 2½ times that of the American.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: November 22, 1934

TO Secretary Morgenthau

FROM Mr. Haas

Re: Detailed summary of preliminary report on the British tax system by Roswell Magill, L. H. Parker and Eldon P. King.

Note: A brief summary has also been prepared and submitted separately.

The report is divided into four parts, as follows:

I. Administration of British Income Tax
II. General statement of British Tax Laws
III. General statement on British Tax Revenue
IV. Conclusions

There are appended nine exhibits, as follows:

A. Federal Income Tax Procedure - (American)
B. British Civil Service System and Examinations
C. System of Appeals in the United States
D. Statistics on Appeals in United States
E. Income tax - United Kingdom - year of Assessment and How the assessment is measured
F. Income tax - United Kingdom - collection at the source
G. Income tax - United Kingdom - Capital Gains and Losses
H. Income tax - United Kingdom - Depreciation and Obsolescence
I. List of Important Stamp Duties, Showing rates.

The salient points made in the report may be summarized, without comment by the present writer, as follows:

I. Administration of the British Income Tax

1. The keynote of the British revenue administration is decentralization and pivotal figure is the local inspector of taxes.
2. The spirit of the administration is to confer wide authority upon the inspector.

   Approximately 95 per cent of the cases are settled without any further reference or appeal.
3. Ordinarily the inspector relies upon statements certified by accountants who have audited the taxpayer's books and who aim at high standing before the Department.
4. The expeditions determination and final settlement of so many cases by the local inspectors result in (1) satisfied taxpayers (2) a reduction in the number of cases pending litigation.
5. The success of the British system turns upon the high caliber of the inspectors who are carefully selected and well trained Civil Service officials.
6. There are no published regulations interpreting the law. The Department's staff and taxpayer's representatives alike must rely upon the law and court decisions.
7. Inspecting officers are available for consultation on important points to inspectors within their respective areas.
8. The Chancellor of the Excheque is in charge of the Department of Inland Revenue which is run by the Board of the Inland Revenue.

   The taxpayer has no appeal to the Board from the determination of the Inspector.

   The chief duties of the Board are:-

   (a) Administrating the personnel of the department
   (b) Consideration of prospective legislation and objections to existing legislation
       (Tax proposals are prepared in the Department for the Chancellor)
   (c) Consideration of important questions referred to it from its field
9. The taxpayer has the option of taking his case from the Inspector to either (a) the General Commissioners or (b) the Special Commissioners and of appealing from these bodies to the High Court of Judicature.
10. The General Commissioners, for each single district or for a group of neighboring districts, are selected by vote of the Land Tax Commissioners who are political appointees of the members of Parliament.

    They are retired professional men or landowners, serving without salary, and with the assistance of the Inspectors and part-time clerks to the Commissioners (ordinarily solicitors), hold meetings (court) several times a year to hear determine the majority of the appeals from assessments.

Decisions are rendered immediately after evidence is in.

The entire procedure is somewhat informal.

11. The more complicated cases are normally carried to the Special Commissioners, full-time officials (four lawyers and four accountants) designated by the Chanceller of the Exchequer half from the Inland Revenue and half from outside. Hearings are conducted both in London and on circuit.

This body is analogous to the United States Board of Tax Appeals, but in addition to its primary judicial function they have a variety of other duties:-

(a) Administer assessments under Schedule D (profits of trades, businesses and professions, etc.) at the request of those taxpayers who prefer not to have their accounts examined locally.
(b) Administer the sur-tax.
(c) Assess all railways and officials of railway companies in the United Kingdom.

12. Nearly nine-tenths of the appeals taken to the Special Commissioners are settled by negotiation shortly after the appeal.

13. The procedure before the Special Commissioners is informal.

It requires no written or printed briefs.

Decisions are rendered promptly, usually within the same week that the appeal is heard.

14. An insignificant number of cases are usually carried from the General or Special Commissioners within a twenty-one day period to the High Court of Judicature - in England to a single Lord Justice of the King's Bench Division, in Scotland to three judges of the Court of Session and heard within a few months.

This appeal is limited to questions of law and therefor involves no witnesses, but only agreements of counsel.

Costs in the appeal are paid by the losing party.

15. The taxpayer can carry his appeal from the single judge of the King's Bench Division (or Court of Session in Scotland) to the Court of Appeals, and from the Court of Appeals to the House of Lords, but few cases are carried up from the lower courts.

16. All courts are substantially current in their work.

II. General Statement of British Tax Laws.

Tax on Incomes.

A. Schedular System.
The income tax is assessed under five Schedules A, B, C, D, and E.

1. Schedule A - income arising from the ownership of lands, tenements and hereditaments.

2. Schedule B - profits from the occupation of lands and tenements, not including dwelling houses and business premises.

3. Schedule C - interest, dividends, annuities payable out of the public revenue, including the public revenue of a foreign state if payable in the United Kingdom to a British resident.

4. Schedule D - profits of trades, businesses and professions; interest (except as under C); dividends from foreign securities; and profits from miscellaneous sources.

5. Schedule E - income arising from offices and employments (salaries and wages).

It should be noted that the British tax

(1) Imputed Income; that is if the property is occupied by the owner, income is computed on the basis of the average rental values and taxed though the income is not actually received in the form of money or money's worth.

(2) Wages and salaries paid out by all Governments.

(3) Farmers' profits; Schedule B was designed as a rule-of-thumb method to catch the farmers' profits which probably would have escaped under Schedule D.

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RELATIVE IMPORTANCE OF SCHEDULES

Income assessable before reliefs and before depreciation allowances for repairs, but not before cost of goods sold, business expenses and the like, 1931-32.

	(in millions of £)
Schedule A	481
Schedule B	48
Schedule C	181
Schedule D	1269
Schedule E (Salaries)	856
(Wages)	556

The system of assessing tax under separate Schedule prevents tax evasion.

B. Collection at the Source.

1. The British require in most cases the payment of the tax by the payor of rent, interest, royalties, annuities, and similar annul charges. Here, the payor acts as the tax collector of the government.

2. The tax on wages and salaries is not ordinarily collected at the Source.

3. A corporation is charged on the full amount of its profits under Schedule D before any dividend is taken into account, but the corporation is entitled to deduct and retain from dividends paid an amount computed at the standard rate of tax for the year in which such dividend is due and payable.

Sometimes the tax paid by a corporation on its income is considered as a tax collected at the source.

The tax is not only assessed separately under 5 different Schedules, but is paid separately, though finally treated as a single tax, losses on one Schedule offsetting gains on another and frequently leading to refunds of amounts paid at the source in some one of the Schedules.

C. Reliefs -(Allowances or Deductions)

1. Earned Income credit. 1/5 of earned income, but deduction may not exceed £300.

Persons over 65, with incomes not exceeding £500, are entitled to the earned income credit whether income is earned or not.

2. Personal exemptions and exemptions for dependents.

Single	£ 100
Married	£ 150
1st child under 16 or at recognized school.	£ 50
Additional children	£ 40 each.
Housekeeper	£ 50 (applicable to widow or widower only.)
Dependent — Aged or infirm relatives	£ 25 each.

3. Depreciation deductions are treated under reliefs rather than business expenses (see below for fuller explanation)

4. Tax credit on insurance premiums computed at ½ the standard rate (normal tax) allowed on policies taken out after June 22, 1916.

D. Rates

1. On first £ 175 normal tax is at ½ standard rate that is 11¼%.

2. On remaining taxable income the standard rate is 4½s. in the £ or 22½%.

3. Surtaxes are assessed by the Special Commissioners and not by the General Commissioners as in the case of the normal income tax.

4. There is no surtax on the first £ 2000 of income.

The surtax rate on the next £ 500 is 5.5% and thereafter is graduated up to a maximum of 41.25% on the block of all income over £ 50000.

5. The maximum rate in the United Kingdom, therefore is 22.5 plus 41.25 or 63.75%; in the United States 4 plus 59 or 63%.

6. However, a table submitted in the report shows that the differences in tax liability as between the two tax plans are very substantial at least up to the $500,000 net income level.

7. The British have only a negligible amount of interest in bonds exempt from the surtax. In the U.S. it is easier to escape the effects of a graduated tax system, by reason of the larger volume tax free securities.

8. The British avoid surtaxes by incorporation as we do in the United States and they have adopted similar remedies.

Shareholders of corporations which are under control of not more than five persons are liable to assessment at surtax rates upon that part of the corporation's total income to which their interests entitles them if a selected group from the Board of Referees (comprising 100 representatives of different industries and professions), should determine that unreasonable accumulation of profits had been made.

E. <u>Other Special Features</u>.

1. <u>Capital Gains and Losses</u>.
The British do not tax capital gains, unless the taxpayer makes transactions in such assets his business. Neither do they allow capital losses as deductions.

2. <u>Depreciation depletion and Obsolescence</u>.

(a) There is no depletion deduction on account of the exhaustion of natural resources, such as mines.

(b) Depreciation deductions arising from obsolescence are not allowed unless and until the machinery is actually replaced.

(c) Depreciation is allowed on machinery and equipment, but in general is not allowed on buildings although for premises peculiarly subject to depreciation such as mills and factory buildings an allowance of one-sixth of the annual rental value is permitted which gives relief in lieu of depreciation.

(d) In Great Britain depreciation is allowed, usually at a constant rate, upon a written-down cost of the depreciable property, so that the value is never written down to zero, although the written-down value will approach this limit.

In practice the cost of machinery and equipment is depreciated to about 10 per cent of its cost at the end of the useful life of such items.

3. Carrying forward business losses

(a) In Great Britain business losses may be used to offset income for as long a time as six subsequent years.

(b) Business losses may offset not only subsequent business gains but also income from other sources.

4. Statute of Limitations:- Not applied in Great Britain until after six years instead of after three years as in the U.S.

5. Consolidated Returns.

(a) Not permitted in Great Britain.

(b) Dividends from one company to another are so treated as to avoid pyramiding of the tax.

6. Foreign Tax Credit:- is as a general rule not allowed for foreign taxes paid by a British resident on income received by him in Great Britain.

Death Duties

1. The estate duty is the most important of these.

2. It is assessed on the net value of the entire estate without regard to the number of beneficiaries.

3. Estates under £ 100 are exempt: in U.S. estates under $50,000 are exempt.

4. The rates vary from 1% on estates £ 100 - £ 500 to 50% on estates in excess of £ 3,000,000.

5. The rates are applied by totality (i.e. to the entire amount of the estate) instead of by bracket as in the United States.

6. The British have no gift tax but include in the value of the decedent's estate substantially all gifts made within 3 years of

the date of death.

7. The American combination of estate and gift tax "is far more effective in preventing the avoidance of the estate tax than is the British system."

8. In the United States property is exempt from tax if the prior decedent died within 5 years of the date of the second decedent's death. Under British estate duty the amount payable is gradually reduced, by 50 per cent where the second death occurs within 1 year of the first death.....by 10 per cent where the second death occurs within 5 years of the first death.

9. A table comparing United States and British estate tax indicate substantially heavier taxes in Britain on all except the very largest estate there indicated, viz., $100,000,000.

10. The legacy and succession duties are imposed on personalty and realty, respectively, on estates £ 15000 and over, at rates graduated from 1 to 10 per cent on the basis of consanguinity and not on size of the share received by each beneficiary.

11. The administration of the death duties is centralized in London. The taxpayer may appeal from the audit and valuation groups successively to Chief Examiners, to the Controller of Death Duties and to the Board of Inland Revenue.

12. The valuations of land leaseholds etc. made for income tax purposes eliminate many of the field investigations which would be necessary in the adjustment of the estate tax in the United States.

Stamp Duties

Almost every document having to do with property, money or privilege is subject to stamp duty.

Customs & Excise

1. Excise duties are not under the Inland Revenue Commissioners (as in the United States) but are together with customs under the Commissioners of Customs and Excise.

2. Spirits

The British tax is much higher and has resulted in a steady decline in the consumption of the duty-paid spirits.

Comparison of Tax per U.S. Gallon

	Excise Tax -- Home-made Spirits
United States:	$2.00
Great Britain:	12.86
	Customs & Excise -- Imported Spirits
United States:	$7.00
Great Britain:	13.36

3. Beer

The British tax is graduated according to gravity which varies with the alcoholic content.

Comparison of tax on barrel of 31 gallons of beer, 4.44%.

	Excise tax on home-made beer	Customs	Excise & Customs on imported beer
United States:	$5.00	$31.00	$36.00
Great Britain:	14.35	1s.3d.	14.62

4. Tea, Coffee, & Cocoa.

The British impose substantial customs duties on these commodities, whereas they are on the free list in the United States.

5. Tobacco.

(a) Great Britain obtains nearly all its revenue from tobacco through Customs whereas in the United States the excise tax is the revenue producer.

(b) The British tobacco taxes seem to be much higher.

Comparison of Tax imposed on Ordinary Forms of Tobacco.

	United States	Great Britain
Small cigarette per package- 20.	6¢	11-14¢
U.S. 5¢ cigar (average size)	2 mills	3.4-4.3¢
U.S. 10¢ cigar (average size)	½¢	3.4-4.3¢
Smoking and Chewing Tobacco (per lb.)	18¢	$1.86-$2.38

6. Entertainments

(a) The British get more revenue from their excise tax on admissions.
Their exemptions are much lower and tax rates higher.

(b) Their tax is graduated from ½d on admissions from 2d-2½d to 3d on admissions from 1s½d - 1s.3d plus 1d tax for every 5d. of admission price in excess of 1s.3d.
Our tax is 1¢ for each 10¢ or fraction thereof with exemptions for tax of all admissions sold for less than 41¢.

Local Taxes

(a) Great Britain avoids much duplication and overlapping of taxes, as between competing tax products because the local authorities can rely for revenue not only upon local property taxes (rate) but also upon grants-in-aid from the Crown, fees, tolls and receipts of government owned and operated utilities.

(b) Property taxes are imposed upon the fair annual rental value of the property whether rented or not and not on the total value of the property as in the U.S.

(c) The British property taxes are higher on a comparable basis than those in the United States.

As in the United States there is no uniformity of "rates".

(d) The local authorities administer the motor vehicle license fees which are uniform throughout the country.

A portion of these fees is allocated to the Exchequer.

III. General Statement on British Tax Revenue

1. As in the United States, the Income and Surtax form the most important source of the British tax revenue.

Classification	Percentage of yield of tax to total yield fiscal year 1934	
	United States	British
	(Exclusive of processing taxes)	
Income and Surtax	41.6	41.2
Customs	17.4	26.2
Excise	31.1	15.6
Death Duties (and gift tax)	6.2	12.5
Stamp taxes	3.7	3.3
Miscellaneous	-	1.2
	100.0	100.0

2. The per capita tax burden in Great Britain, year 1933-34 was about 45% more than the per capita burden in the United States: $99.11 vs $68.13.

3. The national government collects a larger percentage of the aggregate taxes in Great Britain than in the United States.

(Receipts, year 1933-34 in billions of dollars)

	United Kingdom	United States
Total national government receipts, taxes and customs	$3.41	$2.17
Total local government receipts of taxes	1.14	6.42
Total	4.55	8.59

4. For fiscal year 1934 the per capita expenditure in the United States was about 16% more than the per capita British expenditure.

(In billions of dollars)

National government	3.47	7.11
Local government	1.84	9.68
Total	5.31	16.79
Per capita expenditure	$115.00	$133.00

5. The per capita debt burden seems to be about 2½ times that of the United States.

(In billions of dollars)

	United Kingdom March 31, 1934	United States June 30, 1934
National government	39.11	27.05
Local government	6.51	19.60
Total	45.62	46.65
Per capita public debt (National and local)	$991.00	$370.00

6. The United Kingdom derives relatively more revenue for its death duties and less of excises than is the case in the United States.

IV. Conclusions

1. Decentralization

The British system of administration has been successful and suggests a more decentralized administration of the income tax in the United States and the employment of a sufficient field force to make a more thorough and accurate determination at the first point of contact with the taxpayer.

This plan should first be tried out in one area.

2. Personnel

The turnover of Treasury employees is much greater in the United States than in Great Britain.

Our most efficient men find better positions outside the service.

Steps to improve the quality of the personnel:-

(a) They should be recruited through the civil service.

(b) Security of tenure, satisfactory salary and pension provisions should be established.

(c) Civil service examinations should be studied to make certain that the proper standards have been established.

3. Board Procedure

The Special Commissioners keep current with its work, the Board of Tax Appeals does not.

Factors to consider re British system:-

(1) Settlement machinery eliminates 9/10 of appeals without a hearing.

(2) Cases are heard and decided by two commissioners without review by the remaining members.

(3) Bench decisions are made without elaborate opinions.

(4) Oral argument by counsel and discussion between counsel and commissioners help to get at the heart of the case.

4. Court Procedure

In general, the taxpayer in Great Britain must appeal his case from the assessment of the General Commissioner or Special Commissioner within twenty-one days.

He cannot afterward petition to revise the assessment.

In the United States a claim for refund may be filed within three years of original filing of return.

Consider:

(1) Whether suits for refund of taxes should not be further restricted.

(2) Whether such a great variety of tribunals for such suits are desirable.

(3) Whether losing party should pay expenses of the winning party incident to the appeal.

5. Other improvements in administration and laws

The aim should be to promote the cooperation of the taxpayer. To this end consider:-

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(1) Simplification of Bureau's administrative practice.
(2) Revision and codification of administrative provisions of the law.
(3) Procedure to improve the relations and contacts between the taxpayer and the representative of the Treasury.
(4) Elimination of technicalities in law and emphasis upon equitable principles.
(5) Creation of a board like former tax simplification board composed of representatives from (a) the public, (b) the executive, and (c) the legislative branches of the government to recommend improvements in the Bureau's procedure and forms.
(6) Attempt by a group from the Treasury, bar, and accounting profession and proper committees of the Congress to restate, codify, and clarify income tax law. Consider:-
    (a) Should we delegate discretionary power to the tax administration to make proper application of a general rather than detailed statement of a statutory rate.
    (b) Should we eliminate the taxation of capital gains and deduct the capital losses so as to :-
        (1) stabilize revenue
        (2) avoid complex questions re valuations and reorganization
    (c) Should we limit the deductions for depreciation and depletion as has been done in England.
    (d) Should we collect more revenue at the source.
    (e) Should we revise our provisions relating to interest, penalties and filing of returns.

ES

rs. Klotz:

Minutes of adjourned
ession of part of the
nterdepartmental Committee.

Upm.

2/5/34

November 26, 1934.

Following the Meeting of the Interdepartmental Committee of Lending Agencees, the following members continued in session on the matter of action with respect to distressed banks.

Henry Morgenthau, Jr. Secretary of the Treasury,

Thomas Jefferson Coolidge, Under Secretary of the Treasury,

Marriner S. Eccles, Governor of the Federal Reserve Board,

Jesse H. Jones, Chairman of the Reconstruction Finance Corporation,

Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation,

Lynn P. Talley, President, the Commodity Credit Corporation,

C.B. Upham, Secretary of the Committee,

Robert Hoguet and Mortimer J. Fox were present also.

Chairman Crowley submitted a statement relative to banks in need of capital. See attached Exhibit A.

Chairman Jones submitted a letter summarizing the information with respect to the same. See attached Exhibit B.

It was suggested that if the RFC and the FDIC would go over the list and separate the sheep from the goats, eliminating some banks and agreeing to take care of others, the matter might be disposed of speedily.

There was reference to an agreement of the RFC to save all banks "ten percent under water".

Mr. Eccles and Mr. Coolidge were of the opinion that a matter of policy must be agreed upon as to the banks that came into the FDIC hastily and under pressure and are not in good shape. Should they be taken care of by the FDIC or by the Government. National banks and State member banks came in without examination. Those known to be undercapitalized, the RFC is committed to take care of. But some banks re not covered by this commitment. Should the FDIC or theRFC take he loss on them? Mr. Jones said he would like to see the amount of he load. Mr. Crowley said the loss could not be charged off to the emporary fund, that capital would have to be used for that. Mr. ones was of the opinion that with a little time private capital might e secured for some of the banks, and cited the case of a bank in aine where it had been reported that no local capital was available ut where a representative of the RFC had lately succeeded in securing alf a million of local capital.

Exhibit A

RECAPITULATION

(Amounts in Thousands of Dollars)

TABLE A

SUMMARY OF ALL BANKS NOT TAKEN CARE OF

	No. of Banks	Deposit Liability	Insured Deposits Oct.1,1934	Net Invested Capital	R.F.C. Funds Included in Net Invested Capital	R. F. C. Commitment Undisbursed	Amount Needed to Give 10 to 1 Ratio
1. Insolvent	118	286,141	203,960	15,016	10,576	-	45,238
2. Barely Solvent (With Capital of less than 2% of Deposits)	84	186,119	142,550	2,625	12,784	-	16,087
3. Barely Solvent (With Capital of from 2% to 5% of deposits)	133	456,443	299,900	17,249	14,933	-	29,011
TOTAL	335	928,703	646,410	15,016 19,874	38,293	-	90,336

TABLE B

SUMMARY OF INSOLVENT AND BARELY SOLVENT BANKS WHICH WILL BE TAKEN CARE OF WHEN EXISTING R. F. C. COMMITMENTS ARE DISBURSED

	No. of Banks	Deposit Liability	Insured Deposits	Net Invested Capital	R.F.C. Funds Included in Net Invested Capital	R. F. C. Commitment Undisbursed	Amount Needed to Give 10 to 1 Ratio
4. TOTAL	180	485,734	295,158	4,780 10,603	-	54,916	43,894
5. GRAND TOTAL	515	1,414,437	941,568	19,796 30,477	38,293	54,916	134,230

Table A summarizes the condition of the insured banks (national, state member and state non-member) for which no satisfactory recapitalization programs have been made. Included in this group are 202 banks which are either insolvent or, if solvent, have net sound capital of less than 2% of deposits, and these cases, therefore, are considered urgently in need of rehabilitation. Adequately to capitalize these banks, which have $346,000,000 of insured deposits, requires an investment of $61,325,000.

In 126 out of the 335 banks shown in Table A, the Reconstruction Finance Corporation already has an investment of $38,293,000. According to examination reports made subsequent to disbursement, it appears that $29,386,000 of these funds have been absorbed to cover deposit impairments.

(Table A includes all banks shown in groups I and II in the supporting schedules which follow.)

Table B summarizes the condition of the insured banks (national, state member and state non-member), most of which will be adequately capitalized upon disbursement of pending Reconstruction Finance Corporation commitments.

(Table B is a recapitulation of the banks shown in group III of the supporting schedule following.)

The insured banks indicated in Tables A and B above are those which have the weakest capital structures. The supporting schedules following classify these banks in three groups, and brief summaries of the reasons for the existing situation and the most important cases in each group accompany the schedules.

BANKS IN NEED OF CAPITAL WHICH ARE NOT TAKEN CARE OF

	No. of Banks	Deposit Liability	Insured Deposits Oct. 1, 1934	Net Invested Capital	Amount Needed to Give 10 to 1 Ratio
Insolvent	93	183,448,358	135,945,620	10,172,025	30,124,795
Barely Solvent (With Capital of less than 2% of Deposits)	42	52,123,048	41,397,607	759,791	4,453,859
Barely Solvent (With Capital of from 2% to 5% of Deposits)	74	250,860,828	176,743,185	10,207,352	15,511,775
TOTAL	209	486,432,234	354,086,412	10,172,025 10,967,143	50,090,429

The Reconstruction Finance Corporation has made no commitment to the insolvent banks in this group because little or no local capital can be raised and any Reconstruction Finance Corporation investment will be impaired from the moment of disbursement.

Some State non-member banks in this group will not be taken care of because while they have Reconstruction Finance Corporation commitments conditions are such that they can not possibly be met. The first group of examples given below includes typical cases of these banks.

The recapitalization programs in the barely solvent banks in this group have not been agreed upon because in some cases the Reconstruction Finance Corporation has felt more local capital could and should be raised, while in other cases the banks have been unwilling to make the necessary application. There are in addition a number of cases in this group for which final recapitalization programs have not been agreed upon because the Reconstruction Finance Corporation refuses to consider the applications of these banks pending settlement of certain contingencies, such as mergers, outstanding contingent liabilities of the banks, or other technicalities.

Typical examples of cases in the first group are:

First Auburn Trust Company, Auburn, Maine
Lewiston Trust Company, Lewiston, Maine
First National Bank, Minot, North Dakota
First National Bank, Williston, North Dakota
Strasberg Security Trust Company, Strasberg, Pennsylvania.

Typical examples of cases in the second group are:

The Farmers and Mechanics Bank, Ann Arbor, Michigan
The Ann Arbor Savings Bank, Ann Arbor, Michigan
The State Savings Bank, Ann Arbor, Michigan
The National Bank of Ann Arbor, Michigan
Camden Trust Company, Camden, New Jersey
The Elizabethport Banking Company, Elizabeth, N. J.
The Trust Company of New Jersey, West New York, N. J.
First National Bank of Manhasset, Manhasset, New York
Merchants National Bank, Plattsburg, New York
Plattsburg National Bank & Trust Co., Plattsburg, N. Y.
Essex County Trust Company, East Orange, N. J.
Farmers & Mechanics Savings Bank, Minneapolis, Minnesota

II

BANKS WITH R. F. C. INVESTMENT
WHICH NEVERTHELESS ARE IN NEED OF ADDITIONAL CAPITAL

	No. of Banks	Deposit Liability	Insured Deposits Oct1,1934	Net Invested Capital	R. F. C. Funds Included in Net Invested Capital	Amount Needed to Give 10 to 1 Ratio
Insolvent	25	102,692,973	68,014,815	4,843,185	10,576,510	15,112,928
Barely Solvent (With Capital of less than 2% of Deposits)	42	133,996,028	101,151,688	1,864,690	12,783,750	11,633,198
[illegible]ely Solvent (With Capital of from 2% to 5% of deposits)	59	205,582,177	123,156,616	7,041,492	14,933,400	13,499,436
	126	442,271,178	292,323,117	4,843,185 8,306,182	38,293,460	40,245,562

Original recapitalization programs are inadequate in these banks because the pressure to qualify these banks for the Federal Deposit Insurance Corporation was such at the time of the original R. F. C. commitment that it seemed expedient to handle the cases in this way.

In other cases in this group the reexamination showed a condition which was materially worse.

Excessive losses have already developed subsequent to the examination upon which the original commitment was based in some cases.

Typical examples of cases in this group are:

West Jersey Trust Company, Camden, N. J.
Union County Trust Company, Elizabeth, N. J.
Trust Company of New Jersey, Jersey City, N. J.
Trust Company of Trenton, Trenton, N. J.
Central United Bank, Cleveland, Ohio
National Bank of Port Huron, Port Huron, N. Y.
Bank of Jamestown, Jamestown, N. Y.
Framingham Trust Co., Framingham, Mass.
Burlington Savings Bank, Burlington, Vt.
State Bank of Williamson, N. Y.
Farmers & Merchants State Bank, Logansport, Ind.

III

BANKS WITH UNDISBURSED R. F. C. COMMITMENTS

	No. of Banks	Deposit Liability	Insured Deposits Oct.1,1934	Net Invested Capital	R.F.C. Commit- ment un- disbursed	Local Aid Un- disbursed	Amount Needed to Give 10 to 1 Ratio
Insolvent	77	117,100,040	87,953,751	4,780,315	9,813,000	3,450,515	16,488,654
Barely Solvent (With Capital of less than 2% of Deposits)	40	76,651,050	52,862,401	674,500	5,783,000	873,430	7,048,059
Barley Solvent (With Capital of from 2% to 5% of Deposits)	63	291,982,749	154,341,558	9,928,018	19,320,000	1,331,978	20,356,652
				4,780,315			
TOTAL	180	485,733,839	295,157,710	10,602,518	34,916,000	5,655,923	43,873,365

Reconstruction Finance Corporation funds have not been disbursed to these banks although final commitments have been made because sufficient local funds have not been raised or because of disagreement with regard to management and voting rights, or because of the recent date upon which the commitment was completed.

Exhibit B

C O P Y

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

Jesse H. Jones
Chairman of the Board

November 26, 1934.

Dear Henry:

From information furnished by Leo Crowley, Chairman of the FDIC, there are 209 banks with deposits of $486,000,000 - $354,000,000 of which is insured by the FDIC-that, on the whole, are without capital, and in his opinion need approximately $50,000,000 to put them in sound condition. There are 126 other banks with deposits of $442,000,000 - $292,000,000 of which is insured - and in which the RFC has invested $38,000,000, after which, according to his figures, the sound capital is $4,000,000, and he estimates that approximately $40,000,000 additional is needed to put them in sound condition.

Further figures furnished by Mr. Crowley show that there are 180 banks with deposits of $485,000,000 - $295,000,000 of which is insured - that have a net invested capital of $6,000,000, and in which the RFC has made commitments of $35,000,000 on condition of local subscriptions aggregating $5,600,000. He estimates that $44,000,000, including local subscriptions, will be needed, rather than the $35,000,000 subscribed by the RFC. A summarization would indicate that in addition to our present commitments, approximately $100,000,000 will be needed if we provide all of these banks with adequate capital.

RFC records show undisbursed authorizations and commitments to 459 member banks and 314 non-member banks. These commitments include agreements with you that upon your request, with the approval of the President, and upon application of the banks, we will buy preferred stock or capital notes in 73 banks in the aggregate amount of $9,810,000. This is the remainder of our commitments to you in December, 1933, covering 294 banks. It also includes commitments to the FDIC upon similar conditions, covering 47 banks, in the aggregate amount of $5,233,907. This 47 is the remainder of 738 banks covered by our commitments to the FDIC of December, 1933. Applications have not yet been received from 15 of these member banks, but all of the non-member banks have applied.

Of the undisbursed authorizations and commitments to member banks, including agreements with you for the 73, approximately 275 will be disposed of either by cancellation or disbursement, without further action on the part of the RFC, there being no controversial questions between the banks and the RFC. Of the 314 authorizations and commitments to and for non-member banks, which include agreements with the FDIC covering the 47 of this number, approximately 175 will be disposed of either by cancellation or disbursement, without further action on the part of the RFC.

Of the 150-odd remaining member banks, the money is now available to approximately 25, but the banks are apparently not inclined to complete the sale, and most of them can get along without the added capital. This also appears to be the case with 4 non-member banks. In the case of 12 member banks and 5 non-member banks, some legal adjustments are necessary, and are under way. Minor changes are necessary in 6 member banks and 2 non-member banks, which are in the course of adjustment. Major changes in conditions will probably be necessary in 55 member banks and 12 non-member banks. In the case of 5 member banks and 4 non-member banks, the Comptroller of the Currency and/or the Secretary of the Treasury has not approved our commitment. 7 member and 45 non-member cases are held up for various and sundry reasons.

In addition to the foregoing, applications are now with our Agencies covering 28 member banks and 35 non-member banks, and our Examining Division at Washington has under examination 26 member banks and 19 non-member banks. 96 new applications were received in the month of October, and 77 since the first of November.

In meeting conditions imposed by the RFC when it agreed to purchase preferred stock or capital notes, or to lend upon preferred stock, local interests have contributed cash and/or acceptable guaranties in 827 member banks in the aggregate amount of $93,732,798.59, and in 1133 non-member banks in the aggregate amount of $53,163,637.53, a total of $146,896,436.12 in 1960 banks.

The foregoing figures are as of November 23, 1934.

In the main the job can be completed this year but some more time is necessary if it is intelligently done. I am strongly of the opinion - and whenever I have discussed the matter with the President, he has agreed with me on the subject - that the more privately owned equity we can have in these banks, the better for all concerned. If those interested in the bank and in charge of its affairs have no investment at stake, the government's investment will be in much greater jeopardy. Our record in getting local contributions and investments, as indicated above, is conclusive evidence that it can be had, though I confess a fairly universal disposition to let the government do it all.

Very truly yours,

(Signed) Jesse H. Jones,

Chairman

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

Mrs. Klotz:

Minutes of Nov. 26 meeting

of Interdepartmental Committee.

Upm

12/5/34

November 26, 1934.

The Interdepartmental Committee of Lending Agencies met at 2:30 P.M. in the office of the Secretary of the Treasury, Chairman of the Committee.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury, Chairman,
Marriner S. Eccles, Governor of the Federal Reserve Board,
Jesse H. Jones, Chairman of the Reconstruction Finance Corporation,
James A. Moffett, Federal Housing Administrator,
George N. Peek, President of the Export-Import Banks,
E.K. Burlew, Administrative Assistant to Secretary of Interior,
Lynn P. Talley, President, Commodity Credit Corporation,
Thomas Jefferson Coolidge, Under Secretary of the Treasury,
Leo T. Crowley, Chairman Federal Deposit Insurance Corporation,
Chester Davis, Administrator, Agricultural Adjustment Administration,
John H. Fahey, Chairman, Federal Home Loan Bank Board,
William I. Myers, Governor, Farm Credit Administration,
C.B. Upham, Secretary of the Committee.

The principal matter under discussion related to the Home Owners' Loan Corporation. Mr. Fahey reported that, as announced in the press, there had been a suspension of receiving of applications for loans, and a suspension of any additional appraisals or other action on cases which had not reached the legal department or on which commitments had not been made. The reason for this, he explained, was that the total of applications just about balanced available funds. Negotiations are now going forward with insurance companies and building and loan associations to determine what they can take back for refinancing. Discussions are also being had with mortgage bankers and with savings banks. In a few weeks a clear picture will emerge of how much they can absorb and how much will be "left up in the air". Complaints are being received, he said, from institutions and from members of Congress against the announced curtailment.

The insurance people have money, if they will use it, Mr. Fahey said. The City Loan Conference, including 28 of the largest insurance companies holding ninety percent of the mortgages, have reported that they have available a million dollars which they are willing to put in fifteen to twenty year mortgages. They are limited in some cases by state laws in the percentages they are permitted to advance, the maximum in some cases being as low as fifty percent and in others sixty-five, with few States permitting an eighty percent advance. The banks and insurance companies are seeking changes in State laws on this matter, he said. Mr. Moffett said that the Housing Administration had made no insured loans as yet, and were planning on securing some changes in state laws to facilitate their activities. Mr. Fahey and Mr. Moffett reported that they had held joint conferences on the situations in Detroit and Cleveland, going over sample files and instituting a study of the situations and their possibilities.

Asked by Secretary Morgenthau if more money would be asked of Congress, Mr. Fahey replied in the affirmative, and indicated that it is a question of the least possible amount plainly necessary to prevent a new avalanche of foreclosures, and that the request should be accompanied by an announcement that the corporation would go "so far and no further".

Secretary Morgenthau indicated that he would like to keep the "decks clear" for the December 15th Treasury financing, when there would be a billion dollar maturity and a request for an additional billion of new money, and suggested that it might help if the other borrowing agencies keep out of the market until after the fifteenth.

Secretary Morgenthau stated that the Committee is to be the clearing house for banking legislation in the coming Congress. He suggested that it would be wise to have a meeting of the minds before bills are presented to the Congress, so as to avoid some of the difficulties encountered last session, particularly in connection with the so-called omnibus banking bill.

Mr. Crowley advanced the opinion that the FDIC legislation might well be advanced early and by itself. He suggested study by the individual agencies preparatory to combined action.

Secretary Morgenthau suggested that each agency agree upon the legislation it desires and report back to the Committee in two weeks. Mr. Eccles thinking that too soon for his Board, it was agreed that "as ready", the agencies report to the Committee.

Secretary Morgenthau and Mr. Jones were of the opinion that there should be one bill on banking legislation, and Secretary Morgenthau reported that this is the desire of the President.

Mr. Crowley was of the opinion that there should be a minimum of legislation requested at this session, on the theory that legislation for the FDIC is necessary, and the greater the added burden on their requests, the greater difficulty in securing enactment. Mr. Eccles and Mr. Jones were of the opinion that if there is legislation the agencies and the President want, they will get it through better now than later.

It was agreed th t there will be no publicity in connection with the meetings of the Committee, other than a statement that the members

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m. and discussed mutual problems.

It was agreed that the next meeting will be two weeks from today, Monday, December 10 at 2:30.

Mrs. Klotz:

Minutes of meeting with Open Market Committee, Nov. 27.

Upm

12/5/34

November 27, 1934.

Members of the Open Market Committee of the Federal Reserve System 233

met with Secretary Morgenthau in his office at 11:00 A.M.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,

T.J. Coolidge, Under Secretary of the Treasury,

Marriner S. Eccles, Governor of the Federal Reserve Board,

Roy A. Young, Governor Boston Federal Reserve Bank,

G.W. Norris, Governor Philadelphia Reserve Bank,

E.R. Fancher, Governor Cleveland Reserve Bank,

E.R. Black, Governor Atlanta Reserve Bank,

G.J. Schaller, Governor Chicago Reserve Bank,

W.R. Burgess, Deputy Governor New York Reserve Bank,

D.W. Bell, Commissioner of Accounts and Deposits,

George C. Haas, Director Research and Statistical Division,

C.B. Upham.

Mr. Coolidge opened the discussion of the condition of the market and the possibilities for December fifteenth financing. He referred to the fact that whereas in June the average rate on Treasury bonds was 2.98 it is now 3.025 and that in June on AAA securities of corporations it was 3.96 and now 3.86. There is more money now than in June, he said, with 3 or 4 of the big insurance companies seeking an outlet for some six hundred million.

Mr. Coolidge stated that there are $992,496,500 of 2¼ percent certificates maturing December 15th, and that the Treasury will seek about a billion dollars additional in new money. He suggested that the certificate holders be offered in exchange an 18 month one percent note. This would bring their maturity later than any of the refinancing of the Libertys; it is short enough for a low rate; and low enough to force holders to higher rate securities. This would be stinting on the market a little perhaps, he said, but there would not be any big over-subscription, which had caused trouble in the past. Moreover, if the issue didn't go, it would not be too serious. It was taking a chance, however, in his opinion, unless the Open Market Committee was prepared to make purchases and adjust the maturities of their holdings.

Mr. Coolidge indicated that a number present wanted a 3-1/8 or a 3 percent bond for the billion new money.

Mr. Burgess regarded 3 percent as too thin. The one percent for 18 months is a little tight, but can be swung, he thought. He favored letting certificate holders exchange for either of the new issues. Mr. Coolidge opposed this on the belief that the certificate holders will exchange for the 18 months and also buy the long terms for cash.

The Open Market Committee holds 140 million of the maturing certificates, it was stated.

Secretary Morgenthau expressed an inclination toward an option of two securities for the certificate holders. Mr. Coolidge preferred one, desiring to see the cash go into the bonds. It was thought that three issues were too many and confusing. The Secretary suggested the possibility of four issues, with the certificate holders having a choice of an eighteen month certificate and a three year certificate or note, and cash subscribers being given a 4-5 year note and a 12-15 year bond.

The Secretary suggested that no chance be taken on the 18 month offering, that New York dealers be permitted to name the rate. Mr. Burgess thought that the short term note might be cut thin, and said that the large buyers, naming the National City Bank, are not in the market for long term securities.

It was suggested that an eight-year 3 percent bond would go with enthusiasm.

Mr. Burgess expressed a preference for two issues only, and was of the opinion that if they go big, it will put the market up and the interest rate down. It was suggested that the market is in a very good condition --- less artificial than last Spring and certainly as good as last Spring for honest buying of a 3 percent bond.

Mr. Eccles introduced for discussion a proposed action by the Federal Reserve Board in reducing the maximum interest rate member bank may pay on time deposits below the present three percent figure. All of the members of the Federal Reserve Board except one are for it, and eight out of nine of the regional banks from whom replies have been received. Mr. Eccles read memoranda on the subject prepared by Dr. Goldenweiser and Dr. Currie. He expressed the opinion that the trend of interest rates is going to be downward and that the proposed action by the System would be a formal recognition of that, and would be helpful for Government financing in the long run.

Mr. Eccles expressed the opinion that the rate on a Government bond issue at this time should not be more than 3 percent. It will be down to 2 and a half, he thinks, and so there shouldn't be a very heavy offering at even three. The field for capital is not so good, in his opinion, and in view of our creditor position internationally may not see any very great improvement for some time. Compared with Great Britain, he said, a 3 percent rate for Government bonds here is too high. To give any higher rate would be an indication of weakness. The market is in the hands of the Treasury and the reserve banks, he said, and it is idle to talk about a natural market. 236

Leadership at this time will bring the banks and the investors along, he thinks.

Upon suggestion of Secretary Morgenthau, it was agreed that the action proposed by the Federal Reserve Board should be postponed until after the December 15th financing, to avoid any interpretation that it was designed to encourage and support that financing. The Secretary indicated that he desired to avoid all appearance of artificiality.

Mr. Young raised the point that a lowering of interest rates on time deposits would mean an adjustment of the rediscount rates of the reserve banks.

Secretary Morgenthau suggested an 18 month note at a rate to go; a new-money security between 4 and 5 years at a good rate and a 3-1/8 bond for 49-52.

Mr. Coolidge expressed a preference for permitting subscriptions to the present issue, that later market developments might put the Treasury in a less blamable position than if it had put out and advertised a new issue.

Mr. Eccles saw political danger in paying too much for money, and referred to Congressional sentiment for a central bank and for free issuance of currency in lieu of bonds. Mr. Burgess renewed his expression of preference for only two issues -- an 18 month at 1 percent and a 4 or 5 year issue at 2-1/4. He said a 3 percent 14-16 year bond not good enough and a 3 percent 8 year too generous. He thought the short term issue would lift the whole market.

Mr. Coolidge thinks many people would like a bond. Mr. Burgess thinks it would be psychologically harmful if the bond did not go. Mr. Eccles was of the opinion that short term financing would strengthen the HOLC's and the FFMC's. Mr. Black inquired if the absence of a bond would not be noticed, to which it was replied that a short term maturity was being refinanced.

Secretary Morgenthau suggested a bond so priced as to go, and indicated his willingness to pay to have it go. This will test out the market, he said. If the public is bondminded, we will sell a half a billion; if not, perhaps a hundred million, and that will be alright. It is what people with money will do that determines the market, he said, and he is willing to pay what is necessary for money. Apple buyers should not be asked $3.00 when the market is $2.95.

Mr. Burgess thought three issues a difficult and complicated program, putting people at sea, leading to endless arbitraging and calculation. It would be a shock to the market and not go so very well. He echoed the criticism of a new bond made by Mr. Coolidge, and was of the opinion that a subscription of one hundred million would be a black eye.

Mr. Eccles stated his preference for cheap short term money and no bond.

Mr. Young wanted a long term-three way offering.

The meeting adjourned at noon until 3:30.

Upon reconvening, Mr. Coolidge reported back two plans, the first of which he thought would work.

Plan A was for an 18 month one percent bill and a 5 year 2-1/4 percent note -- certificate holders to have an option between the two, and 500 million new money in each to be sought. This he thought would strengthen the Government market and the general industrial market as well.

Plan B was for converting the maturing certificates into an 18 month security and giving the cash subscribers the same option as last Spring -- a four and a half year security at 2-1/8 and a 14 year bond at 3 percent. Plan B he described as thin.

Mr. Eccles opposed paying 3-1/8 for the bond.

It was reported that all Federal reserve banks were being wired for authority for the Open Market Committee to convert all maturities into anything offered, the decision to rest on the needs of the market and the portfolio; and for authority to exchange up to 100 million in the portfolio on a maturity adjustment, but not to increase holdings.

Mr. Eccles said that if a long term bond is offered, the Open Market Committee should take care of the long term market. This would be notice to the banks and the public that the Federal Reserve is going from short terms to long. If the Open Market Committee is not ready to go into the long term market to make the issue go, there should be no long term offered. Mr. Black said the Committee should put the entire 140 million into long terms if necessary, and Mr. Young and Mr. Fancher said it would.

Mr. Morgenthau suggested a third plan. He would give the certificate holders an option of 18 months or 5 years and the new money an option of 5 year or long term 3-1/8. He said he would be satisfied with $250,000,000 subscriptions to the bonds. If there is no bond issue at this time, Mr. Morgenthau said, it will be said by the press that even the Administration is afraid of a long term offering.

Mr. Eccles said 3-1/8 is out of line for the excess funds condition and the Government should not have to pay that.

Mr. Coolidge remarked that it is the market rate.

Mr. Eccles replied that there is a lot of market rigging. The question is shall the Government and the Federal Reserve control the market or the banks and bond dealers.

Mr. Coolidge said that a 3-1/8 bond would be good for conversion purposes and that he would like to see a 3-1/8 bond in the market.

It was agreed that Mr. Coolidge and Mr. Burgess would confer in New York and come to a final agreement on Friday.

H. M. Jr: Hello Mr. Hoover.

Hoover: Hoover talking Mr. Secretary.

H. M. Jr: I got your message.

Hoover: We understand that this morning this man Schultz accompanied by his attorney, a man by the name of James Noonan,went into the United States Commissioner's office at Albany.

H. M. Jr: Yes.

Hoover: And surrendered. Now of course our men are not there yet. I ordered men at once to go from New York by plane to contact and make certain that it is the Honorable Dutch Schultz. Sometimes these lawyers will stage a publicity stunt. In talking with the Commissioner at Albany he said he has no doubt in his mind that it is Schultz.

H. M. Jr: Yes.

Hoover: But we will have some verification of it within the next hour or hour and a half as soon as that plane can reach there.

H. M. Jr: How did you get a plane ?

Hoover: From New York City.

H. M. Jr: Oh. What did you do - hire one?

Hoover: Yes. We of course hire commercial planes when we have to.

H. M. Jr: Well I'll be here till 3:30.

Hoover: Yes.

H. M. Jr: Do you think you'll know by then?

Hoover: Oh I'm quite certain that we will.

H. M. Jr: How are they holding this fellow?

Hoover: We just told the Commissioner to hold him there and not let him go.

H. M. Jr: I see.

Hoover: It's a question of just holding him - that's all it is. He's being held for us there.

H. M. Jr: Oh.

Hoover: And he came in voluntarily with this lawyer. This man James Noonan means nothing to me. He may have figured in the case over in the Treasury but he doesn't mean anything in our files over here.

H. M. Jr: James Noonan?

Hoover: Noonan. He was his lawyer.

H. M. Jr: I don't know I'll find out. You know so many attorneys have approached us.

Hoover: Yes. And I also had our New York office notify the U. S. Attorney, Mr. Conboy, to find out what disposition he wanted to make of him.

H. M. Jr: Yes.

Hoover: I mean whether he wants him brought into New York City or whether Schultz will waive the removal from Albany to New York.

H. M. Jr: Well now let's see he's under indictment for us, isn't he?

Hoover: Yes he is. Yes and that indictment I believe is in the southern district of New York.

H. M. Jr: Well I think so too.

Hoover: Yes. So that he's at the present time in the Albany district which is the northern district of New York and he may of course fight on some technicality on the removal. On the other hand if he will not waive any technical objections and Conboy wants it we'll just put him in a plane and bring him on down to New York City and turn him over to him.

H. M. Jr: But under no circumstances will you let him go.

Hoover: Oh no. Absolutely not. He won't get away now. Absolutely not and just as soon as I get verification that it is Schultz I'll of course let you know right away.

H. M. Jr: What have yout got? His thumb prints and all that?

Hoover: Yes we have his fingerprints and everything so they'll be compared at once. I don't think there's any question but I thought before any statement might be made by you or anything of that kind we wanted to be able to assure you that it was actually Dutch Schultz.

H. M. Jr: Well then you'll let me know will you?

Hoover: Yes I'd be very glad indeed Mr. Secretary.

H. M. Jr. Yes. O.K.

Hoover: Thank you.

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Hoover: This is Mr. Hoover, Mr. Secretary.

H. M. Jr: Yes.

Hoover: I want to let you know latest developments on that Albany matter.

H. M. Jr: Fine.

Hoover: There's no question but that it is Dutch Schultz.

H. M. Jr: Yes.

Hoover: Now we've talked with the U. S. Attorney and he has indicated that if Schultz will waive removal - we've taken the waivers with us up to Albany - he wants him to be brought back to New York City. It is not believed, however, that he will waive the removal proceedings because naturally he'll try to fight and put as many technicalities in our way as he possibly can. In that event the U. S. Attorney has not yet decided but he is going to have bond fixed at a very high figure. Our belief is that Schultz came in probably prepared to furnish bond and we are going to try and fix that bond at as high a figure as we can so as to make it impossible for him to be released.

H. M. Jr: How high is that?

Hoover: Well I don't know. I certainly think they ought not make it less than $50,000 and probably $100,000.

H. M. Jr: If they get anything less than $100,000 it will be useless.

Hoover: That's my feeling. I believe in fixing bonds at the very highest figure.

H. M. Jr: Now I'm not a lawyer, but isn't there some way we can hold that fellow in jail after all these months?

Hoover: Well of course what happened with this lawyer that he's got - he no doubt elected giving him an immediate hearing there and swear out a habeas corpus. That's the trouble. On the other hand if he waives the removal - signs these waivers - we have a regular form of waiver that we take with us on these trips - to get him to sign them and then put them in the plane and get them back. If he does that we can probably get him down to New York, hoping that we can get him in there without anyone knowing where he is going and then you folks of course can interrogate him. But if his lawyer wants to be technical in the matter naturally they can block you every way.

H. M. Jr: Can't you kidnap him?

Hoover: Well I simply won't hesitate if I get the opportunity.

H. M. Jr: I mean all this damn legal red tape - it just ties us up hand and foot.

Hoover: It's the most exasperating - the whole thing is our legal procedure protects the criminal but it doesn't help the law enforcement officer.

H. M. Jr: Not a bit.

Hoover: That's the whole thing. Now I'm urging very strongly that the bond be fixed at the highest figure possible. Mr. Conboy is to let us know sometime this afternoon what figure he will have it fixed at or at least what the court will fix it at.

H. M. Jr: Now we fixed the bonds for these comedians - bootleggers at $100,000 and they both jumped their bonds.

Hoover: Yes.

H. M. Jr: I mean $100,000 sometimes doesn't mean anything.

Hoover: No and of course this fellow - we know what he has done in the past and he's apt to do the same thing in the future. So that I think we ought to certainly try to get not less than $100,000 bond and if he will waive the removal we can get him down to New York City where it would be more convenient for you folks to talk to him and where he can't have as much contact with outside parties. But I wanted to let you know that he was Schultz and that everything is moving along just as rapidly as it can now.

H. M. Jr: Thank you.

Hoover: You're welcome, Mr. Secretary.

* * * * * * * * * * * * * * *

H. M. Jr: Hello.

Hoover: This is Hoover talking, Mr. Secretary.

H. M. Jr: Yes.

Hoover: The bond has been fixed at $100,000.

H. M. Jr: Good.

Hoover: He has not made bond as yet. He has refused to sign a waiver of removal and the hearing has been set for December 12th.

H. M. Jr: What's going to happen to him between now and December 12th?

Hoover: That means that he will be held in custody at Albany unless he makes bond in the meantime.

H. M. Jr: Oh.

Hoover: Now our men have him in custody there at the present time and I understand that there are some representatives of the Special Intelligence Unit going up from New York and they'll arrive there this evening and of course then we will turn him over to them and we will then withdraw.

H. M. Jr: You mean turn him over to ---

Hoover: That is he will be in custody at Albany but I mean any other persons who may want to see him or talk with him will be entirely in your hands then.

H. M. Jr: Well are you in touch with Irey.

Hoover: No. I understood from our New York office that some agent - Mr. Keyes I think from Mr. McQuillan's office in New York - had left at noon to-day with an Assistant District Attorney and they were to be there probably sometime this afternoon. And I gave orders to my men at Albany to not let anybody talk to him or see him until representatives of the Treasury Department arrived.

H. M. Jr: Well I'm leaving shortly now and if there's anything up there that you want to clear through here you can talk to Irey.

Hoover: Yes.

H. M. Jr: Thank you very much.

Hoover: Thank you very much, Mr. Secretary.

Nov. 28, 1934.
Wednesday.

December 3d 1934

Arrived in Warm Springs on Monday and drove down with Ickes. I tried to find out from him where Tugwell stood on the Public Works program but I was unable to get any information out of him. Ickes, Jimmy Roosevelt and I lunched with the President. There was a general discussion. The President seemed quiet and not in a particularly good frame of mind. I learned from Hopkins and Frank Walker that neither of them had discussed Public Works or relief with the President although they had been there several days.

Tuesday the President had all of us for lunch and after lunch he dismissed the people he did not want and Ickes, Hopkins, Walker, Tugwell and I conferred. You could have knocked me over with a feather when Ickes pulled out of his portfolio five copies of his program. It seemed unbelievable to me that we had all been sitting around there for a couple of days and Ickes had not given any of us a chance to see the program. Ickes' program was simply a lot of lump sum figures for different projects but all based on methods used heretofore, namely, 30% grants and 4% interest. He had not gotten the President's ideas at all and in no place does his report take into account the fact that he would have to use men off relief rolls. The President was inclined to be short with Ickes and I got over to the President in front of Ickes that I had nothing definite to figure any financial program on.

Hopkins talked rather loosely about taking four million men off the relief rolls and giving them jobs. Ickes' figures showed 2 million men on direct relief and 2 on indirect relief. Tugwell and Walker contributed nothing. I got the definite feeling of antagonism between Ickes and Hopkins and could not see how we would get anywhere until the President would designate who was going to carry out this program. We conferred for about an hour and then the President took us for a drive. In the evening after supper I called him on the phone and told him that I didn't think we would get anywhere until we decided on who would run it first and if that was decided we could quickly get a program. In a very emphatic and rather angry tone of voice he shouted at me "I will get a program within 48 hours. I am going to get my program first and I will not settle as to who is going to run it until I get my program". I said, "I am sorry, Mr. President, I think you are wrong" and then asked him if he minded my having telephoned him and in a very sweet and friendly tone of voice he said "of course not".

THE SECRETARY OF THE TREASURY
WASHINGTON

December 1, 1934

CONFIDENTIAL

Dear Mr. President:

In order to place the Treasury in funds to meet the December 15 maturity of about $992,000,000 of Treasury certificates of indebtedness, and to provide for other expenditures authorized by law, I am proposing, subject to your approval, to offer for subscription under authority of the Second Liberty Bond Act, $450,000,000, or thereabouts, 15-18 year 3-1/8 percent Treasury bonds of 1949-52, and a like amount of 18 month 1-1/8 percent Treasury notes, with the right reserved to increase the offering of notes by an amount sufficient to accept all subscriptions for which payment is tendered in 2-1/4 percent Treasury certificates of indebtedness, maturing December 15, 1934. I am also proposing to re-open on an exchange basis, open only to the holders of the maturing certificates, the series of 2-1/8 percent Treasury notes issued last June and maturing June 15, 1939.

The authorizing act provides that notes and bonds may be issued only with the approval of the President. Accordingly, I trust that the proposed issues will meet with your approval. It is my intention to make public announcement of the offering on Monday, December 3.

Faithfully yours,

H Morgenthau Jr.

Secretary of the Treasury

The President,

The White House.

APPROVED:

Franklin D Roosevelt

TREASURY DEPARTMENT

Washington

RELEASE, MORNING NEWSPAPERS,
Monday, December 3, 1934.
12-1-34.

Press Service
No. 3-72

Secretary of the Treasury Morgenthau today announced that the December 15 quarterly financing would consist of an offering for cash of $450,000,000 of 3-1/8 percent Treasury bonds and an offering for cash of $450,000,000 in 1-1/8 percent Treasury notes. The holders of Treasury certificates of indebtedness of Series TD-1934, maturing December 15, 1934, are given an exchange offering at their option into the 1-1/8 percent notes, which will mature June 15, 1936, or into 2-1/8 percent notes maturing June 15, 1939. The amount of maturing certificates outstanding is $992,496,500.

Treasury bonds bearing interest at 3-1/8 percent are offered only on cash subscriptions at par and accrued interest to the amount of $450,000,000, or thereabouts. They are to be 15-18 year bonds, dated December 15, 1934. They will mature December 15, 1952, but may be redeemed at the option of the United States on and after December 15, 1949.

Treasury notes of Series E-1936 are offered for cash subscription in the amount of about $450,000,000 and in exchange, with the right reserved by the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which payment is tendered in Treasury certificates of indebtedness of Series TD-1934. The notes of Series E-1936 will be dated December 15, 1934, and will bear interest from that date at the rate of 1-1/8 percent per annum, payable semiannually on June 15 and December 15. They will mature June 15, 1936, and will not be subject to call for redemption before that date.

Treasury notes of Series A-1939 are offered only in exchange for Treasury certificates of indebtedness of Series TD-1934, maturing December 15, 1934. They are not offered for cash. These notes will be an addition to and will form a part of the series of notes issued on June 15, 1934, pursuant to Department Circular No. 513, dated June 4, 1934, and are identical in all respects therewith except that interest on the additional notes issued will accrue from December 15, 1934. The notes will bear interest at the rate of 2-1/8 percent per annum, payable semiannually on June 15 and December 15. They will mature June 15, 1939, and will not be subject to call for redemption before that date.

As more specifically set forth in the official circulars issued today, - the Treasury bonds will be exempt, both as to principal and interest, from all taxation, except estate or inheritance taxes, surtaxes, excess-profits and war-profits taxes; the interest on bonds (issued under the Second Liberty Bond Act) up to $5,000 of principal amount under one ownership will be exempt from all taxation; and the Treasury notes will be exempt, both as to principal and interest, from all taxation except estate or inheritance taxes.

The Treasury bonds will be issued in two forms, bearer bonds with interest coupons attached, and bonds registered as to principal and interest, and in the denominations of $50, $100, $500, $1,000, $5,000, $10,000 and $100,000. The Treasury notes will be issued only in bearer form with coupons attached, and in the denominations of $100, $500, $1,000, $5,000, $10,000 and $100,000. As notes of Series A-1939 are dated June 15, 1934, with interest accruing from December 15, 1934, the notes will be delivered with coupon No. 1, dated December 15, 1934, detached.

Applications will be received at the Federal reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally will handle applications for subscribers, but only the Federal reserve banks and the Treasury Department are authorized to act as official agencies.

Applications for Treasury bonds of 1949-52, and cash applications for Treasury notes of Series E-1936, unless made by an incorporated bank or trust company, must be accompanied by payment in full or by payment of five percent of the amount of bonds or notes applied for, and if payment for bonds or notes is not made or completed on the prescribed date the five percent payment shall be forfeited to the United States, upon declaration made by the Secretary of the Treasury in his discretion.

Exchange applications for Treasury notes of Series E-1936 and for the additional issue of Treasury notes of Series A-1939 should be accompanied by Treasury certificates of indebtedness of Series TD-1934, maturing December 15, 1934, tendered in payment.

Subject to the reservations set forth in the official circulars, cash subscriptions for the bonds or for the notes of Series E-1936 for amounts up to and including $10,000 will be given preferred allotment, and other cash subscriptions will be allotted on an equal percentage basis, and exchange subscriptions for notes of Series E-1936 and Series A-1939, in payment of which Treasury certificates of indebtedness of Series TD-1934 are tendered will be allotted in full.

The holders of Treasury certificates of indebtedness of Series TD-1934 maturing on December 15, 1934, are now offered the opportunity of exchanging their certificates for 18-month 1-1/8 percent, or 4-1/2 year 2-1/8 percent Treasury notes. Interest on the public debt to the amount of about $137,000,000 is payable on December 15, 1934.

The text of the official circulars follow:

3-1/8 PERCENT TREASURY BONDS OF 1949-52

Treasury Department Circular No. 526. December 3, 1934.
Public Debt Service

The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States, for three and one-eighth per cent bonds of the United States, designated Treasury bonds of 1949-52. The amount of the offering is $450,000,000, or thereabouts.

Description of Bonds

The bonds will be dated December 15, 1934, and will bear interest from that date at the rate of three and one-eighth per cent per annum, payable semi-annually on June 15 and December 15 in each year until the principal amount becomes payable. They will mature December 15, 1952, but may be redeemed at the option of the United States on and after December 15, 1949, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed $5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

The bonds will be acceptable to secure deposits of public moneys, and will bear the circulation privilege only to the extent provided in the act approved July 22, 1932, as amended. They will not be entitled to any privilege of conversion.

Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of $50, $100, $500, $1,000, $5,000, $10,000 and $100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds under rules and regulations prescribed by the Secretary of the Treasury.

The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

Application and Allotment

Applications will be received at the Federal reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally will handle applications for subscribers, but only the Federal reserve banks and the Treasury Department are authorized to act as official agencies. Applications, unless made by an incorporated bank or trust company, must be accompanied by payment in full or by payment of 5 per cent of the amount of bonds applied for. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, to make classified allotments or to make allotments upon a graduated scale, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, subscriptions for amounts up to and including $10,000 will be given preferred allotment, and all other subscriptions will be allotted on an equal percentage basis. Allotment notices will be sent out promptly upon allotment, and the basis of allotment will be publicly announced.

<u>Payment</u>

Payment at par and accrued interest, if any, for bonds allotted hereunder must be made or completed on or before December 15, 1934, or on later allotment. In every case where payment is not so completed, the 5 per cent payment with application shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depositary will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal reserve bank of its district.

<u>General Provisions</u>

As fiscal agents of the United States, Federal reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

1-1/8 PERCENT TREASURY NOTES OF SERIES E-1936

Treasury Department Circular No. 527.
Public Debt Service.

December 3, 1934.

The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, offers for subscription, at par and accrued interest, one and one-eighth percent notes of the United States, designated Treasury notes of Series E-1936. The amount of the offering is $450,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which Treasury certificates of indebtedness of Series TD-1934, maturing December 15, 1934, are tendered in payment and accepted.

Description of Notes

The notes will be dated December 15, 1934, and will bear interest from that date at the rate of one and one-eighth percent per annum, payable semi-annually on June 15 and December 15 in each year. They will mature June 15, 1936, and will not be subject to call for redemption prior to maturity.

The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

Bearer notes with interest coupons attached will be issued in denominations of $100, $500, $1,000, $5,000, $10,000 and $100,000. The notes will not be issued in registered form.

Application and Allotment

Applications will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally will handle applications for subscribers, but only the Federal reserve banks and the Treasury Department are authorized to act as official agencies. If payment is to be made in cash, each application, unless made by an incorporated bank or trust company, must be accompanied by payment in full or by payment of five percent of the amount of notes applied for. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, to make classified allotments or to make allotments upon a graduated scale, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, cash subscriptions for amounts up to and including $10,000 will be given preferred allotment, all other cash subscriptions will be allotted on an equal percentage basis, and subscriptions in payment of which Treasury certificates of indebtedness of Series TD-1934 are tendered will be allotted in full. Allotment notices will be sent out promptly upon allotment, and the basis of allotment will be publicly announced.

Payment

Payment at par and accrued interest, if any, for notes allotted on cash subscriptions must be made or completed on or before December 15, 1934, or on later allotment. In every case where payment is not so completed, the five percent payment with application shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depositary will be permitted to make payment by credit for notes allotted on cash subscriptions to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal reserve bank of its district. Treasury certificates of indebtedness of Series TD-1934, maturing December 15, 1934, will be accepted at par in payment for any notes subscribed for and allotted and such payment should be made when the subscription is tendered.

General Provisions

As fiscal agents of the United States, Federal reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal reserve banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

2-1/8 PERCENT TREASURY NOTES OF SERIES A-1939
Additional Issue

Treasury Department Circular No. 528.
Public Debt Service

December 3, 1934

The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, offers for subscription, at par, an additional amount of two and one-eighth per cent notes of the United States, designated Treasury notes of Series A-1939, in payment of which only Treasury certificates of indebtedness of Series TD-1934, maturing December 15, 1934, may be tendered. The amount of the offering is limited to the amount of Treasury certificates of indebtedness of Series TD-1934 tendered and accepted.

Description of Notes

The notes now offered will be an addition to and will form a part of the series of two and one-eighth per cent Treasury notes of Series A-1939 issued pursuant to Department Circular No. 513, dated June 4, 1934, are identical in all respects therewith (except that interest on the notes issued under this circular will accrue from December 15, 1934), will be freely interchangeable, and are described in the following quotation from said circular No. 513:

"The notes will be dated June 15, 1934, and will bear interest from that date at the rate of two and one-eighth per cent per annum, payable semiannually, on December 15, 1934, and thereafter on June 15 and December 15 in each year. They will mature June 15, 1939, and will not be subject to call for redemption prior to maturity.

"The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

"The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

"The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

"Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form."

As interest on the notes issued under this circular will accrue from December 15, 1934, notes will be delivered hereunder with coupon No. 1, dated December 15, 1934, detached.

Application and Allotment

Applications will be received at the Federal reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally will handle applications for subscribers, but only the Federal reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, to make classified allotments or to make allotments upon a graduated scale, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

Payment

Payment at par for notes allotted hereunder must be made or completed on or before December 15, 1934, or on later allotment, and may be made only in 2-1/4 per cent Treasury certificates of indebtedness of Series TD-1934, maturing December 15, 1934, which will be accepted at par, and should accompany the subscription.

General Provisions

As fiscal agents of the United States, Federal reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal reserve banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

TREASURY DEPARTMENT

Washington

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FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, December 4, 1934.
12-3-34

Press Service
No. 3-74.

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 3-1/8 percent Treasury bonds of 1949-52 closed at the close of business Monday, December 3, 1934.

The subscription books for the offering of 1-1/8 percent Treasury notes of Series E-1936 also closed at the close of business Monday, December 3, for the receipt of cash subscriptions, but will remain open, together with the subscription books for the 2-1/8 percent Treasury notes of Series A-1939, until further notice, for the receipt of subscriptions for which payment is to be tendered in Treasury certificates of indebtedness of Series TD-1934, maturing December 15, 1934.

Cash subscriptions for Treasury bonds or for Treasury notes of Series E-1936 placed in the mail before 12 o'clock, midnight, December 3, as shown by the post office cancellation, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of cash subscriptions and the bases of allotment will probably be made on Thursday, December 6.

TREASURY DEPARTMENT

Washington

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FOR IMMEDIATE RELEASE,
Wednesday, December 5, 1934.
12-5-34.

Press Service
No. 3-77

Secretary of the Treasury Morgenthau has announced that the subscription books for the current offering of 2-1/8 percent Treasury notes of Series A-1939 will close at the close of business tomorrow, December 6, 1934. The subscription books for the offering of 1-1/8 percent Treasury notes of Series E-1936, which were closed at the close of business December 3 for the receipt of cash subscriptions, will also close at the close of business tomorrow, December 6, for the receipt of exchange subscriptions.

Each of these two note issues is now open for the receipt of subscriptions for which payment is to be tendered in Treasury certificates of indebtedness of Series TD-1934, maturing December 15, 1934. Any such subscriptions placed in the mail before 12 o'clock, midnight, December 6, as shown by the post office cancellation, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and their division among the several Federal reserve districts will be made later.

TREASURY DEPARTMENT

Washington

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FOR RELEASE, MORNING NEWSPAPERS,
Friday, December 7, 1934.
12-6-34.

Press Service
No. 3-81

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the December 15 cash offering of 3-1/8 percent Treasury bonds of 1949-52 and 1-1/8 percent Treasury notes of Series E-1936.

Reports received from the Federal reserve banks show that subscriptions for the offering of Treasury bonds, which was for $450,000,000, or thereabouts, aggregate over $2,300,000,000. Subscriptions in amounts up to and including $10,000 were allotted in full and those in amounts over $10,000 were allotted 18 percent, but not less than $10,000 on any one subscription.

For the cash offering of Treasury notes, which was for $450,000,000, or thereabouts, subscriptions aggregate over $3,000,000,000. Cash subscriptions in amounts up to and including $10,000 were allotted in full, and those in amounts over $10,000 were allotted 14 percent, but not less than $10,000 on any one subscription.

As previously announced, the subscription books for the 2-1/8 percent Treasury notes of Series A-1939, and for the 1-1/8 percent Treasury notes of Series E-1936, closed last night for the receipt of subscriptions in payment for which certificates of indebtedness maturing December 15 are tendered.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal reserve banks.

December 6th

I called Steve Early and told him that the report which Viner made on the survey of "Loans to Industry" criticized Jesse Jones and Leo Crowley. I asked him what I ought to do and he advised my letting both of these men see the report. Upham will show Jones and Crowley the report and we will take it up at our next Lending Agency meeting.

December 7th

Spoke to Louis Howe. Morris Ernst saw Louis Howe to-day about a newspaper union writers' code and Louis said that he didn't let on to Morris Ernst that he had talked to the President before he saw him and advised him to appeal to the Code Authority and that Mr. Ernst said he would. The reason that I wanted Ernst to see Louis was that I felt again Donald Richberg was selling out to big business, this time it being the publishers to the newspapers as against the writers who were members of the newspaper union. Richberg has thrown out hints that he had to do this as the President had some secret agreement with the publishers and I felt that by sending Morris Ernst to Louis we could find out whether or not Richberg was double-crossing the President. I suggested this thought to Louis and he said if he is double-crossing it is not the first time.

Mr. Morgenthau telephoned Chester Davis and asked him what he thought about Oscar Johnston, as Mr. Morgenthau wanted to take him into the Treasury to handle all agricultural credit. Chester Davis said he is one of the smartest men he knew in that particular field.

December 10th

9:30 Staff Meeting

The following people attended the 9:30 conference to-day:

Mr. Coolidge	Dr. Viner
Mr. Oliphant	Mr. Haas
Mr. McReynolds	Mr. Gibbons
Mr. Gaston	Miss Roche
Mr. Upham	Mr. Robert

Mr. Coolidge reported that Dr. Feis had called him and said that the State Department was getting together a Departmental Committee on the question of German cotton. Mr. Morgenthau immediately telephoned Mr. Phillips at the State Department and told him that he was very anxious to keep the Treasury's position within definite lines on this question of German cotton. He also told him that the Treasury is represented on the "Sayre Committee" and did not see how we could also handle another committee. He explained to Mr. Phillips that this question of German cotton was a very delicate thing and if possible we preferred to avoid not to go on any more committees. Mr. Phillips promised to look into the matter and let us know.

Mr. Morgenthau told Mr. Coolidge to handle the Red Cross meeting on Wednesday at 11 o'clock. Mr. Morgenthau told Mr. Coolidge that the only thing he was interested in was that all of the Red Cross money should be put into government bonds.

Mr. Robert reported that he made an investigation on the sheets of stamps; that the Bureau of Printing and Engraving has been cleared and that there was a breach of confidence in the Post Office Department. Mr. Morgenthau asked that Mr. Robert secure a letter from the Post Office Department clearing the Treasury.

Mr. Morgenthau called Mr. Robert's attention to the fact that he is not satisfied with the protection at the Denver Mint. He said he wanted an independent electric light plant; enough water to take care of the people for one week; he wanted installed electric ray around the building; he wanted machine gun protection and poisonous gas protection. In other words, he told Mr. Robert that if there ever was a raid that we had enough protection to handle a mob. He asked Mr. Robert for a report.

Mr. Morgenthau told Mr. Upham to telephone Mr. Moffett and Mr. Fahey and find out whether either organization can do anything towards assisting in the construction of new houses. He wanted this information before the 2:30 Lending Agency Meeting this afternoon. He also asked Upham to find out what there was to the story that a steel corporation is going to build 50,000 houses.

Mr. Gibbons asked whether Miss Roche could not be put in charge of the Veterans Bureau. This bureau and all its hospitals are not part of the Public Health.

Mr. Morgenthau said that Mr. Kemper, whom he was considering taking into the Treasury as an Assistant Secretary, was coming in to see him at 10:15 this morning. After his visit he wanted Mr. Kemper to see Mr. Coolidge, Oliphant, Viner and Miss Roche and asked these people to have a talk with him and bring in their recommendations at tomorrow morning's meeting.

Mr. Morgenthau suggested that Miss Roche see Mr. Farley now that she has been sworn in as Assistant Secretary. He said that Mr. Coolidge had done the same and that Mr. Gibbons would arrange for such a meeting.

Mr. Gibbons wanted Mr. Morgenthau to send Mr. Farley down on a Coast Guard ship somewhere to dedicate a Post Office and Mr. Morgenthau turned Mr. Gibbons down.

December 10th

The Secretary saw Mr. Thomas Harrison MacDonald, Chief of the Bureau of Public Roads, Department of Agriculture, this morning and showed him the memorandum which the President dictated to him yesterday. Mr. MacDonald said that he would have a program for Mr. Morgenthau within 24 hours. The following is the memorandum which the President gave Mr. Morgenthau yesterday:

"The President dictated to me the following memoranda which were suggestions for transcontinental toll roads. He wants a strip two miles wide starting from Worcester, Mass. to Danbury, Conn., avoiding all towns.

From Danbury south it should connect up with the Westchester County park system.

From Danbury west it should go from Putnam County, connecting with Bear Mountain Bridge. West of the Hudson it should start at the western border of Bear Mountain Park to the Delaware Water Gap. 20 miles east of the Gap it should branch off into two main highways - one to Florida and one to San Francisco.

The San Francisco highway should run west along the New York Pennsylvania line south of Erie, Pa., south of Cleveland and there in direct line to point half way between Kansas City and Omaha, avoiding all cities. From there west two strip highway to San Francisco.

From northern New Jersey start four strip highway south running east of Harrisburg, west of Baltimore, west of Washington, west of Richmond, west of Charleston and Savanah - from Washington south two or three strip road.

Another road running north and south in the Mississippi Valley on the east side of the valley from somewhere in Illinois roughly to New Orleans.

Another road not to be undertaken yet. From western North Dakota to eastern Montana to El Paso or as a substitute following eastern foothills of the main chain of the Rockies from Billings to Denver and from Denver to Demming, New Mexico.

Road starting half way between Charleston and Savanah running west through Montgomery, Alabama, Baton Rouge and thence roughly to Los Angeles and roughly 100 miles north of the Mexican border. "

"From north of Chicago to Twin Cities and thence to Seattle running roughly 50 miles south of the Canadian border.

Road from Canadian border to Mexico running roughly 75 to 100 miles inland from the Pacific Ocean.

Order of preference on which these roads should be planned and built.

1. Northeast stretch.
2. New York to Washington.
3. South of Cleveland.
4. A road from Chicago either running northwest or south. "

December 10, 1934.

The Interdepartmental Loan Committee met at 2:30 p.m. in the Office of the Secretary of the Treasury, Chairman of the Committee.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury, Chairman,
Harold L. Ickes, Secretary of the Interior,
Henry A. Wallace, Secretary of Agriculture,
F.F. Hill, Deputy Governor, Farm Credit Administration,
John H. Fahey, Chairman, Home Owners' Loan Corporation,
Ward M. Buckles, Agricultural Adjustment Administration,
George N. Peek, President of the 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,
Steward McDonald, Executive Assistant Administrator, F.H.A.
C.B. Upham, Secretary of the Committee.

Mr. Morgenthau inquired about the situation with respect to the financing of the construction of new homes by Federal agencies, the Federal Housing Administration and the Home Owners' Loan Corporation having been asked to be prepared to make statements on that matter.

Mr. McDonald of the Federal Housing Administration read a statement (See attached Exhibit A) indicating that the F.H.A. does not make such loans. Mr. Fahey of the HOLC stated orally that that agency has no authority to make loans for new houses.

Mr. Morgenthau asked specifically if there was any Federal lending agency which makes loans to build low cost slum clearance or to build farm houses, or if in the event that a PWA agency were to finance such projects, would it be in any way conflicting with either the HOLC or the FHA or other Federal agency. Mr. Fahey stated that the only interference so far as his agencies are concerned would be with the few member institutions which are jointly owned by the HOLC and the public. Mr. McDonald stated that the FHA would do no more than insure limited profit corporations for low cost housing.

There was some discussion of a news story (See the Washington Post, December 10) that the erection of 50,000 wood and steel homes for company towns of the steel and coal industry was "envisaged as a new major program for the Federal Housing Administration". Mr. Ickes stated that he knew of no basis for the story.

Mr. Morgenthau brought up for discussion the matter of extending the authority to make commodity loans now being handled by the Commodity Credit Corporation. Mr. Wallace stated that this activity which had begun in November, 1933, was very popular and universally commended, and the desire to continue it is widespread. The peril is great, also, he said, unless it is done on a more conservative basis. The experiment is not yet complete for formalization, and it would be wise to extend it for the next year by the CCC as in the past if a proper understanding could be reached with the RFC. It was explained that the authority for loans by the CCC expires on June 16, 1934, it being an emergency agency created in the National Recovery Act. (Title I, Sec. 2 c). A subcommittee was appointed to report on the matter at the next meeting. The members are Secretary Wallace, Administrator Davis, Governor Myers, Undersecretary Coolidge, Chairman Jones and Governor Talley.

The Hardy-Viner report on a survey of bank credit availability in the seventh Federal Reserve District was brought forward for discussion. Mr. Crowley stated that the bankers had been through a period of fear and shock and were afraid to lend, but were rather liquidating their loans. The examiners have been partly to blame. Borrowers have been afraid to borrow. The credit structure has been tied in a knot. The report is fair. It does not recommend any change to relieve the credit situation other than more leniency by examiners. Mr. Crowley doubted that it should be published in its present form, was afraid that the criticisms of lending agencies might be headlined by the press. Mr. Jones suggested that publication be deferred until suggestions for a condensed report might be made. It was agreed that Mr. Jones and Mr. Crowley would work on the report with the idea of securing something that might be released. (Later in the week after conferences between representatives of the RFC and Dr. Viner, the report was cleared for publication, with certain revisions).

Mr. Crowley reported that the proposed amendments to the FDIC Act are ready and can be gone over at any time.

Mr. Talley stated that the Commodity Credit Corporation had made 12¢ cotton loans up to a total of $196,000,000, covering over 3,000,000 bales, and 35 per cent of ginnings. Mr. Wallace commented that they had been just plain lucky so far, and should begin to be more conservative. The activity is not dovetailed into the AAA program sufficiently to protect the Government. Two years of good cotton crops would leave a lot of cotton in the Government's lap. Mr. Morgenthau recalled his experiences in liquidating the Federal Farm Board and said the situation might crack about the time it should not. Mr. Wallace thought the CCC might be safe on corn, but saw the possibility of some trouble on cotton. Mr. Talley referred to an instance of a cotton broker being unable to buy 100 bales of cotton. He suggested that the loans ought to be administered as marketing loans. Mr. Wallace indicated that he saw no difficulties ahead this year, but regretted the tendency for higher loan values. Ten cents last year and twelve this year may become fourteen next year, he said. He pointed out one difference between the present situation and that faced by the Federal Farm Board in that they were unable to control production.

AGENDA FOR THE INTERDEPARTMENTAL LOAN COMMITTEE

December 10, 1934.

1. Clear Viner-Hardy report on credit conditions in the Chicago Federal Reserve District.
2. Determine date when convenient for RFC and CCC to discuss proposal of AAA for "extending or creating some agency to handle commodity loans of the type of the cotton and corn loans that have been in effect during the past year".
3. Clear (in subcommittee) the matter of RFC subscriptions to capital stock of FDIC members.
4. Take up any bank legislation submitted for consideration.
5. Approve discussion at next meeting of projected program of the Farm Credit Administration, as requested by Governor Myers.
6. Other matters which may be proposed at the meeting.

Exhibit A

12-10-34.

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The Federal Housing Administration is now equipped to make commitments to insure mortgages on new home construction, and existing homes, in every state in the Union, Alaska and Hawaii. Each state has a fully equipped force consisting of properly trained and instructed appraisers, surveyors, underwriters, and other mortgage aides.

Individuals or corporations desiring to enter into new home construction have now available for them the facilities offered by the National Housing Act.

The Federal Housing Administration is also prepared to insure low cost housing projects and several now under consideration have been submitted. The aggregate value of these is approximately $125,000,000. Information on the procedure of insurance on this type of construction has been only recently promulgated and a great many inquiries are being received daily in the state and regional offices.

Through the process of insuring mortgages now frozen, either in impaired financial institutions or through lack of proper facilities; the Federal Housing Administration is able to release certain types of mortgages and thus provide new mortgage money to flow into new building construction.

In many states existing laws interfere with the Federal Housing Administration functioning to its full extent, due to legal limitations on lending institutions. Many are restricted to 50 to 60 percent of the appraised value, whereas the Federal Housing Administration may insure up to 80 percent. It is necessary to have enabling legislation passed in these states. The legislature of 44 states meet this coming January and necessary attention is being given to this subject.

The Federal Housing Administration is not a lending agency. The funds made available for it are for insurance purposes only; thus it cannot be construed as an emergency act.

Its functions are twofold:

(1) To insure mortgages on homes already constructed and thus stabilize real estate values on present structures.

(2) To insure mortgages on new homes to be constructed and to be paid for on an amortized basis; thus lending stability to the home mortgage field and arresting the flight of capital from that field.

The results would be to create a stable, lasting condition in the home mortgage field and insure against the depression that always results from boom cycles.

Following the meeting of the Interdepartmental Loan Committee, the following members continued in session on the matter of action with respect to distressed banks.

Henry Morgenthau, Jr., Secretary of the Treasury,
Thomas Jefferson Coolidge, Undersecretary of the Treasury,
Marriner S. Eccles, Governor, Federal Reserve Board,
Jesse H. Jones, Chairman, Reconstruction Finance Corporation,
Leo T. Crowley, Chairman, Federal Deposit Insurance Corporation,
Lynn P. Talley, President, The Commodity Credit Corporation,
C.B. Upham, Secretary of the Committee,

Mr. Jones and Mr. Crowley reported that an agreement had been reached between the two agencies on which banks would be helped by the RFC and which would be taken care of by the FDIC. There are 141 insolvent banks which will be taken care of by the RFC to the extent of $40,000,000. Another group of 294 banks in somewhat better shape will be taken care of by the RFC to the extent of some $66,000,000. A third group of 44 insolvent banks will be taken care of by the FDIC. Two of these 44, one in Nashville and one in Ann Arbor may be transferred from the group of 44 to the group of 141. (See attached exhibits B,C,D,E and F).

It was agreed that Mr. Jones and Mr. Crowley would write a joint letter to Mr. Morgenthau putting this agreement in formal status, which Mr. Morgenthau could show to the President. Asked by Mr. Morgenthau for an outside date whenthe whole thing could be cleared up, Mr. Crowley replied "when the permanent insurance plan goes into effect". It was stated as understood that whatever money could be raised locally would be deducted from the RFC commitment.

Mr. Jones said the program could be speeded up whenever the

Comptroller of the Currency will say to the banks that their capital is impaired and that they must assess their stockholders. That will build a fire under them. If the Comptroller will not help in that way, Mr. Jones agreed to let Mr. Morgenthau know. It was stated that there could not be as much expectation of help along that line from the 48 state bank commissioners.

Mr. Morgenthau asked Mr. Crowley if purchasers of real estate from bank receivers could borrow from the RFC to carry it, say 60 to 70 per cent of value. Mr. Crowley replied that they must be qualified borrowers, such as a bank, trust company, or mortgage company, and suggested that there are a number of difficulties in such a plan. Mr. Jones suggested that he planned to ask the Congress for authority to buy a part of the assets of closed banks, and stated that at present they must buy all or none.

Mr. Morgenthau stated that he would like to see the RFC and the Comptroller clean up the whole bank receivership business in six months. Mr. Jones was of the opinion that the best way is to have local people organize and buy the equities. The Comptroller has agreed to sell equities subject to RFC debt, but not much has been accomplished.

It was agreed to meet on the FDIC bill Friday night, December 14, at Mr. Morgenthau's house.

A subcommittee on Banking Legislation of the Interdepartmental Loan Committee met at 8:30 p.m. at the home of the Secretary of the Treasury, to consider F.D.I.C. legislation.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,
Mr. Coolidge, Undersecretary of the Treasury,
Mr. Oliphant, General Counsel, Treasury Department,
Mr. Viner, Assistant to the Secretary of the Treasury,
Mr. Gaston, Assistant to the Secretary of the Treasury,
Mr. Jones, Chairman, R.F.C.
Mr. Eccles, Governor, F.R.B.
Mr. Crowley, Chairman, F.D.I.C.
Mr. Talley, President, Commodity Credit Corporation,
Mr. Upham, Secretary of the Committee.

Mr. Crowley explained the proposals to be embodied in the legislation. He distributed an "Outline of Salient Points" of the bill proposed by the F.D.I.C. to amend section 12B of the F.R.A. It is attached as Exhibit A.

The group was in general agreement on the matters listed on this outline, with the exception of the item numbered 4, which would appropriate the proceeds of the check tax for the use of the F.D.I.C.

Upon Mr. Jones' suggestion the words "for cause" were added to 5 (c). Upon his suggestion, also, number 8 was reworded.

A revised "Outline of Salient Points" is attached as Exhibit B.

With respect to number 1 (Exhibit A) it was suggested that there might be some advantages to operating the Fund for Mutuals separately from the fund for other banks, but Mr. Crowley was of the opinion that this was not feasible.

It was thought that the banks would object to a premium in excess of one eighth per cent per annum on total deposits, but would accept that amount to be rid of unlimited liability in the present law.

Mr. Crowley was of the opinion that there might be need, in the period that the insurance fund is being built up by the annual premiums, for Government contribution to the Fund, and so he had asked for the proceeds of the check tax. Secretary Morgenthau and Mr. Coolidge did not favor this, and Mr. Jones was of the opinion that it is unnecessary. It was the concensus that if and when there is a need for Government contribution it will be forthcoming.

It was stated that the right to examine all insured banks is necessary to protect the corporation which assumes responsibility for the deposits thereof.

Mr. Jones was doubtful about number 7 giving the corporation the right to buy the assets of open banks, but did not insist on the objection, and was told by Mr. Crowley that it was designed to enable the F.D.I.C. to help the R.F.C. strengthen the banks.

Mr. Jones questioned the necessity for number 8 with respect to the annual and other reports.

There was some discussion of the item with reference to changing the stock to no par and allocating in definite amounts to surplus, the concensus being that this would enable the Corporation to use capital in paying bank losses.

The draft of the bill is attached as Exhibit C.

Exhibit A1.

Rev. December 14, 1934

CONFIDENTIAL

OUTLINE OF BILL PROPOSED BY FEDERAL DEPOSIT INSURANCE CORPORATION TO AMEND SECTION 12B OF THE FEDERAL RESERVE ACT AS AMENDED.

OUTLINE OF SALIENT POINTS

1. Temporary Fund and Fund for Mutuals are merged into Permanent Fund, which becomes operative immediately upon enactment of the bill.

   (In amended bill as it now stands non-member state banks are insured up to July 1, 1937 only. They must then become members of the Federal Reserve System. Mutual Savings Banks and territorial banks are excepted from this provision.)

2. Maximum insurance for each depositor in any bank remains at $5,000. as in present Temporary Plan.

3. Maximum annual premium of 1/8 of 1% of total deposits is substituted for obligatory stock subscription amounting to 1% of total deposits and unlimited liability thereafter. Mutual savings banks may be required to pay an uniformly lower premium.

4. Check tax is appropriated to Corporation.

5. Corporation is given the following authority not expressly stated in the present law:

   (a) Right to examine all insured banks;
   (b) Right to require reports from all insured banks;
   (c) Right to terminate insurance benefits;
   (d) Right to control new admissions;
   (e) Corporation approval is required before merger or consolidation or reduction of capital takes place;
   (f) Right to require adequate fidelity, forgery and burglary insurance;

6. Non-Federal Reserve member banks may withdraw from insurance.

7. Corporation's present right to buy assets of closed member banks is extended to open banks until July 1, 1936 to facilitate mergers and avert loss.

8. The Corporation is required to report to Congress needed revisions in bank laws and other changes necessary for better administration and for meeting all obligations of deposit insurance.

9. Capital stock of Corporation changed to no par value with right to allocate to surplus any portion of amounts paid in by Treasury or Federal Reserve banks. All dividends are eliminated.

10. Obligations of Corporation may be issued only on approval of the Secretary of the Treasury, who is authorized to purchase the same.

11. Detail administrative and technical changes:

    (a) In terminating affairs of new National Banks used to pay off depositors in closed banks they may be moved to central locations.
    (b) Duplication of supervision over liquidation of National Banks eliminated through centralization of all such powers in the Federal Deposit Insurance Corporation.
    (c) Definitions of terms used.

Exhibit A2

2nd. Rev.

December 17, 1934

CONFIDENTIAL

OUTLINE OF BILL PROPOSED BY FEDERAL DEPOSIT INSURANCE CORPORATION TO AMEND SECTION 12B OF THE FEDERAL RESERVE ACT AS AMENDED.

OUTLINE OF SALIENT POINTS

1. Temporary Fund and Fund for Mutuals are merged into Permanent Fund, which becomes operative immediately upon enactment of the bill.
   (In amended bill as it now stands non-member state banks are insured up to July 1, 1937 only. They must then become members of the Federal Reserve System. Mutual Savings Banks and territorial banks are excepted from this provision.)

2. Maximum insurance for each depositor in any bank remains at $5,000. as in present Temporary Plan.

3. Maximum annual premium of 1/8 of 1% of total deposits is substituted for obligatory stock subscription amounting to 1% of total deposits and unlimited liability thereafter. Mutual savings banks may be required to pay an uniformly lower premium.

4. Corporation is given the following authority not expressly stated in the present law:

   (a) Right to examine all insured banks;
   (b) Right to require reports from all insured banks;
   (c) Right to terminate insurance benefits for cause;
   (d) Right to control new admissions;
   (e) Corporation approval is required before merger or consolidation or reduction of capital takes place;
   (f) Right to require adequate fidelity, forgery and burglary insurance;

5. Non-Federal Reserve member banks may withdraw from insurance.

6. Corporation's present right to buy assets of closed member banks is extended to open banks until July 1, 1936 to facilitate mergers and avert loss.

7. The Corporation is required to make an annual report to Congress including suggested changes necessary for the better administration and for the meeting of all obligations of deposit insurance.

8. Capital stock of Corporation changed to no par value with right to allocate to surplus any portion of amounts paid in by Treasury or Federal Reserve banks. All dividends are eliminated.

9. Obligations of Corporation may be issued only on approval of the Secretary of the Treasury, who is authorized to purchase the same.

10. Detail administrative and technical changes:

   (a) In terminating affairs of new National Banks used to pay off depositors in closed banks they may be moved to central locations.
   (b) Duplication of supervision over liquidation of National Banks eliminated through centralization of all such powers in the Federal Deposit Insurance Corporation.
   (c) Definitions of terms used.

Exhibit B

- RECAPITULATION -

- ALL CLASSES - SOLVENT AND INSOLVENT -

- December 3, 1934 -

Location - Name of Bank	Deposit Liability	Insured Deposits Oct. 1, 1934	Net Invested Capital	R.F.C. Funds Included in Net Invested Capital	Local Aid Included in Net Invested Capital	R. F. C. Commit-ment Un-disbursed	Local Aid Un-disbursed	Amount Needed to Give 10 to 1 Ratio	New R. F. C.
141-Insolvent - R.F.C. Old and New Commitments	350,945,868	255,277,132	13,575,421	8,380,310	2,885,120	19,429,000	6,882,960	50,312,657	40,077,200
* 44-Insolvent - F.D.I.C. and R.F.C. Consideration	41,696,180	30,178,340	5,576,414	1,421,000	2,178,779	1,315,000	795,750	9,939,808	-
294-Solvent - R.F.C. Old and New Commitments	935,367,872	590,056,761	29,484,725	20,444,650	3,875,617	26,183,000	4,556,606	65,973,500	65,973,500
479 Banks	1,328,009,920	875,512,233	19,151,835) 29,484,725)	30,245,960	8,939,516	46,927,000	12,235,316	126,225,965	106,050,700
197-National Banks	653,426,865	385,590,970	7,228,479) 14,769,972)	9,050,000	1,275,000	30,702,000	6,618,000	56,192,300	53,709,500
38-State Member Banks	210,295,425	135,920,000	3,481,860) 3,722,600)	3,550,000	800,000	8,615,000	350,000	24,207,000	19,327,000
244-Nonmember State Banks	464,287,630	354,001,263	8,441,496) 10,992,153)	17,645,960	6,864,516	7,610,000	5,267,316	45,826,665	33,014,200
479 Banks	1,328,009,920	875,512,233	19,151,835) 29,484,725)	30,245,960	8,939,516	46,927,000	12,235,316	126,225,965	106,050,700

* See Exhibit F attached

Exhibit C

- INSOLVENT BANKS -

- RECONSTRUCTION FINANCE CORPORATION'S OLD AND NEW COMMITMENTS -

- December 5, 1934 -

Location - Name of Bank	Deposit Liability	Insured Deposits Oct. 1, 1934	Net Invested Capital	R.F.C. Funds Included in Net Invested Capital	Local Aid Included in Net Invested Capital	R. F. C. Commitment Undisbursed	Local Aid Undisbursed	Amount Needed to Give 10 to 1 Ratio	New R. F. C.
80-National Banks	145,696,906	112,688,129	6,074,282	-	300,000	11,129,000	4,346,500	20,788,000	18,312,000
14-State Member Banks	70,650,025	46,617,100	2,605,660	-	-	4,050,000	100,000	11,064,000	8,457,000
47-Nonmember State Banks	134,598,937	95,971,903	4,895,479	8,580,310	2,585,120	4,250,000	2,436,460	18,460,657	13,308,800
141 Banks	350,945,868	255,277,132	13,575,421	8,580,310	2,885,120	19,429,000	6,882,960	50,312,657	40,077,800

- SOLVENT BANKS -

- RECONSTRUCTION FINANCE CORPORATION OLD AND NEW COMMITMENTS

- December 3, 1934 -

Location - Name of Bank	Deposit Liability	Insured Deposits Oct. 1, 1934	Net Invested Capital	R.F.C. Funds Included in Net Invested Capital	Local Aid Included in Net Invested Capital	R. F. C. Commit-ment Un-disbursed	Local Aid Un-disbursed	Amount Needed to Give 10 to 1 Ratio	New R. F. C.
104-National Banks -	498,919,746	264,974,646	14,769,972	9,050,000	975,000	19,293,000	1,841,500	35,397,500	35,397,500
20-State Member Banks -	129,327,400	81,542,300	3,722,600	3,550,000	800,000	4,585,000	250,000	10,870,000	10,870,000
170-Nonmember State Banks -	307,120,726	243,539,815	10,992,153	7,844,650	2,100,617	2,305,000	2,467,126	19,706,000	19,706,000
294 T O T A L S	935,367,872	590,056,761	29,484,725	20,444,650	3,875,617	26,183,000	4,558,626	65,973,500	65,973,500

Exhibit E

- INSOLVENT BANKS -

- FEDERAL DEPOSIT INSURANCE CORPORATION AND RECONSTRUCTION FINANCE CORPORATION CONSIDERATION -

- December 3, 1934 -

Location - Name of Bank	Deposit Liability	Insured Deposits Oct. 1,1934	Net Invested Capital	R.F.C. Funds Included in Net Invested Capital	Local Aid Included in Net Invested Capital	R. F. C. Commit-ment Un-disbursed	Local Aid Un-disbursed	Amount Needed to Give 10 to 1 Ratio	New R.F.C.
13- National Banks -	8,810,213	7,928,195	1,154,197	-	-	280,000	430,000	2,036,800	
4- State Member Banks -	10,318,000	7,760,600	876,200	-	-	-	-	2,271,000	
25- Nonmember State Banks -	21,677,788	13,727,887	3,446,887	1,171,000	2,178,779	1,010,000	351,230	5,437,223	
2- Nonmember State Banks - Unclassified	890,179	761,658	99,130	250,000	-	25,000	12,500	194,785	
44- T O T A L S -	41,696,180	30,178,340	5,576,414	1,421,000	2,178,779	1,315,000	793,730	9,939,808	

December 10, 1934.

MEMORANDUM

Included in this total of 44 banks, which it is at present planned to have the FDIC take, are:

1. All four institutions in Ann Arbor, Michigan. Consideration should be given to keeping at least one of these Ann Arbor banks open.

2. The First National Bank, Plainfield, New Jersey, with deposits of $4,067,000 and a deposit impairment of $460,000. As local interests put $400,000 into this bank in 1932, Mr. Jones has agreed to send an examiner from Washington to see whether the picture is really as bad as the National bank examiners make it out to be.

3. The Nashville Trust Company, Nashville, Tennessee, with deposits of $8,535,000. Local interests have recently put $2,000,000 into the bank and the RFC has advanced $800,000. Despite this there is a deposit impairment existing of about $1,500,000. The state banking department does not agree with the FDIC figures and calculate that the bank had adequate sound capital.

December 14, 1934.

Exhibit G

TENTATIVE DRAFT - CONFIDENTIAL

A BILL

To amend section 12B of the Federal Reserve Act, to put into operation the permanent plan for deposit insurance and for other purposes.

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Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled.

Section 1. That section 12B of the Federal Reserve Act is amended:

1. By striking out subsection (a) and inserting in lieu thereof the following,

"(a) There is hereby created a Federal Deposit Insurance Corporation (hereinafter referred to as the 'corporation'), whose duty shall be to insure, as hereinafter provided, the deposits of all banks which are entitled to the benefits of insurance under this section, and which shall have the right to exercise all powers hereinafter granted."

2. By inserting in the first sentence of subsection (b) after the words "board of directors", the following, "(hereinafter referred to as the 'board')".

3. By striking out in subsection (b) "One of the appointive members shall be the chairman of the board of directors of the corporation and".

4. By striking out subsection (c) and inserting in lieu thereof the following,

"(c) As used in this section:

"(1) The term 'national bank' means any national banking association located in any of the states of the United States or the District of Columbia, and any national banking association located in the territory of Hawaii or Alaska which is a member of the Federal Reserve System.

"(2) The term 'state bank' means any bank, banking association, trust company, savings bank, or other banking institution organized under the laws of any state, or any bank, banking association, trust company or other banking institution located in the District of Columbia or in the territory of Hawaii or Alaska, which is not a member of the Federal Reserve System.

"(3) The term 'member bank' means any bank which is a member of the Federal Reserve System, and the term 'non-member bank' means any other bank.

"(4) The term 'state member bank' means any state bank which is a member of the Federal Reserve System, and the term 'state non-member bank' means any other state bank.

"(5) The term 'mutual savings bank' means a bank without capital stock transacting a savings bank business, the net earnings of which inure wholly and without discrimination to the benefit of its depositors.

"(6) The term 'insured bank' means any bank the deposits of which are insured in accordance with the provisions of this section.

"(7) The term 'new bank' means a new national bank organized by the corporation to assume the insured deposits of an insured bank closed on account of inability to meet the demands of its depositors and otherwise to perform temporarily the functions provided in this section.

"(8) The term 'receiver' shall include a receiver, liquidating agent, conservator, commission, person, or other agency charged by law with the duty of winding up the affairs of a bank.

"(9) The term 'deposit' means the unpaid balance due for money or its equivalent received by a bank for credit in the usual course of business to a commercial, checking, savings, time or thrift account or evidenced by a certificate of deposit issued by a bank in the usual course of business, and such other obligations of a bank as the board from time to time shall prescribe by its regulations.

"(10) The term 'insured deposit' means such part as shall not exceed $5,000 of the net amount of money due to any depositor for deposits in an insured bank, after deducting offsets. Such amount shall be determined according to such regulations as the board may prescribe: provided, that in determining the amount due to any depositor there shall be added together all deposits in the bank maintained for his benefit either in his own name or in the names of others; and provided further, that there shall be excluded from the determination of every insured deposit: (1) deposits which have not been made available since March 10, 1933 for withdrawal in the usual course of the banking business; (2) deposits which are payable only at an office of the bank located in a foreign country.

"(11) The term 'transferred deposit' means a deposit in a new bank or other insured bank made available to a depositor by the Corporation as payment of the insured deposit of such depositor in a closed bank, and assumed by such new bank or other insured bank."

5. By striking out subsection (d) and inserting in lieu thereof the following,

"(d) The capital stock of the corporation shall consist of the shares heretofore subscribed for. Such stock shall be without nominal or par value, and shares heretofore issued shall be exchanged and re-issued at the rate of one share for each $100 paid into the corporation for capital stock. The consideration received by the corporation for the capital stock shall be allocated to capital and to surplus in such amounts as the board shall prescribe. Such stock shall have no vote and shall not be entitled to the payment of dividends."

6. By striking out subsection (e) and inserting in lieu thereof the following,

"(e) Every member bank licensed on or before the date of the enactment of this act, by or with the approval of the Secretary of the Treasury pursuant to the authority vested in him by the Executive order of the President issued March 10, 1933, shall be and continue without application or approval an insured bank, and shall be subject to the provisions of this section. Thereafter no bank other than an insured bank shall be admitted to membership in the Federal Reserve System until it is approved by the board as an insured bank, and no national bank shall be granted a certificate by the Comptroller of the Currency authorizing it to commence the business of banking, and no national bank for which a receiver or conservator has been appointed shall be permitted to resume the transaction of its banking business, until it is approved by the board as an insured bank. Before approving the application of any bank to become an insured bank, the board shall require a certification by the Federal Reserve Board in the case of a state bank, and by the Comptroller of the Currency in the case of a national bank, upon the basis of a thorough examination of such bank, that its assets in excess of its capital requirements are adequate to enable it to meet all of its liabilities to depositors and other creditors, as shown by the books of the bank. The Federal Reserve Board or the Comptroller of the Currency shall certify the fact as soon as practicable. Whenever any national bank shall cease to be an insured bank, the Comptroller of the Currency shall appoint the corporation receiver therefor as provided in this section. Whenever a member bank shall cease to be an insured bank the Federal Reserve Board shall terminate its membership in the Federal Reserve System in accordance with the provisions of Section 9 of the Federal Reserve Act. Whenever a member bank shall cease to be a member of the Federal Reserve System, its status as an insured bank, without notice or other action by the board, shall terminate on the date of the taking effect of the termination of membership of the bank in the Federal Reserve System, with like effect as if terminated on said date by the board after proceedings under paragraph 23 of subsection (1) of this section."

7. By striking out subsection (f) and inserting in lieu thereof the following,

"(f) Any non-member bank which on the date of the enactment of this act is a member of the Temporary Federal Deposit Insurance Fund or of the Fund For Mutuals shall be and continue without application or approval an insured bank and shall be subject to the provisions of this section, unless in accordance with regulations to be prescribed by the board such bank shall give written notice to the corporation within 60 days after the date of the enactment of this act of its election not to continue as an insured bank. Any non-member state bank, upon application to and examination by the corporation and approval by the board, may become an insured bank. Before approving such application the board shall require a certification by the authority having supervision of such bank, upon the basis of a thorough examination of such bank, that its assets in excess of its capital requirements are adequate to enable it to meet all of its liabilities as shown by the books of the bank to depositors and other creditors."

8. By striking out subsection (g) and inserting in lieu thereof the following,

"(g) In acting upon the application of any bank to become an insured bank, if such certification under subsections (e) or (f) shall be in the affirmative, the board shall consider the financial history and condition of the bank, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served by the bank, and whether or not its corporate powers are consistent with the purposes of this section."

9. By striking out subsection (h) and inserting in lieu thereof the following,

"(h) (1) As used in this subsection (h), the term 'total deposits' means the total deposit liabilities as of a specified date or the average for a period. Such total deposit liabilities shall be determined as prescribed by the board for the purposes of this subsection (h). Until otherwise so prescribed such total deposit liabilities shall be determined in accordance with regulations prescribed by the Federal Reserve Board.

"(2) At such times and for such periods and in such form as prescribed by the board, each insured bank shall file with the corporation a verified statement showing its total deposits, and shall pay to the corporation the premiums required by this section.

"(3) Each bank which shall be and continue without application or approval an insured bank in accordance with the provisions of subsections (e) or (f) of this section, shall be credited with any balance to which such bank shall become entitled upon the termination of the Temporary Federal Deposit Insurance Fund or the Fund For Mutuals. The credit shall be applied by the corporation toward the payment of premiums next becoming due from such bank and upon succeeding premiums until the credit is exhausted.

"(4) The premium shall be one-eighth of one percentum per annum of the total deposits in the insured bank: provided, that the board from time to time may fix a lower percentage, or the board may provide for a refund or credit by a percentage upon the last annual premium paid not exceeding fifty percentum thereof. The percentage so fixed in either case shall be applicable to all insured banks, except that the board may provide that it shall be applicable to insured mutual savings banks only, or may fix a different percentage applicable to insured mutual savings banks only."

10. By striking out subsection (i) and inserting in lieu thereof the following,

"(i) (1) Insured banks shall provide such adequate protection and indemnity against burglary, fidelity and other insurable losses as the board by regulation may require. Whenever any insured bank fails to comply with any such regulation the corporation may contract for such protection and indemnity and add the cost thereof to the premiums otherwise payable by such bank.

"(2) The board shall appoint examiners who shall have power on behalf of the corporation to examine any insured nonmember bank, bank making application to become an insured bank, closed insured bank, or new bank, as often as considered necessary. Such examiners shall have like power to examine, with the consent of the Comptroller of the Currency, any national bank and, with the consent of the Federal Reserve Board, any state member bank. Each examiner shall have power to make a thorough examination of all of the affairs of the bank and in doing so he shall have power to administer oaths and to examine and take and preserve the testimony of any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of the bank to the corporation. The board in like manner shall appoint claim agents who shall have power to investigate and examine all claims for insured deposits and transferred deposits. Each claim agent shall have power to administer oaths and to examine under oath and take and preserve testimony of any persons relating to such claims. Any such examiner or claim agent in relation to any such examination, investigation or taking of testimony may apply to any judge or clerk of any court of the United States to issue subpoenas and to compel the appearance of witnesses and the production and taking of any such testimony and to punish disobedience in like manner as provided in sections 184-186 of the Revised Statutes (U.S.C., Title 5, Sections 94-96).

"(3) Each insured bank shall make to the corporation reports of condition in such form and at such times as the board may require of such bank. The board may require such reports to be published in such manner, not inconsistent with any applicable law, as it may direct. Every insured bank which fails to make or publish any such report within such time, not less than five days, as the board may require, shall be subject to a penalty of $100 payable to the corporation, for each day of such failure.

"(4) In order to avoid duplication the corporation may, in lieu of examining an insured bank or requiring reports of condition from it, accept reports of examinations made by or reports made to any Federal reserve bank or any commission, board or authority having supervision of such bank, or may furnish to any such Federal reserve bank, commission, board or authority reports of examinations made on behalf of and reports of conditions made to the corporation."

11. By striking out in paragraph Fifth of subsection (j), the words "by its board of directors, such officers and employees as are not otherwise provided for in this section" and inserting in lieu thereof "board, officers and employees," and by striking out in paragraph Sixth of subsection (j), the words "of directors" and by striking out paragraph Seventh of subsection (j) and inserting in lieu thereof the following,

"Seventh. To make examinations of and to require information and reports from insured banks or banks making application to become insured banks.

"Eighth. To act as receiver.

"Nineth. To make such rules and regulations as it may deem necessary to carry out the provisions of this section and to amend or repeal any rules or regulations so made.

"Tenth. To exercise by its board, or authorized officers or agents, all powers specifically granted by the provisions of this section and such incidental powers as shall be necessary to carry out the powers so granted. The board may delegate to committees, officers or agents any of its powers or duties."

12. By striking out subsection (1) and inserting in lieu thereof the following,

"(1) (1) The Temporary Federal Deposit Insurance Fund which became operative on January 1, 1934, and the Fund For Mutuals which became operative as of July 1, 1934, are hereby consolidated into the permanent insurance for deposits created by this section: provided, that the obligations to and rights of the corporation, depositors, banks, and other persons arising out of any event or transaction prior to the date of the enactment of this act shall remain unimpaired. From the date of the enactment of this act, the corporation shall insure the deposits of all insured banks as defined and provided in this section.

"(2) An insured bank shall for the purposes of this section, be deemed to have been closed on account of inability to meet the demands of its depositors in any case where it has been closed for the purpose of liquidation.

"(3) Notwithstanding any other provision of law, whenever any insured national bank shall have been closed by action of its board of directors or the Comptroller of the Currency, as the case may be, on account of inability to meet the demands of its depositors, the Comptroller of the Currency shall appoint the corporation receiver for such closed national bank and no other person shall be appointed as receiver of such closed national bank.

"(4) It shall be the duty of the corporation as receiver to realize upon the assets of such closed national bank, having due regard to the condition of credit in the district in which such closed national bank is located; to enforce the individual liability of the stockholders and directors thereof; and to wind up the affairs of such closed national bank in conformity with the provisions of law relating to the liquidation of closed national banks, except as herein otherwise provided, retaining for its own account such portion of the amount realized from such liquidation as it shall be entitled to receive on account of its subrogation to the claims of depositors and paying to depositors and other creditors the amount available for distribution to them, after deducting therefrom their share of the costs of the liquidation of the closed national bank. With respect to such closed national bank, the corporation shall have all the rights, powers and privileges now possessed by or hereafter given the receiver of an insolvent national bank.

"(5) After appointing the corporation receiver, the Comptroller of the Currency shall be relieved of all duties with respect to such closed national bank or such receivership, and the corporation shall have and exercise all of the rights, powers and privileges of the Comptroller of the Currency with respect to such closed national bank, its shareholders, depositors and creditors, or with respect to such receivership, and it may compromise, either before or after judgment, the individual liability of any shareholder of any closed national bank, without the approval of the Comptroller of the Currency or any order of court: provided, that this shall not affect the duties and powers of the Comptroller of the Currency in respect to the redemption of outstanding circulating notes under Section 5222, 5224, 5226, 5227, 5229, 5230 and 5231 of the Revised Statutes (U.S.C. Title 12, Sections 131, 132, 134, 137, 138, 183 and 185).

"(6) The corporation as such receiver shall not be required to furnish bond, and shall not be under the supervision or direction of, or be required to report to the Comptroller of the Currency, and funds collected by it as receiver shall be deposited in any Federal reserve bank or with the Treasurer of the United States.

"(7) The corporation may in its discretion apply to the United States District Court for the district in which such closed national bank had its principal place of business, or to any other court having jurisdiction, for instructions or directions regarding the sale of the real or personal property of the closed national bank, the compounding of bad or doubtful debts, the allowance of claims, the payment of dividends, or the compromising of the individual liability of any shareholder of such closed national bank.

"(8) The corporation as receiver of such closed national bank shall have the right to appoint an agent or agents to assist it in the duty of liquidation and distribution and to employ legal counsel and such other expert assistance and advice as it may deem necessary, and all fees, compensation and expenses of administration and liquidation shall be fixed by the Corporation, and may be paid by it out of funds coming into its possession as such receiver.

"(9) Whenever any insured state bank shall have closed by action of its board of directors or by the appropriate state authority, as the case may be, on account of inability to meet the demands of its depositors, the corporation shall and in any other case may accept appointment as receiver thereof, if such appointment be tendered by the appropriate state authority and be authorized or permitted by state law. With respect to such insured state bank, the corporation shall possess the powers and privileges provided by state law with respect to a receiver of such state bank.

"(10) When an insured bank shall have been closed on account of inability to meet the demands of its depositors, payment of the insured deposits shall be made by the corporation, subject to the provisions of paragraph (11) of this subsection (1), either (a) by making available to each depositor a transferred deposit in a new bank or in another insured bank in the same community in an amount equal to the insured deposit of such depositor and subject to withdrawal on demand, or (b) in accordance with any other procedure adopted by the board: provided, that the corporation, in its discretion, may require proofs of claims to be filed before paying the insured deposits, and that in any case where the corporation is not satisfied as to the validity of a claim for an insured deposit, it may require the final determination of a court of competent jurisdiction before paying such claim.

"(11) In the case of a closed national bank the corporation, upon payment of any depositor as provided in paragraph (10) of this subsection (1), shall become and be subrogated to all rights of the depositor to the extent of such payment. In the case of any other closed insured bank, the corporation shall not pay any depositor until the right of the corporation to be subrogated to the rights of such depositor on the same basis as provided in the case of a closed national bank under this section shall have been recognized, by express provisions of state law, by allowance of claims by the appropriate state authority, by assignment of claims by depositors, or by any other effective method. Such subrogation in the case of any closed bank shall include the right to receive the same dividends from the proceeds of the assets of such closed bank as would have been payable to such depositor on a claim for the insured deposit.

"(12) As soon as possible, the corporation, if it finds that it is advisable and in the interest of the depositors of the closed bank or the public, shall organize a new bank to assume the insured deposits of such closed bank and otherwise to perform temporarily the functions provided for in this section. The new bank shall have its place of business in the same community as the closed bank.

"(13) The articles of association and the organization certificate of the new bank shall be executed by representatives designated by the corporation. No capital stock need be paid in by the corporation. The new bank shall not have a board of directors, but shall be managed by an executive officer appointed by and who shall be subject to the directions of the board. In other respects such bank shall be organized in accordance with the existing provisions of the law relating to the organization of national banks. The new bank may, with the approval of the corporation, accept new deposits. The new bank without application or approval, shall be an insured bank and shall maintain on deposit with the Federal reserve bank of its district the reserves required by law for member banks, but shall not be required to subscribe for stock of the Federal reserve bank. Funds of the new bank shall be kept on hand in cash, invested in securities of the government of the United States, or in securities guaranteed as to principal and interest by the government of the United States, or deposited with the corporation, or with a Federal reserve bank, or with an insured bank. The new bank shall transact no business except that authorized by this section and such business as may be incidental to its organization.

"(14) On its organization, the corporation shall promptly make available to the new bank an amount equal to the estimated insured deposits of such closed bank plus the amount of its estimated expenses of operation and shall determine as expeditiously as possible the amount due each depositor for his insured deposit in the closed bank, and the total expenses of operation of the new bank. Upon determination thereof, the amounts so estimated and made available shall be adjusted to conform to the amounts so determined. Earnings of the new bank shall be paid over or credited to the corporation in such adjustment. The new bank shall assume as transferred deposits the payment of the insured deposits of such closed bank to each of its depositors. Of the amount so made available, the corporation shall transfer to the new bank, in cash, such amount as is necessary to enable it to meet expenses and immediate cash demands on such transferred deposits and the remainder shall be subject to withdrawal by the new bank on demand.

"(15) When in the judgment of the board it is desirable to do so, the corporation shall offer capital stock of the new bank for sale on such terms and conditions as the board shall deem advisable, in an amount sufficient, in the opinion of the board, to make possible the conduct of the business of the new bank on a sound basis, but in no event less than that required by Section 5138 of the Revised Statutes, as amended, (U.S.C., Title 12, Sec. 51), for the organization of a national banking association in the place where such new bank is located, giving the stockholders of the closed bank the first opportunity to purchase such stock. Upon proof that an adequate amount of capital stock in the new bank has been subscribed and paid for in cash by subscribers satisfactory to the Comptroller of the Currency, he shall require the articles of association and the organization certificate to be amended to conform to the requirements for the organization of a national banking association, and shall issue a certificate of authority to commence business to the bank, which shall thereupon cease to be a new bank and shall be managed by directors elected by its own shareholders and may exercise all the powers granted by law to national banking associations.

"(16) If the capital stock of the new bank shall not be offered for sale, or if an adequate amount of capital for such new bank is not subscribed and paid in, the board may offer to transfer its business to any insured bank in the same community which shall take over its assets, assume its liabilities, and pay to the corporation for such business such amount as the board may deem adequate or in its discretion, may change its location to the office of the corporation or some other place or may at any time wind up its affairs as herein provided. Unless the capital stock of the new bank is sold or its assets acquired and its liabilities assumed by an insured bank, as provided above, within two years from the date of its organization, the corporation shall wind up its affairs, after giving such notice, if any, as the Comptroller of the Currency may require and shall certify to the Comptroller of the Currency the termination of the new bank and thenceforth shall be liable for its obligations and be the owner of its assets. The provisions of sections 5220-5221 of the Revised Statutes (U.S.C. Title 12, Sections 181-182) shall not apply to such new banks.

"(17) Payment of an insured deposit to any person by the corporation shall discharge the corporation, and payment of a transferred deposit to any person by the new bank or the other insured bank shall discharge such new bank or other insured bank, to the same extent that payment to such person by the closed bank would have discharged it from liability for the insured deposit.

"(18) Except as otherwise prescribed by the board, the corporation, or such new bank, or such other insured bank, shall not be required to recognize as the owner of any portion of a deposit in a closed bank any person whose name or interest as such owner is not disclosed on the records of such closed bank, where such recognition would increase the aggregate amount of the insured deposits in such closed bank.

"(19) The corporation may withhold payment of such portion of the insured deposit of any depositor in a closed bank as may be required to provide for the payment of any liability of such depositor as a stockholder of the bank, or of any liability of such depositor to the bank or its receiver, which may not be offset against a claim due from the bank, pending the determination and payment of such liability by such depositor or any other person liable therefor.

"(20) If any depositor in a closed insured bank shall fail to claim his insured deposit from the corporation, or shall fail to claim or arrange to continue the transferred deposit with the new bank or other bank assuming liability therefor within one year after the appointment of the receiver for the closed bank, all rights of the depositor against the corporation in respect to the insured deposit or against the new bank and such other bank in respect to the transferred deposit shall be barred, and all rights of the depositor against the closed bank, its shareholders or the receivership estate to which the corporation may have become subrogated shall thereupon revert to the depositor. Any transferred deposits not claimed within said one year period, shall be refunded to the corporation.

"(21) In any case where the corporation is not acting as receiver it may in its discretion purchase and liquidate any or all of the assets of an insured bank closed on account of inability to meet the demands of its depositors.

"(22) No insured bank shall enter into any consolidation or merger with another bank, or assume liability to pay any deposits of another bank, or transfer assets to another bank in consideration of the assumption of liability for any portion of its deposits, or reduce the amount or retire any part of its common or preferred capital stock, or retire any part of its capital notes or debentures, unless it shall have the prior written consent of the Corporation.

"(23) Any insured non-member bank may, upon not less than 90 days written notice to the corporation, terminate its status as an insured bank. The board shall have power to terminate the status of any bank as an insured bank whenever it shall find that the bank or its directors or trustees have knowingly violated or knowingly or negligently permitted any of its officers or agents to violate a provision of this section or of any rule or regulation made thereunder, or of any law or regulation made pursuant to law to which the insured bank is subject. The board shall give 60 days written notice to the bank of intention to terminate its status as an insured bank, specifying the grounds for such termination, and fixing a time and place for a hearing before the board or before any person designated by it to conduct such hearing, at which evidence may be produced, and upon such evidence the board shall make written findings which shall be conclusive: provided, that whenever the board finds that it is necessary to terminate the insured status of a bank immediately in order to prevent loss to the corporation, it may shorten said notice of intention to not less than 10 days. If the board shall find that any ground specified in such notice has been established, the board may order that the insured status of the bank be terminated on a date subsequent to such finding and to the expiration of the time specified in such notice of intention. The corporation may publish notice of such termination and the bank shall give such notice of termination to its depositors as the board may order. After termination of the insured status of any bank, the insured deposits of each depositor in the bank on the date of such termination, less subsequent withdrawals, shall continue for a period of 2 years to be insured and the bank shall continue to be an insured bank and to pay premiums to the corporation for such period of 2 years from such termination, but no additions to any deposits or any new deposits shall be insured by the corporation, and the bank shall not advertise or hold itself out as an insured bank unless in the same connection it shall state with equal prominence that additions to deposits and new deposits made after (insert date of termination) are not insured. Such bank shall in all other respects be subject to the duties and obligations of an insured bank for a period of 3 years from such termination.

"(24) Whenever an insured bank, for a period of 120 days after written notice of such recommendations, shall fail to comply with the recommendations of the corporation based on a report of examination of such bank, the corporation shall have the power, and is hereby authorized to publish any part of such report of examination in such manner as it may determine: provided, that notice of intention to make such publication shall be given by the corporation to the bank at least 90 days before such publication: provided further, that such notice of intention to make such publication may be given at the time such recommendations are made, or at any time thereafter.

"(25) The provisions of this subsection (l) relating to insured national banks shall be applicable likewise to all insured banks located in the District of Columbia and to any insured non-member national banking association located in the territory of Hawaii or Alaska.

"(26) Nothing herein contained shall be construed to prevent the corporation from entering into negotiations to secure the reopening of any insured bank closed on account of inability to meet the demands of its depositors."

13. By striking out subsection (m) and inserting in lieu thereof the following,

"(m) (1) Money of the corporation not otherwise employed shall be invested in securities of the Government of the United States, or in securities guaranteed as to principal and interest by the Government of the United States, except that for temporary periods, in the discretion of the board, funds of the corporation may be deposited in any Federal reserve bank or with the Treasurer of the United States. When designated for that purpose by the Secretary of the Treasury, the corporation shall be a depository of public moneys, except receipts from customs, under such regulations as may be prescribed by the said Secretary, and may also be employed as a financial agent of the Government. It shall perform all such reasonable duties as depository of public moneys and financial agent of the Government as may be required of it.

"(2) Until July 1, 1936, whenever in the judgment of the board such action will reduce the risk or avert a threatened loss to the corporation and will facilitate in a merger or consolidation, or facilitate the sale of the assets of an insured bank to and assumption of its liabilities by another insured bank, the corporation may, upon such terms and conditions as it may determine, make loans secured by the assets of such insured bank in subordination to the rights of depositors or otherwise, or may purchase such assets, or may guarantee any other insured bank against loss by reason of assuming the liabilities and purchasing the assets of such insured bank. Any insured national bank or conservator thereof is authorized to contract for such sales or loans and to pledge any assets of the bank to secure such loans."

14. By striking out subsection (n) and inserting in lieu thereof the following,

"(n) The proceeds derived from the tax imposed by section 751, as amended, of the Revenue Act of 1932, are hereby appropriated for payment to the Federal Deposit Insurance Corporation for expenditure in carrying out the purposes of this act, the amounts so appropriated and paid to be based upon monthly reports of collections by collectors of Internal Revenue, approved by the Commissioner of Internal Revenue, at such times and in accordance with such rules and regulations as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe."

15. By inserting after the word, "empowered", in the first sentence in subsection (o) the following, "with the approval of the Secretary of the Treasury"; by striking out in subsection (o) the words "o its capital" and inserting in lieu thereof "received by the corporation in payment of its capital stock"; and by adding at the end of subsection (o) the following:

"The Secretary of the Treasury, in his discretion, is authorized to purchase any obligations of the corporation to be issued hereunder, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of the sale of any securities hereafter issued under the 2nd Liberty Bond Act, as amended, and the purposes for which securities may be issued under the 2nd Liberty Bond Act, as amended, are extended to include any purchases of the corporation's obligations hereunder. The Secretary of the Treasury may, at any time, sell any of the obligations of the corporation acquired by him under this section. All redemptions, purchases and sales by the Secretary of the Treasury of the obligations of the corporation shall be treated as public-debt transactions of the United States."

16. By adding at the end of subsection (r) the following,

"The board, from time to time, shall gather information and data and shall make investigations and reports upon the organization, operation, closing, reopening, reorganization and consolidation of banks, banking practices and management, and the security of depositors and adequacy of service to borrowers. The board, in any annual or special report to Congress, shall report its findings and make such recommendations and requests as it shall find necessary and appropriate for the purpose of carrying out the purposes of this section and fully providing for all of the obligations of the corporation."

17. By inserting in subsection (s) following the words "purchase any assets" the following, "or for the purpose of obtaining the payment of any insured deposit or transferred deposit or the allowance, approval or payment of any claim,".

18. By striking out in subsection (v) the following, "(v)" and inserting in lieu thereof the following, "(v) (1)", and by striking out in subsection (v) (1) the following, "class A stockholder of the Federal Deposit Insurance Corporation" and inserting in lieu thereof "insured bank".

19. By striking out the second paragraph of subsection (v) and inserting in lieu thereof the following,

"(2) Every insured bank shall display at each place of business maintained by it a sign or signs, and shall include in advertisements relating to deposits and in forms furnished for use of its depositors as specified by regulation of the board, a statement to the effect that its deposits are insured by the corporation. The board shall prescribe by regulation the forms of such signs and the manner of display and the forms of such statements and the manner of use. Such regulation may impose a maximum penalty of $100 for each day an insured bank continues to violate any lawful provisions of said regulation ."

20. By adding to subsection (v) three new paragraphs to read,

"(3) No insured bank shall pay any dividends on its capital stock until all premiums due to the corporation shall have been paid in full; and any director or officer of any insured bank, who participates in the declaration or payment of any such dividend shall, upon conviction, be fined not more than $1,000 or imprisoned not more than one year, or both.

"(4) The board shall, by regulations applicable to all insured non-member banks, prescribe the same limitations upon the payment and the rates of interest upon various classes of deposits, the payment of deposits before maturity and the waiver of requirement of notice before payment of deposits, as are imposed from time to time by law or by regulation of the Federal Reserve Board upon like classes of deposits in member banks.

"(5) All insured banks and the officers, agents, and employees thereof shall be subject to the provisions of and to the penalties prescribed by section 5209 of the Revised Statutes. (U.S.C., Title 12, Section 592)."

21. By striking out all of subsection (y) preceding the last paragraph thereof and inserting in lieu thereof the following,

"(y) (1) A non-member bank, other than (a) a mutual savings bank, or (b) a bank located in the territory of Hawaii or Alaska, shall not become or continue an insured bank after July 1, 1937, and the insured status and insurance of the deposits of each non-member bank, other than (a) a mutual savings bank, or (b) a bank located in the territory of Hawaii or Alaska, shall terminate on July 1, 1937, with like effect as if terminated on said date by the board, after proceedings under paragraph 23 of subsection (1) of this section."

22. By inserting at the beginning of the last of subsection (y) the following, "(2)".

Section 2. Subsection (e) of section 13b of the Federal Reserve Act is amended by striking out "upon the date this section takes effect", and inserting "on and after June 19, 1934", and by striking out "the par value of the holdings of each Federal reserve bank of Federal Deposit Insurance Corporation stock" and inserting in lieu thereof, "the amount paid by each Federal reserve bank for Federal Deposit Insurance Corporation stock".

Section 3. Section 22, as amended, of the Federal Reserve Act is amended:

1. By inserting in subsection (a) thereof after "No member bank" the following, "and no insured bank as defined in subsection (c) of section 12B of this Act"; and by inserting after "any member bank" in the second paragraph thereof, "or insured bank"; and by striking out "examiner" at the end thereof and inserting "or Federal Deposit Insurance Corporation examiner".

2. By inserting in subsection (b) thereof after "No national bank examiner" the following, "and no Federal Deposit Insurance Corporation examiner"; and by inserting after "member bank" the following, "or insured bank"; and by inserting after "from the Comptroller of the Currency," the following, "or from the Federal Deposit Insurance Corporation,".

Section 4. Section 751, as amended, of the Revenue Act of 1932 is amended by inserting after "presented for payment on or after the 15th day after the date of enactment of this Act and before January 1, 1935", the following, "or presented for payment on or after the 15th day after the date of enactment of the Permanent Federal Deposit Insurance Act."

Section 5. Section 5209 of the Revised Statutes is hereby amended by inserting after the words, "known as the Federal Reserve Act," the words, "or of any insured bank as defined in subsection (c) of Section 12B of the Federal Reserve Act"; and by inserting, immediately after the words "such Federal reserve bank or member bank" wherever they appear in such section, the words "or insured bank"; and by inserting after the words, "or the Comptroller of the Currency," the words, "or the Federal Deposit Insurance Corporation,".

Section 6. If any provision of this Act, or the application of such provision to any person or circumstance, shall be held invalid, the remainder of this Act, or the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected thereby.

Section 7. The right to amend, alter, or repeal this Act is hereby expressly reserved.

Section 8. This Act may be cited as the "Permanent Federal Deposit Insurance Act".

December 11th

H. M. Jr. said thumbs down on Kemper. Very nice man but not big enough for the job of Assistant Secretary.

Mr. Thomas Harrison Mac Donald came in to-day with a report on the proposed plan which the President had on Road Construction. Henry Lutz and Admiral Peoples were also present. MacDonald said it will cost $200,000 to build a mile of road. He said we could get our right of way at $50.00 an acre. It would take 1280 acres to the mile for a two mile right of way. Taking out 62 acres for the road, this would leave 1218 acres. Therefore, the right of way would cost $64,000.

The question is can we sell enough land at $216 an acre to pay for the cost of the roads. Could Harry Hopkins put some of his Homestead Projects along the roads to help make this thing self-liquidating. Mr. MacDonald said that he is interested in getting the maximum amount of labor out of the job. In the normal way of building we get 30% labor. These roads, however, will have to be built differently. We want to get 50% of the amount of money appropriated on labor.

H. M. Jr. felt that it would be impossible to sell land at $216 an acre as mentioned above.

Submitted to FDR on 12/11/34 at 8:30 P.M.
at White House

CONFIDENTIAL

TAX PROGRAM

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TAX PROGRAM

Preface

In many respects, though not all, the tax structure of the Federal Government is stronger today than it was in the fiscal years 1920 and 1921, when it raised more than $5,000,000,000 annually. We estimate that our present tax structure with a level of business and prices equal to that of 1926, would produce approximately $5,000,000,000 a year.

The tax program outlined in the following falls into two parts: (1) the special taxes that expire on June 30, 1935; and (2) tax changes proposed to improve the economic structure.

With respect to the first part, no introductory comment is needed other than to say that if these taxes or their equivalents are not extended, the revenue loss to the Federal Government is estimated at $378,000,000 for the fiscal year 1936.

The second part of the program, that of tax changes designed to improve the economic structure, involves questions broader than mere revenue and is capable, if publicly proposed, of producing widespread repercussions.

Our principal proposals relate to the taxation of corporate surpluses and to an inter-corporate dividend tax, both of which are designed in part to reduce the existing concentration of economic control in few hands. We are also making further investigation of other possible measures to break up huge corporate entities.

While the measures here proposed involve no radical attack upon the fundamental character of the capitalist system they may well be regarded otherwise at first in influential circles; and it is desirable to point out, therefore, that the public espousal of these measures may have temporary unfavorable effects upon the securities markets.

An inter-corporate dividend tax, for example, while providing a powerful influence toward the simplification of corporate structures and an effective measure of discouragement to undue corporate aggrandizement, would have an immediate unfavorable influence upon the earnings of holding companies and therefore upon the prices of their bonds and stocks. Likewise, the proposed tax on the undistributed portion of corporate earnings, while encouraging more liberal dividend policies and discouraging undue corporate accumulations, might have the effect of impairing the margin of safety of various bond issues which now benefit by the retention of corporate earnings in the business.

Both of these measures, it should be added, may be so framed as to minimize the ill effects upon present securities holders and yet to exert the desired influence. The effective date of the inter-corporate dividend tax, for example, might be made a year or two hence, which would allow time for the simplification of corporate structures. The taxation of undistributed corporate earnings might be based upon the average of three or four years' earnings, thereby permitting the retention of prudent reserves for contingencies and even dividend payments. Nevertheless, however reasonably the laws may actually be framed, the markets may well misinterpret and exaggerate their character, temporarily; and due recognition should be given this possibility.

In view of both the great desirability of these measures and of their possible temporarily unfavorable consequences, it would appear to be essential that the Administration protect itself against all adverse contingencies by obtaining centralized control of the credit structure. Such control would make it possible to finance the Government's requirements in sound and essentially orthodox fashion, despite any vagaries or exaggerations to which the markets may be subject as a result of these or other proposals.

A

Special taxes that are expiring and possible alternatives and additions

1. It is recommended that the special taxes that terminate or are reduced on June 30, 1935, in the absence of new legislation, be extended. The aggregate yield of these taxes in the fiscal year 1936, as is shown in detail in the accompanying Schedule A and chart, is estimated at $378,000,000.

2. The following changes in existing taxes are recommended to increase revenues primarily by reducing evasion, and would add approximately $5,000,000 to tax receipts:

	Additional Yield
5% tax on photographic films in lieu of tax on cameras	$ 2,736,000
Tax on toilet articles to cover sales by enterprises packaging the same	2,000,000
Semi-trailers to be excluded from exempted tractors . . .	260,000
	$ 4,996,000

3. The following taxes, of the same general nature as various existing taxes, are listed as possible sources of additional revenues and as possible substitutes for one or more of the expiring taxes in the event that any such are not extended:

	Additional Yield
Restoration of 2¢ tax on bank checks	$45,000,000
1% tax on insurance premiums	45,100,000
1¢ tax on each electric light bulb sold by producer or importer	6,000,000
Removal of exemption from packages of cigarette papers containing less than 36 papers	[illegible],000,000
Reduction of exempt admission taxes from 40¢ to 24¢ . .	12,000,000
(If exemption is reduced to 9¢	68,000,000)
Rate increases from 3% to 5% on automobile chassis and bodies, and motor cycles	20,000,000
Occupational tax of $50 per year on stockbrokers and pawnbrokers	570,000
Occupational tax on operators of billiard and pool tables and bowling alleys at $5 per table and/or alley	1,330,000
Tax of 1% to 3% on pari-mutuel ticket receipts	—
Tax on rayon products and yarn	—

Except for those designed to reduce existing evasions, nearly all the foregoing taxes would tend to be shifted to consumers.

The attached Exhibit I presents the proposals somewhat more fully.

B

Tax Changes Proposed to Improve Economic Structure

I

Inheritance, Estate, and Gift Taxes

1. No increase in present estate tax rates is recommended. The present rates are estimated to yield $191,000,000 in the fiscal year 1936 as contrasted with collections of $29,700,000 in the fiscal year 1933; and further substantial increases are probable as time elapses and business and prices recover.

2. An inheritance tax, additional to the present estate tax, and applying to the distributive share of each legatee or distributee, is recommended. No great administrative burden would be involved if such tax were applicable only to legacies of substantial amounts. Swiftly graduated rates would do much to retard inheritance of large sums.

3. To reduce evasions, compensatory increases in gift taxes would be necessary. Consideration should be given, however, to attacking this matter by treating gifts as ordinary income and taxing them as such.

II

Inter-Corporate Dividend Tax

1. As suggested in the preface, an inter-corporate dividend tax would operate powerfully to reduce existing complexities in corporate structure; and would provide one effective element in a program for the breaking up of some of the larger business units that dominate our economic life. This method of attack will need to be supplemented with taxes on business units scaled according to their size, as discussed in III.

2. Dividends received by corporations are not now subject to taxes. An inter-corporate dividend tax would operate powerfully to reduce existing complexities in corporate structure. Such a tax might be imposed in the form of a special tax on dividends received by corporations, at a rate of, say, 1 to 5 percent, or the present exemption of dividend income from the corporation income tax might be eliminated.

3. In order to avoid establishing what might be regarded as a retroactive penalty tax, it would appear to be desirable to allow some little time to elapse, after the passage of the act, before the effective date of such a tax. Something of the same end could be obtained by imposing a negligible rate of tax immediately, with a rise to a more substantial rate after one or two years.

4. The prices of various common stocks— of enterprises with large stock holdings in other corporations— would probably be adversely affected by such a tax; particularly if it were to take effect immediately, before suitable readjustments in corporate structure in line with the policy behind the act could be effected. The bonds of holding companies, whose principal sources of income were dividends, might also be expected to suffer in price.

III

Corporation Tax Scaled to Size of Corporation

1. If we stop with an inter-corporate dividend tax, a large part of the effect might be merely to drive large business units into closer forms of organization, involving consolidation of outright ownership of the physical properties involved; and we would leave untouched those giant enterprises which have already taken on this final form of monopolistic organization.

2. Because of the great complexity of the problem, extensive further analysis is necessary to develop a corporate tax scaled to size that will be workable from both a business and tax point of view and yet accomplish the public ends in view.

IV

Taxes on Present and Future Corporate Surpluses

1. Undue accumulation of corporate surpluses would be discouraged by imposing a tax somewhere in the range of 5 to 25 percent upon that portion of statutory corporate income, less taxes paid, which is not distributed in dividends.

Corporations which paid out all their earnings in dividends would suffer no additional tax. If the tax were made to apply on the average of 3 or 4 years' undistributed earnings, ample provision would be allowed for the accumulation of necessary reserves for the maintenance of stable dividend rates and for contingencies.

No estimate of additional revenues that may be obtained from this tax has been prepared; but, because the effect of the tax would be both to increase the amount of dividends subject to surtaxes and to increase the effective tax on those corporations which do not fully distribute earnings, this tax may be expected to add significantly to Federal revenues, as well as to discourage undue corporate accumulations.

The foregoing relates merely to future accumulations of corporate surpluses. Existing surpluses are a major factor in the domination of American business by a relatively small group. How the distribution of existing surpluses is to be stimulated, if that is desired, is now the subject of study, and will require further extensive analysis because of a number of constitutional and practical difficulties.

V

Tax on Unspent Income of Individuals

It is believed that an equitable tax on the unspent income of individuals would be almost impossible to frame, and that the administration of any such tax would be subject to grave practical difficulties. The objectives of this proposal are capable of substantial accomplishment by means of increases in surtaxes in the upper income brackets.

VI

Change in Depletion Allowances of Oil, Gas, and Other Extractive Enterprises

1. The present depletion allowances to oil, gas, and mining enterprises is different from that permitted all other businesses and constitutes a subsidy to these enterprises by reducing substantially the tax assessments that they would otherwise pay. This preferential treatment was originated during the war with the aim of encouraging new oil and mineral discoveries. These industries are now over-producing, however.

2. If the same legal depletion basis were established for these enterprises as exists for all others, it is estimated that the resultant increase in tax receipts would have been $25,000,000 in the fiscal year 1934. As an alternative, consideration might well be given to the proposal to eliminate depletion deductions entirely, as is substantially the situation in England.

VII

Tax Exempt Securities

The amounts of tax exempt securities, Federal, State, and Municipal, embarrass us at almost every turn. A Constitutional Amendment would be required to deal with this problem in any effective way, but it is doubtful if a Constitutional Amendment framed by the Federal Government would be ratified by the necessary number of States, since the matter so vitally affects State and local governments. It is the sort of problem which could best be approached by a conference among all the States and the Federal Government, with the idea of getting an agreement on a program which would be generally acceptable.

LMS:ehn

SCHEDULE A

Estimated Loss in Revenue, fiscal year 1936, from Taxes Terminated or Rates Reduced, June 30, 1935, in Absence of Specific Legislation

Source	Estimated loss in revenue
Taxes terminated:	
Lubricating oil	$ 22,600,000
Brewers wort, malt, grape concentrate, etc.	900,000
Matches	6,400,000
Gasoline	154,700,000
Electrical energy	32,300,000
Automobile trucks	3,000,000
Other automobiles and motor cycles	36,600,000
Parts or accessories for automobiles	5,100,000
Tires and inner tubes	20,100,000
Toilet preparations, etc.	11,000,000
Articles made of fur	2,700,000
Jewelry (watches, clocks, opera and field glasses, etc.)	1,600,000
Radio sets, phonograph records, etc.	3,600,000
Mechanical refrigerators	5,000,000
Sporting goods, cameras and lenses	4,000,000
Firearms, shells and cartridges	2,400,000
Chewing gum	700,000
Telephone, telegraph, radio and cable facilities, etc.	18,500,000
Transportation of oil by pipe line	9,400,000
Bond transfers	4,300,000
Deeds of conveyance	9,500,000
Total, taxes terminated	$344,400,000
Taxes, rates reduced:	
Issues of securities	$ 5,400,000
Stock transfers	10,300,000
Sales of produce for future delivery	4,300,000
Admissions	13,300,000
Total, taxes rates reduced	$ 33,300,000
Grand total	$377,700,000

EXHIBIT I

A

The following changes in existing taxes would increase revenues primarily by reducing evasions:

1. A tax of 5 percent on the price for which photographic films, including motion picture films, are sold by the manufacturer, producer, or importer, is proposed in addition to or as a substitute for the present unsatisfactory tax on cameras. The proposed tax on films is estimated to yield about $3,100,000, as contrasted with the $364,000 derived from the tax on cameras.

2. Section 603 of the Revenue Act of 1934, imposing a tax on toilet articles sold by manufacturers, producers, or importers, would yield approximately $2,000,000 additional revenue if it were made applicable also to sales by any person packaging such articles for ultimate sale or distribution. Evasion of the present tax would be greatly reduced.

3. Section 606 (b) of the Revenue Act of 1932, which exempts tractors not adaptable to use on paved streets or highways from the 3 percent rate, if revised to exclude semi-trailers from the exemption, would produce $260,000 additional revenue.

B

The following taxes, of the same general nature as various existing taxes, are recommended for consideration as sources of additional revenues and as possible substitutes for one or more of the expiring taxes in the event that any such are not extended:

1. The restoration of the 2 cent tax on bank checks would yield about $45,000,000.

2. If the exemption from the tax on admissions under Section 711 of the Revenue Act of 1932 were reduced from 40 cents to 24 cents, approximately $12,000,000 of additional revenue would be obtained. (If the exemption were reduced to 9 cents, the estimated additional revenue would be $68,000,000.)

3. If the tax rate on automobile chassis and bodies and motor cycles were restored from 3 percent to the 5 percent rate incorporated in the 1921 Act, approximately $20,000,000 additional revenue would be obtained.

Exhibit I - 2

4. If the present exemption of packages of cigarette papers containing 25 or less papers from the rate of ½ cent per package now imposed on packages of not more than 50 were eliminated, so that the ½ cent rate per package would apply to all packages containing not more than 50, it is estimated that $5,000,000 of additional revenue would be obtained.

5. A tax of 1 cent per dollar charged as premiums on policies of insurance, applicable to all types of insurance, would produce approximately $45,100,000 of revenue, excluding insurance by the Veterans' Administration.

A similar tax was imposed under Section 503 of the Revenue Act of 1918, but the rate on life insurance policies was 8 cents per $100 of the amount of the policy.

6. A tax of 1 cent on each electric light bulb sold by manufacturer, producer, or importer, would yield approximately $6,000,000.

7. A tax of 5 percent on the selling or leasing price of coin-operated devices or machines would yield about $500,000.

8. A special occupational tax of $50 per year on stockbrokers and pawnbrokers would yield about $575,000.

9. A special occupational tax on operators of billiard and pool tables and bowling alleys at $5 per table and/or alley would yield $1,330,000.

10. A tax of 1 to 5 percent of the gross receipts of all bets on race horses and other events evidenced by pari-mutuel tickets. No estimate of the possible revenue is available.

11. A tax on sales of rayon yarn or products containing rayon yarn. No estimate is available.

Except for those designed to reduce existing evasions, nearly all the foregoing taxes would tend to be shifted to consumers.

Mr. Clyde A. Brown, his two lawyers, Holman Willis and Mr. Ash came in to see the Secretary in regard to Brown's disbarment. This appointment was arranged by Senator Glass, who is very much interested in this case. Mr. Morgenthau asked Cook, Chief of the Disbarment Committee, to be present. H.M.Jr. explained to Brown's lawyers that he did not want them to go into the details of the case because he did not wish to prejudice Cook. He wanted them to begin from the very beginning and have Cook hear the case without reading any of the past records sometime convenient to all of them in the near future. The Secretary explained that they would get fair treatment and honest handling of the case. The lawyers seemed very pleased.

Brown looked very hard-boiled.

Mrs. Klotz telephoned Senator Glass the following day and explained what had happened. He seemed pleased.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Wednesday, December 12, 1934.

Press Service
No. 3-86

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the December 15 offering of 3-1/8 percent Treasury bonds of 1949-52, 1-1/8 percent Treasury notes of Series E-1936 and the additional issue of 2-1/8 percent Treasury notes of Series A-1939.

Subscriptions and allotments were divided among the several Federal reserve districts and the Treasury as follows:

3-1/8 PERCENT TREASURY BONDS OF 1949-52

Federal Reserve District	Total Subscriptions Received	Total Subscriptions Allotted
Boston	$ 158,772,550	$ 33,113,600
New York	1,153,531,100	224,204,500
Philadelphia	150,161,650	30,513,500
Cleveland	133,854,700	29,069,200
Richmond	90,110,350	18,586,350
Atlanta	100,158,600	23,974,600
Chicago	181,024,750	42,921,050
St. Louis	60,931,500	16,969,400
Minneapolis	14,382,400	5,577,400
Kansas City	51,402,200	14,302,300
Dallas	63,126,100	17,223,200
San Francisco	176,982,700	34,903,100
Treasury	30,900	30,900
TOTAL	$2,334,469,500	$491,389,100

1-1/8 PERCENT TREASURY NOTES OF SERIES E-1936

Federal Reserve District	Total Cash Subscriptions Received	Total Exchange Subscriptions Received	Total Subscriptions Received	Total Subscriptions Allotted
Boston	$ 189,587,500	$ 10,375,000	$ 199,962,500	$ 40,978,000
New York	1,450,222,900	148,868,000	1,599,090,900	363,150,000
Philadelphia	185,565,400	1,965,500	187,530,900	29,034,900
Cleveland	201,292,000	2,226,500	203,518,500	32,013,500
Richmond	132,939,500	2,681,500	135,621,000	24,314,500
Atlanta	98,886,900	77,000	98,963,900	18,310,400
Chicago	287,435,900	36,519,000	323,954,900	85,125,700
St. Louis	72,900,300	736,500	73,636,800	15,058,800
Minneapolis	52,846,500	1,081,000	53,927,500	10,560,000
Kansas City	82,481,200	2,266,000	84,747,200	18,936,200
Dallas	70,038,300	66,000	70,104,300	14,174,400
San Francisco	211,861,500	3,277,500	215,139,000	34,945,000
Treasury	12,000	60,000	72,000	72,000
TOTAL	$3,036,069,900	$210,199,500	$3,246,269,400	*$686,673,400

* Includes $210,199,500 exchange subscriptions, which were allotted in full.

2-1/8 PERCENT TREASURY NOTES OF SERIES A-1939
(Additional Issue)

Federal Reserve District	Total Subscriptions Received and Allotted
Boston	$ 22,706,000
New York	473,903,500
Philadelphia	13,623,500
Cleveland	13,141,500
Richmond	54,554,000
Atlanta	4,696,500
Chicago	112,811,500
St. Louis	14,011,000
Minneapolis	18,679,000
Kansas City	13,482,000
Dallas	8,821,500
San Francisco	12,168,000
Treasury	2,810,000
TOTAL	$765,408,000

December 13th

Mr. E. Sydenstricker, Dr. Parran and a group of other men interested in Public Health came in to see the Secretary to-day. They said they needed $10,000,000 for their public health program. Of course the Secretary said this would be impossible at this time. He asked them, however, how they would spend the $10,000,000 and Dr. Parran replied: One million to promote research work in the Public Health Service, one million to increase the staff and personnel of the Public Health service, the remainder to match local money and draw out local money in the development of Health Service. H. M. Jr. said let us tackle this from an umemployment point of view. I want to know how many nurses and doctors are out of work. Get this information together and I will approach Harry Hopkins and believe that I can get $1,000,000 for you to render emergency medical care at once. Sydenstricker felt that he did not want to hurt their program of $10,000,000 by getting a million dollars at this time for emergency medical care.

December 13th

H. M. Jr. went to the White House at 2 o'clock and came back at 4:30. He and Bell went up on the question of the budget. H.M.Jr. conceived the following idea - that from December 26th to January 15th the various spending agencies make no more contracts to spend and the money left which has not actually been contracted for be turned over to Harry Hopkins, and this ought to take care of him until November. H. M. Jr. thought we ought to have $1,200,000,000. This would mean that Harry Hopkins would not have to ask Congress for any money and would be able to take care of relief until the new program began next November.

While at the White House H. M. Jr. gave the President the following note which he wrote him in his own hand. "My dear Mr. President. While the cotton bill was under discussion I took great care to keep out of it. Now that you have decided to turn it down may I take this opportunity to congratulate you on the greatest stroke yet for religious freedom. Affectionately yours".

The President read it and smilingly said. "This note I keep" and put it in his pocket.

In the discussion about Japan and our position to the rest of the world the President said:

THE WHITE HOUSE
WASHINGTON

If the [illegible]
in [illegible] policy
should be extended
to England because
his back was to the
wall. He the Pres
believed the U.S.
~~th~~ would of course
go in and help
England

TREASURY DEPARTMENT APPROPRIATION BILL, 1936

HEARINGS CONDUCTED BY THE SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS, HOUSE OF REPRESENTATIVES, IN CHARGE OF THE TREASURY DEPARTMENT APPROPRIATION BILL FOR THE FISCAL YEAR 1936, ON THE DAYS FOLLOWING, NAMELY:

FRIDAY, DECEMBER 14, 1934.

OFFICE OF THE SECRETARY OF THE TREASURY

STATEMENTS OF HON. HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY; D. W. BELL, COMMISSIONER OF ACCOUNTS AND DEPOSITS; WILLIAM H. McREYNOLDS, ADMINISTRATIVE ASSISTANT; S. R. JACOBS, ASSISTANT COMMISSIONER, PUBLIC DEBT SERVICE

Mr. ARNOLD. We have with us this morning, Mr. Morgenthau, the Secretary of the Treasury, and we will be glad to hear him. Do you care to make a general statement, Mr. Secretary?

GENERAL STATEMENT

Secretary MORGENTHAU. Yes; I would like to make a brief general statement and, following that, I will be glad to answer any questions you desire to ask.

Mr. Chairman and gentlemen of the committee, I understand that following your usual procedure you are calling before you the heads of the various Treasury activities, who will give to you such detailed explanations of the estimates as may be desired. I shall not, therefore, go beyond placing in the record a brief statement touching on the Treasury budget for 1936. Any additional information the committee may desire, however, will be gladly furnished.

The grand total of appropriations for the Treasury for 1935 is $1,835,746,022 as against estimates for 1936 of $1,606,742,064, indicating a reduction of $229,003,958 due almost wholly to the omission of emergency appropriations in the Treasury 1936 budget. Eliminating from the comparison made such items as the sinking fund, interest on the public debt, internal revenue, customs, and other miscellaneous refunds, indefinites, and public-buildings construction, the appropriations for operating expenses of the Treasury Department during 1935 aggregate $106,122,334, as compared with estimates for 1936 of $121,143,934, an increase of $15,021,600; $10,838,195 of the increase mentioned is due to the fact that appropriations for 1935 are on a 90-percent salary basis, whereas the estimates for 1936 have been submitted on a 100-percent salary basis. The actual increase therefore may be said to be slightly over $4,000,000, made up principally of the following items:

Coast Guard	$2,200,000
Bureau of Engraving and Printing	780,000
Public Health Service	675,000
Division of Disbursement	710,700

The increase of $2,200,000 in the Coast Guard is due principally to the shortage of funds appropriated for 1935, and to provide for the operation of new equipment which will be placed in commission during 1936. The increase of $780,000 under the Bureau of Engraving and Printing is due to an increase in the number of sheets of all classes to be delivered in 1936 over the number authorized for delivery in 1935 of 17,352,616, made up in most part of internal-revenue stamps required under the liquor taxing laws. The increase of $675,000 under the Public Health Service covers principally additional funds required for the equipment and operation of the new hospital at Stapleton, Long Island, N. Y., equipment for new infirmary building at Fort Stanton, N. Mex., and for the maintenance and operation of the narcotic farm at Lexington, Ky., for a full year. An estimate is included in the Budget for 1936 to cover the Division of Disbursements, for which no appropriation was provided in 1935.

Certain consolidations have been made in the estimates for 1936 under the Office of the Secretary, Office of Commissioner of Accounts and Deposits, Coast Guard Service, and public-works branch of the Procurement Division, with a view to reducing the number of appropriation items carried in the Budget and on the books of the Treasury, but more especially to afford greater flexibility with resultant economy in expenditures. In view of its advantages it is hoped that the committee will give favorable consideration to the consolidated estimates.

The Division of Disbursement has completed its organization of the disbursing functions in the District of Columbia. Regional offices have been established in New York City, Boston, and Philadelphia, and a regional office will be established in Atlanta in the near future. Similar regional offices will be established in other Federal Reserve cities from time to time, and it is expected that the field organization will be completed before the end of the current fiscal year.

The Procurement Division has completed its organization and is now making splendid progress in its consolidation of purchases, and in the public-works branch excellent progress is being made in the construction of buildings under the $65,000,000 emergency appropriation.

Tables with respect to the number of employees in the Department, including the field service, and with respect to civil-service retirements, have been prepared for insertion in the record if desired. Statements also are available for the record showing savings effected under the various economy measures restricting expenditures during the current year. Actual savings for 1934 under these provisions of law amounted to $9,754,554.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

Mr. Arnold. At this point, may we have a statement of receipts and disbursements from general sources, to go into the record?

Secretary Morgenthau. We will be glad to furnish that.

Mr. Bell. Do you want 1936 included?

Mr. Arnold. We ought to have the statement for 1934, that being complete. For 1935 and 1936 we would have it on an estimated basis. We should have those 3 years.

(The statement requested is as follows:)

A résumé of the financial plan which the General Budget Summary shows for 1936, as compared with 1934 and 1935, is presented below.

[In millions of dollars]

	1934	1935	1936
I. Regular:			
1. Receipts	2,763	3,123	3,422
2. Expenditures:			
(1) Operation and maintenance of regular departments and establishments	1,096	1,235	1,624
(2) Veterans' pensions and benefits	556	636	740
(3) Interest on national debt	757	835	875
(4) Tax refunds (exclusive of processing taxes)	63	63	63
Total regular expenditures	2,482	2,748	3,302
II. Recovery and relief:			
1. Agricultural Adjustment Administration:			
Processing taxes	353	589	570
Expenditures (including refunds of processing taxes)	290	788	472
Excess of expenditures over taxes	−63	+199	−98
2. Other recovery and relief expenditures	3,973	4,472	4,110
Total recovery and relief expenditures	3,910	4,671	4,012
Total expenditures (exclusive of debt retirements)	6,392	7,419	7,314
Net deficit	3,629	4,296	3,892
Debt retirements	360	573	636
Gross deficit	3,989	4,869	4,528

RECEIPTS FROM ALL SOURCES FOR 1934

Mr. Arnold. Mr. Secretary, can you give us a statement of the revenues from all sources for the fiscal year 1934?

Secretary Morgenthau. Yes.

Mr. Bell. Income taxes amounted to $817,961,000; miscellaneous internal revenue, $1,469,593,000; processing taxes on farm products, $353,049,000; customs, $313,434,000; other miscellaneous receipts, including Panama Canal tolls, receipts from sale of public lands, etc., about $161,000,000, making a total of $3,115,000,000 in ordinary receipts, including processing taxes, for the fiscal year 1934, excluding processing taxes the receipts amounted to $2,762,000,000.

ESTIMATED RECEIPTS FOR 1935

Mr. Arnold. Can you give us a statement of the estimated figures under that same head for the fiscal year 1935?

Mr. Bell. I am sorry I do not have the detailed data with me, but the estimated receipts for 1935, exclusive of processing taxes, will amount to about $3,217,000,000, an increase over the same items of receipts in 1934 of about $455,000,000.

Mr. Arnold. The increase is how much?

Mr. Bell. About $455,000,000.

Mr. Arnold. Is the processing taxes included in that?

Mr. Bell. No, sir; it has been excluded.

PROCESSING TAXES

Mr. TABER. The processing taxes are running at quite a considerably larger figure this year than last, are they not?

Secretary MORGENTHAU. Yes; much larger, due principally to the fact that the programs were not effective during the entire year 1934.

Mr. TABER. How much do you figure the processing taxes will amount to in 1935?

Mr. BELL. About $569,000,000, as I recall.

Mr. TABER. That is about $300,000,000 more than this year.

Mr. BELL. Yes, sir; that is right. Of course, there is quite a lag in the processing taxes.

DEBT-REFUNDING OPERATIONS

Mr. ARNOLD. How have you been coming along with refunding operations, Mr. Secretary?

Secretary MORGENTHAU. Very well, I think.

Mr. ARNOLD. Can you give us any information as to how far you have gone in the refunding of demands for new obligations, under your refunding program?

Mr. BELL. I have a statement of that which I can put in the record, if you would like to have it, showing the new issues put out and new funds acquired since January 1931 up to date.

Mr. ARNOLD. I think it would be a very valuable statement to have in the record.

(The statement referred to is as follows:)

Public debt issues and redemptions, January 1931 to Dec. 17, 1934

[In millions of dollars]

Date	Character of securities: Maturing issue	Character of securities: New issue	Amount: Matured	Amount: Issued	Amount: New funds	Amount: Gross public debt at end of each month
January 1931						
February		Treasury bills		86.8	86.9	16,183.3
March	3½-percent notes A-1930-32	3½-percent bonds, 1941-43	625.5	593.8		16,230.7
Do.	3½-percent notes B-1930-32	Certificates of indebtedness, 1½ percent TS2 1931.	483.8	300.2	408.6	16,582.0
April		Certificates 2-percent T M 1932		623.0		
Do.		Certificates 1⅛-percent TD2 1931		275.1		
May	Treasury bills	Treasury bills		154.3	479.4	16,655.4
June	Certificate of indebtedness, 2⅜ percent TJ 1931		4.0		[1] 4.0	16,527.1
Do.	Certificate of indebtedness, 1⅛ percent TJ2 1931.	3⅛-percent bonds, 1946-49	429.4	821.4		
July	Treasury bills	Treasury bills	159.9	80.0	312.1	16,801.3
August			1.4		[1] 1.4	16,800.6
September		Treasury bills		60.0	60.0	16,863.8
Do.	Certificates of indebtedness, 2⅝ percent TS 1931.	3 percent bonds of 1951-55	334.2	800.4		
Do.	Certificates of indebtedness, 1½ percent TS2 1931.	Certificates, 1¼ percent TS 1932	300.2	314.2	481.0	17,330.6
October		Treasury bills		.7		
November						17,291.7
December		Treasury bills		51.9	51.9	17,310.0
Do.	Certificates of indebtedness 1⅛ percent TD 1931.	Certificates 2¾ percent TJ 1932	298.4	324.8		
Do.	Certificates of indebtedness 1¼ percent TD2 1931.	Certificates 3 percent TS2 1932	275.1	398.2	328.0	17,825.6
	3½ percent notes C 1930-32	3¼ percent notes 1932	451.7	600.4		
					2172.4	
January 1932	Treasury bills					
February	do		1.9		[1] 1.9	17,815.9
Do.		3¼ percent certificates of indebtedness A-1932	56.5	227.6		
March	2 percent certificates of indebtedness TM 1932	3¾ percent certificates of indebtedness A-1933		144.4	316.4	18,125.0
Do.		3½ percent certificates of indebtedness TD-1932.	628.9	333.5		
Do.		3⅝ percent certificates of indebtedness TM-1933.		660.7		
Do.		2 percent certificates of indebtedness Mar. 15, 1933.		28.0	400.0	18,506.7
		Treasury bills		1.7		

[1] Excess of maturities.

Public debt issues and redemptions, January 1931 to Dec. 17, 1934—Continued

Date	Character of securities: Maturing issue	Character of securities: New issue	Amount: Matured	Amount: Issued	Amount: New funds	Amount: Gross public debt at end of each month
April		2 percent certificates of indebtedness Mar. 15, 1933.		7.0		
Do		Treasury bills		102.3	109.3	18,596.7
May	Treasury bills	3 percent Treasury notes 1934	3.2	244.2		
Do		2 percent certificates of indebtedness B-1933		239.2	480.2	19,036.9
June	2¾ percent certificates of indebtedness TJ 1932	3 percent notes A 1935	324.6	416.5		
Do	Treasury bills	1½ percent certificates of indebtedness TJ-1933	3.1	373.8	462.7	19,487.0
July 1932		Treasury bills		31.2	31.2	19,611.8
August	3¼-percent certificates of indebtedness A-1932	2¼-percent notes 1933-34	227.6	345.3		
Do		3¼-percent notes A-1936		365.1	484.0	20,067.2
Do		Treasury bills		1.2		
September	1¾-percent certificates of indebtedness TS-1932	3¼-percent notes A-1937	314.3	834.4		
Do	2-percent certificates of indebtedness TS2-1932	1¾-percent certificates of indebtedness TS-1933	398.2	451.4	548.5	20,611.2
Do	Treasury bills		24.8			
October	3¼ percent certificates of indebtedness TO-1932	3-percent notes B-1937	333.5	508.3		
Do		Treasury bills		21.8	196.6	20,612.5
November	Treasury bills		2.5		¹2.5	20,806.5
December	3¼-percent notes 1932	2¾-percent notes B-1936	600.4	360.5		
Do	Treasury bills	¾-percent certificates of indebtedness TD-1933	.6	254.4	13.9	20,805.1
					3,087.4	
January 1933	Treasury bills		1.2		¹1.2	20,801.7
February	3¾-percent certificates of indebtedness A-1933	2⅝-percent notes A-1938	144.4	277.5	133.1	20,934.7
March	3¾-percent certificates of indebtedness TM-1933.	4-percent certificates of indebtedness TAG-1933.		480.1		
Do	2-percent certificates of indebtedness March 15, 1933.	4¼-percent certificates of indebtedness TD2-1933.	660.7	473.3	424.6	21,362.5
Do		Treasury bills		176.5		
April		Treasury bills	33.6	104.2	101.2	21,441.2
May	2-percent certificates of indebtedness B-1933	2⅞-percent notes C-1936	239.2	572.4		
Do		Treasury bills		60.4	300.6	21,853.4
June	1½-percent certificates of indebtedness TJ-1933	2⅞-percent notes B-1938	373.9	623.0		
Do	Treasury bills	¾-percent certificates of indebtedness TM-1934	24.3	400.1	685.8	22,538.7
July						22,609.9
August	4-percent certificates of indebtedness TAG-1933	3¼-percent bonds of 1941	469.1	833.0		
Do	1½-percent certificates of indebtedness TS 1933	1⅝-percent notes B-1938	221.1	353.9	498.0	23,009.3
Do	Treasury bills		.7			
September	1¼-percent certificates of indebtedness TS-1933	¾-percent certificates of indebtedness TS-1934	230.4	174.9	¹47.0	23,050.8
Do	Treasury bills		1.5			
October (exchange)	4¼-percent Liberty Loan bonds 1933-38	4¼-3¼-percent bonds 1943-45	645.4	645.4		23,050.3
November (called for exchange)	4¼-percent Liberty Loan bonds 1933-38	4¼-3¼-percent bonds 1943-45	199.6	199.6	409.8	23,534.1
December (exchange)	4¼-percent Liberty Loan bonds 1933-38	4¼-3¼-percent bonds 1943-45	53.3	53.3		
Do	¾-percent certificates of indebtedness TD-1933	2½-percent certificates of indebtedness TD-1934	254.4	992.5		
Do	4¼-percent certificates of indebtedness TD2-1933.	Treasury bills	473.3	51.2	316.0	23,814.5
					2,995.9	
January 1934		2½ percent notes C-1935		528.1		
Do		1½ percent certificates of indebtedness TS-1934		524.7		
Do		Treasury bills		211.0	1,263.8	25,071.1
February		2½ percent notes D-1935		418.3		
Do		3 percent notes C-1937		428.7		
Do		Treasury bills		165.0	1,012.0	26,055.1
March	¾ percent certificates of indebtedness TM-1934	3 percent notes C-1938	460.1	455.2	¹4.9	26,157.5
April (called for exchange)	4¼ percent Liberty Loan bonds 1933-38	3¼ percent bonds 1944-46	898.2	1,037.1		
Do	3 percent notes A-1934		234.3		¹95.4	26,118.3
May (called)	4¼ percent Liberty Loan bonds, 1933-38	3¼ percent bonds 1944-46	47.6	24.6		
Do	3 percent notes A-1934	Treasury bills	9.9	25.6	¹7.2	26,155.0
June (called)	4¼ percent Liberty Loan bonds 1933-38	3 percent bonds 1946-48	9.9	828.4		
Do	2½ percent notes B-1934	2⅞ percent notes A-1939	316.9	528.5		
Do	¾ percent certificates of indebtedness TJ-1934	2 percent Postal Savings notes, June 30, 1939	174.9	35.0	887.1	27,053.1
July		Treasury bills		50.0	50.0	27,189.2
August	2¼-percent notes B-1934		28.3			
Do	Treasury bills		75.9		¹103.6	27,079.9
September (called)	4¼-percent Liberty Loan bonds 1933-38	3¼-percent bonds 1944-46	425.4	232.6		
Do	1½-percent certificates of indebtedness TS-1934	2½-percent notes D-1938	124.7	388.1		
Do		Treasury bills		150.0	134.8	27,189.6
Do		1½-percent notes D-1936		512.9		
October (called)	4¼-percent Liberty Loan bonds 1933-38	3¼-percent bonds 1944-46	328.4	215.3		
Do		2½-percent notes D-1938		8.0	39.2	27,158.0
Do		Treasury bills		125.3		
November	4¼-percent Liberty Loan bonds 1933-38	do	48.9	150.2		
Do		2-percent Postal Savings notes June 30, 1939		19.0	111.3	27,298.9
December (1 to 17)	4¼-percent Liberty Loan bonds 1933-38	Treasury bills	3.7	149.2		
Do	2½-percent certificates of indebtedness T. D. 1934.	2-percent Federal Deposit Insurance Corporation notes Dec. 1, 1939.	992.5	100.0		
Do		3⅜-percent Treasury bonds 1940-43		491.4		
Do		1⅝-percent Treasury notes E-1936		686.7		
Do		2½-percent Treasury notes A-1939		765.4	1,194.5	28,463.4
					4,462.3	

¹ Excess of maturities.

REDUCTION IN INTEREST RATE

Secretary MORGENTHAU. It is a thing that is particularly interesting to me, because we have had a constantly falling rate on the debt. The average rate is constantly falling.

Mr. BELL. The average rate at the end of November was 3 percent.

Secretary MORGENTHAU. As against 3.33 percent in November 1933 when I came in. The interest rate has constantly dropped.

Mr. ARNOLD. What difference does that make in the annual interest expenditures?

Mr. BELL. The amount of the annual interest charge is increasing, because the public debt is increasing, but it is not increasing nearly as much as it would if it were not for the falling interest rate.

Secretary MORGENTHAU. Suppose we put it this way: Our interest charges are a very little bit more today than 1 year ago, with the outstanding indebtedness greatly increased, on account of the fact that we are paying less for our money. In other words, on November 30, 1934, the total annual charge for interest was $808,000,000, on a total interest-bearing debt of $26,761,000,000; whereas 1 year ago the annual charge was $772,000,000 on a total interest-bearing debt of $23,161,000,000.

Mr. ARNOLD. The interest charge is still around $800,000,000.

Mr. BELL. Yes, sir.

Mr. ARNOLD. But had it not been for the better interest rate you have been getting, what would that liability have been?

Mr. BELL. At the rate of 3.33 percent on $26,761,000,000 of debt, the interest charge would be about $891,000,000.

Mr. ARNOLD. It would be about $75,000,000 more?

Mr. BELL. About $83,000,000 more.

SUBSCRIPTIONS TO TREASURY OFFERINGS

(See p. 11.)

Mr. ARNOLD. Has the country been absorbing those new issues?

Secretary MORGENTHAU. This is one of the best things that has happened: On Monday, a week ago, we offered the public $900,000,000 of securities for new money, $450,000,000 of 15–18 year 3⅜ percent Treasury bonds and $450,000,000 for 18-month 1⅛ percent Treasury notes, and we sold all of them in a day. The cash allotment for the long-term issue was 14 percent and for the 18-month issue the allotment was 18 percent. These allotments were exclusive of those made on subscriptions of $10,000 and less, which were allotted in full. That gives you an indication of what the demand was.

Mr. ARNOLD. That would indicate a readiness on the part of the public to absorb those new issues.

Secretary MORGENTHAU. Yes; it was the most successful issue that had been floated in 4 years.

Mr. McLEOD. Does that mean there was trouble with some other issues?

Secretary MORGENTHAU. I should say so.

Mr. McLEOD. To what extent?

Secretary MORGENTHAU. In the issue in September, for a while it looked as though it would not go. There was so much pessimistic talk in New York that I think they succeeded in frightening themselves.

Mr. McLEOD. And the difficulty resulted in a delay in the disposition of the bonds?

Secretary MORGENTHAU. They dragged.

Mr. McLEOD. How long did they drag?

Secretary MORGENTHAU. As a matter of fact, the drag took place for about 3 or 4 days after the Maine election. There seemed to be a kind of shock on that account, but they seemed to recover from it, and from that time on things got very much better.

Mr. ARNOLD. Which seems to be the more easily marketed, the long-term securities or the short-term securities?

Secretary MORGENTHAU. Up to this issue, we have found recently that the shorter-term issues have been more in demand.

Mr. ARNOLD. The short-term issues have increased very decidedly in the past few years. Does there seem to be a tendency on the part of the country to want long-term securities?

Secretary MORGENTHAU. It has been that way in the last month or so.

Mr. ARNOLD. Have you been refinancing those short-term issues into long-term issues?

Secretary MORGENTHAU. If my memory is correct, I think that in this calendar year we have converted our maturities into $2,800,000,000 long-term issues. That is better than one-half of the increase in the gross public debt.

Mr. ARNOLD. And the short-term securities have been correspondingly decreasing, have they not, or have they remained about normal to take care of the additional requirements?

Secretary MORGENTHAU. They have increased with one exception. We have no more 1-year certificates outstanding at all. The 1-year certificates have been eliminated. We have increased the 6-month paper, where we have been borrowing $75,000,000 each week, getting that money at around 0.20 percent, which is very cheap money. We have no 1-year certificates at the present time. For instance, on December 15 this year, $992,000,000 of 1-year 2¼-percent Treasury certificates come due, and we have been able to convert them, giving the holders their choice of two kinds of paper, namely, 1⅛ percent for 18 months or 4½ years at 2½ percent. So we have converted 1-year certificates, which had an interest rate of 2¼ percent, into 18-month paper at 1⅛ percent or 4½-year paper at 2½ percent. So you can see that is the tendency. In other words, we are getting money much cheaper.

Mr. BELL. In the exchange $765,000,000 went into the 4½-year 2½-percent notes, and only $210,000,000 went into the 18-month 1⅛-percent securities.

Secretary MORGENTHAU. That shows you definitely what happened to the 1-year securities.

STATUS OF FOREIGN DEBT

Mr. ARNOLD. What is the situation with reference to the foreign indebtedness?

Secretary MORGENTHAU. Shortly after I came into the Treasury the State Department took over the foreign-debt responsibility, and they announced that they would handle it. Since I have been in the Treasury, all that we do is to give them technical information when things come up requiring it.

Mr. ARNOLD. Can you give us any information as to what has been received?

Secretary MORGENTHAU. Finland has paid.

Mr. BELL. The indications are that Finland will pay on December 15.

Secretary MORGENTHAU. It is entirely out of my hands.

Mr. ARNOLD. In connection with these projects for 1936, are you taking into consideration any payments on the foreign debt?

Secretary MORGENTHAU. No.

Mr. TABER. How about 1935?

Secretary MORGENTHAU. No.

Mr. BELL. Nothing except from Finland, which is relatively small, being less than $300,000.

INVESTMENT BY BANKS IN GOVERNMENT SECURITIES

Mr. LUDLOW. Mr. Secretary, reverting to the sale of securities, are banks investing more than ever in Government securities?

Secretary MORGENTHAU. I cannot say that they are investing more than ever, because my experience covers only 12 months, but the banks have taken a very good share of those securities.

Mr. LUDLOW. It was my observation that they were investing pretty heavily in Government securities.

Secretary MORGENTHAU. Yes; they are investing, I would say, very well.

Mr. McLEOD. Do you know what proportion of the Government securities they have taken?

Secretary MORGENTHAU. I cannot state that now.

Mr. LUDLOW. Have you any figures showing increased investments by banks in Government securities?

Secretary MORGENTHAU. Yes. For the first time, in the last bank call, we asked the banks to show how much they held in long-term securities and how much in short-term securities, and that information will be available for the first time.

Mr. ARNOLD. You can furnish a statement of that for the record.

Secretary MORGENTHAU. Yes.

(Statement referred to is as follows:)

Statement showing as of June 30, 1934, the amount of United States Government securities guaranteed by the United States Government owned by insured banks and trust companies as reported to the Federal Deposit Insurance Corporation on call report no. 1

[In thousands of dollars]

	National banks	State banks members Federal Reserve	State banks not members Federal Reserve	Morris Plan and industrial banks	All banks
Number of banks	5,417	959	7,459	62	13,896
United States Government securities:					
Bonds	$3,620,023	$1,418,430	$260,995	$1,606	$5,210,244
Treasury notes	1,649,101	1,250,967	174,952	1,004	3,046,894
Certificates of indebtedness	298,257	238,435	10,712		656,494
Treasury bills	290,211	401,250	3,783		796,344
	5,827,922	3,409,102	508,482	2,610	9,707,976
Obligations guaranteed by United States Government:					
Reconstruction Finance Corporation	175,970	59,050	922		235,942
Federal Farm Mortgage Corporation	33,677	7,433	20,460	1	61,583
Home Owners' Loan Corporation	147,977	64,522	62,606	892	295,997
	357,618	131,025	83,988	893	565,524

SUBSCRIPTIONS TO TREASURY OFFERINGS

(See p. 8.)

Mr. LUDLOW. Did this recent sale, or offering, indicate the peak in oversubscriptions to Treasury offerings?

Mr. BELL. No, sir. There have been others that have gone higher in amount. However, this was pretty well up. It was over 5 billions. At one time we had 8 billions, but under somewhat different conditions, however.

Mr. LUDLOW. It is remarkable that at this time you should have had such a large oversubscription.

Mr. TABER. It is a desirable thing to have Government obligations taken up, insofar as possible, by private individuals, and that the banks should lend their money for commercial purposes, insofar as possible.

Secretary MORGENTHAU. I agree with you; but I also happen to belong to the school that thinks the banks, being privately owned, owe a duty to their depositors. I do not think that anybody here in Washington can tell them what to do, because, after all, all of their responsibility is to their depositors. I do not think that all the pounding of desks in the world will compel a bank to make a loan unless the management wants to do it.

Mr. LUDLOW. Of course, they have a trust obligation there, and they have to take care of their investments. This, of course, is in response to that trust.

Secretary MORGENTHAU. I would like to see individuals buy them; but when I consider that 12 months ago, when I came in, I had to pay from 2¼ to 3 percent for 12 months' to 3-year money, and when I consider that I have just concluded the sale of 18-months securities at 1⅛ percent, you will appreciate that during those 12 months we have traveled quite a distance.

Mr. TABER. Of course, the question of the advantage to the country of an extremely low rate of interest is a debatable subject. The Government and everybody else would be better off if there was a sufficient demand for good commercial loans to boost the rate of interest decidedly. Your tax receipts would be so far beyond what they are now, that the interest rate would be a minor item by comparison.

Secretary MORGENTHAU. I do not think it will ever be a minor item, but as long as conditions remain as they are, I think you would be the first to criticize me if I paid too much for money.

Mr. TABER. I would.

Secretary MORGENTHAU. I am pretty proud of the fact that in 12 months we have been able to borrow 4½-year money at 2⅞ percent and 18-month money at 1⅛ percent.

Mr. TABER. That to a certain extent is symbolical of the deflation of bank loans.

Secretary MORGENTHAU. No, sir; I am sorry I do not agree with you. I think it is symbolical of confidence in the Government.

ADEQUACY OF REVENUE COLLECTING FORCE

(See p. 198)

Mr. ARNOLD. Mr. Secretary, are you getting the maximum collections of revenue with your present force?

Secretary MORGENTHAU. No; I am not.

Mr. ARNOLD. How can that situation be met?

Secretary MORGENTHAU. As I understand it, in connection with income taxes, we have some 200,000 returns from the field which we have not been able to audit for lack of funds, and I am asking for another $3,000,000 so that all of those returns can be audited.

Mr. ARNOLD. What additional revenue do you figure that that $3,000,000 expenditure will bring into the Treasury?

Secretary MORGENTHAU. $75,000,000.

Mr. ARNOLD. How many additional men will it take to accomplish that?

Secretary MORGENTHAU. You would divide 4,000 into 3,000,000.

Mr. MCREYNOLDS. About 750 additional field men.

Mr. ARNOLD. These would be revenue agents?

Mr. MCREYNOLDS. Yes, sir.

Mr. ARNOLD. And there would be about 750 of them?

Mr. MCREYNOLDS. Yes, sir.

Mr. ARNOLD. And you think that the employment of those 750 men, with clerical costs and overhead, amounting in all to about $3,000,000, will bring into the Treasury something like $75,000,000 of additional money that you would not otherwise get?

Secretary MORGENTHAU. Yes.

Mr. MCLEOD. They would be working on what specific cases?

Secretary MORGENTHAU. They would take individual returns from $25,000 upward, and corporation returns from $75,000 upward.

Mr. MCLEOD. Would they be back taxes or current taxes?

Secretary MORGENTHAU. Those would be the last returns. We have 200,000 returns that we are unable to audit because we do not have enough men. It seems a shame not to audit them.

Mr. MCLEOD. There are a great many back-tax cases in the Treasury Department at the present time, are there not, and is there not a campaign on in the Department at this time for the collection of back taxes?

Secretary MORGENTHAU. Yes; we are going after it, and Mr. Helvering's Bureau is making valuable progress.

Mr. ARNOLD. You are asking $3,000,000 more for the employment of 750 additional men.

Secretary MORGENTHAU. Yes.

Mr. ARNOLD. Is that included in this bill?

Secretary MORGENTHAU. No; because I only asked for it this week. It must be put in. I was slow in asking for it. This has been recently brought to my attention, so that the $3,000,000 additional I am asking is not included in the bill. I have asked the Budget for it.

Mr. ARNOLD. It will be covered in a supplemental estimate?

Secretary MORGENTHAU. Yes. May I say on that subject, that I am rather pleased at the result of the one unemployment project we have. We asked for an allocation of $2,400 a week for 100 unemployed white-collar workers. They have been working for 4 weeks in New York, on miscellaneous tax cases. At a cost of $9,600 for the first 4 weeks, up to December 5, they collected $39,000, and recommended assessments amounting to $141,000, making a total of $180,000.

Mr. ARNOLD. That is a good showing.

Secretary MORGENTHAU. It is a wonderful showing, and we want to extend it to other cities. All of those men came from relief rolls.

PEAK OF PUBLIC DEBT

Mr. ARNOLD. In view of the present conditions, can you give us any idea as to when the peak of our public debt may be reached?

Secretary MORGENTHAU. No; I do not know. I cannot answer that.

SALE OF SECURITIES

Mr. MCLEOD. What was the year you had trouble in the sale of securities?

Secretary MORGENTHAU. This last September, immediately after the Maine election, was what I had in mind. That took place immediately after the Maine election.

Mr. MCLEOD. What was the amount of that issue, approximately?

Mr. BELL. A total of $1,334,000,000, all of which was refunding.

Mr. MCLEOD. Was that long-term or short-term securities?

Mr. MORGANTHAU. Both.

Mr. BELL. On September 15 we had a maturity of 8-month 1½-percent Treasury certificates amounting to approximately $525,000,000. We offered in exchange for these maturing certificates a 1½-percent Treasury note maturing September 15, 1936. Practically all of the maturing securities were exchanged.

Mr. TABER. There was new money in that September 15 offering, I think.

Mr. BELL. No, sir.

Mr. MCLEOD. Was that the whole of it?

Mr. Bell. That was the whole of the maturity. We had at the same time an offering of 2-year 2½-percent Treasury notes and an additional issue of 10–12-year 3¼-percent Treasury bonds dated April 16, 1934, in exchange for Fourth 4¼-percent Liberty bonds, maturing October 15, 1934.

Mr. McLeod. What did you do with them?

Mr. Bell. The amount of the Fourth 4¼-percent Liberty bonds maturing on call on October 15, 1934, was over $1,000,000,000. We received in response to the exchange offerings just mentioned $588,000,000 of the 2½-percent 4-year Treasury notes and $234,000,000 of the 10–12-year 3¼-percent Treasury bonds. The fact that a large part of the exchanges went into the shorter-term securities is an indication of the conditions existing at that time to which the Secretary called your attention.

Mr. McLeod. Since then, there has been no trouble?

Secretary Morgenthau. This almost unbelievable change has taken place since September 15. There has been a complete change of sentiment.

CONSOLIDATED ESTIMATES

Mr. Ludlow. Mr. Secretary, in your opening statement you spoke about the consolidation of estimates here, which really represents a great innovation in the way estimates are presented, as compared with former years. I gather from your statement that the principal reason for that was greater flexibility of allotments. I wonder if you could furnish more extensive information as to the reason for those various consolidations.

Mr. McReynolds. I wonder if you would not be willing to discuss that after the Secretary has concluded, because we will go into that in full detail later. It is something that the Secretary personally has not had a full opportunity to go into.

Mr. Ludlow. The Secretary mentions it in his opening statement, but if we can obtain the information later, it will be agreeable to me.

INTEREST CHARGES AND RATES

Mr. McLeod. The chairman asked a few minutes ago how the interst charges on the public debt compared with those in the past years: Do you have the present interest charges?

Mr. Bell. Do you want the rate or the amount.

Mr. McLeod. Both the rate and amount.

Mr. Bell. On June 30, 1919, the annual interest charge was $1,054,000,000, and the average annual interest rate was 4.18 percent. It remained about that until 1922, when the interest charge had dropped to $963,000,000, and the average annual interest rate was 4.24 percent. Then, in 1924, the interest charge was $877,000,000, and the average annual rate was 4.18 percent. In 1929, the interest charge was $657,000,000 and the average annual interest rate was 3.95 percent. The total annual interest charge reached a low point in 1931, when it amounted to $589,000,000, the average annual interest rate being 57 percent. In 1933, the interest charge increased to $742,000,000 with an average interest rate of 3.35 percent. On June 30, 1934, the annual interest charge was $842,000,000, and the average interest rate was 3.18 percent.

Mr. McLeod. And the interest-charge figure for this year is $800,000,000.

Mr. Bell. That is the estimate for interest payments for this year. The average interest rate at this time is 3.02 percent.

Mr. Arnold. Mr. Secretary, we thank you. You probably will not want to stay here but we will be glad to have you, if you wish to remain.

Secretary Morgenthau. I would like to leave it this way: If something comes up while your hearings are in progress, and you would like to have me here, just phone me and I will come right up.

Mr. Arnold. That is very kind of you.

Mr. Taber. May I ask one more question?

Secretary Morgenthau. Surely.

ADEQUACY OF 1936 BUDGET ESTIMATES

Mr. Taber. I presume you are not familiar with the items in the Budget that has been submitted here?

Secretary Morgenthau. Only with the totals.

Mr. Taber. You would probably not know, yourself, from your own examination of the situation, whether or not those items would be sufficient to carry the Department along?

Secretary Morgenthau. Well, I am in just the same position that I was a year ago. If you remember, I came up here and made a statement, in which I said: "The figures that I am submitting will be sufficient with one exception. I will have to come back at a later date and ask you for money for the alcohol tax unit." And I came back a month or two later and asked for additional funds to run that organization. But that situation does not exist today, with the exception of the additional $3,000,000 which I am asking for the tax work——

Mr. Taber. That is in here, is it not; or is that in the deficiency?

Secretary Morgenthau. No; that is not here. With that exception, what we are asking for is sufficient, so far as it is humanly possible to estimate, to run the Treasury for 1936.

Mr. Taber. That $3,000,000 does not relate to 1936 anyway, does it?

Secretary Morgenthau. Yes; it does.

Mr. Taber. All 1936?

Secretary Morgenthau. Yes.

Mr. Taber. But it is not in here?

Secretary Morgenthau. No. With that exception, these figures are the outside, top figures. We will not be back asking for any more money.

Mr. Arnold. All right, Mr. Secretary. We thank you very kindly, and we are mighty glad you came down.

(The statements submitted by Secretary Morgenthau are as follows:)

Increases and decreases in estimates under Treasury Department for 1936, as compared with appropriations for 1935 (100% basis)

	Increases	Decreases	Net
Operating expenses:			
Office of Secretary	$73, 212		
Office of Solicitor		$31, 000	
Office of Chief Clerk	23, 840		
Division of Supply	173, 250		
Office of Commissioner of Accounts and Deposits		9, 040	
Division of Bookkeeping and Warrants	6, 850		
Public Debt Service		27, 978	
Division of Appointments		43, 880	
Division of Disbursement	657, 800		
Office of Treasurer		57, 300	
Office of Comptroller		1, 782	
Bureau of Internal Revenue		528, 284	
Bureau of Narcotics		94, 957	
Coast Guard Service	2, 212, 141		
Bureau of Engraving and Printing	778, 457		
Secret Service Division	24, 970		
Public Health Service	674, 598		
Bureau of the Mint	90, 951		
Procurement Division:			
Supply Branch	200, 750		
Public Works Branch	58, 367		
Total	4, 975, 186	791, 781	+4, 183, 405
Increase account pay restoration			+10, 838, 195
Total			+15, 021, 600
Nonoperating expenses:			
Office of Secretary	1, 100, 000		
Division of Bookkeeping and Warrants	791, 850		
Public Debt Service	743, 358		
Bureau of Customs	2, 999, 300		
Office of Treasurer		35, 000	
Bureau of Internal Revenue	8, 899, 700		
Public Health Service	5, 300		
Procurement Division, Public Works Branch		12, 064, 615	
Total	14, 539, 508	12, 099, 615	+2, 439, 893
Increase account pay restoration			+86, 400
Total			+2, 526, 293
Grand total			17, 547, 893

Indefinites and special funds made annual under provisions of the Permanent Appropriation Repeal Act of 1934, and amounts included in the estimates for 1936 under these headings

Division of Bookkeeping and Warrants:	
Recoinage of silver coins	$700, 000
Relief of the indigent, Alaska	20, 000
Refunding moneys erroneously received and covered [1]	76, 850
Bureau of Customs:	
Refund of excessive duties; Debentures or drawbacks, bounties, or allowances; Refunding duties on goods destroyed; Refunding proceeds of unclaimed merchandise; Proceeds of goods seized and sold	[2] 14, 000, 000
Bureau of Internal Revenue:	
Refunding legacy taxes; Allowance or drawback; Redemption of stamps	[3] 2, 000, 000
Additional income tax on railroads in Alaska	4, 700
	16, 801, 550

[1] Estimate covers expenditures for entire Government service.
[2] Consolidated estimate.
[3] Consolidated under "Refunding Internal Revenue collections", which includes expenditures covering the former annual appropriation "Refunding taxes illegally collected."

Number of employees

Bureau, office, and division	Oct. 31, 1933	Oct. 31, 1934	Gain (+) or loss (−)
DEPARTMENTAL SERVICE			
Accounts and Deposits	43	46	+3
Appointments	21	22	+1
Bond roll (miscellaneous)	7	15	+8
Bookkeeping and Warrants	73	75	+2
Budget	35	31	−4
Chief Clerk	402	393	−9
Coast Guard	218	189	−29
Comptroller of Currency	392	345	−47
Customs	187	174	−13
Disbursing clerk	25		−25
Disbursements		343	[1] +343
Engraving and Printing	4, 098	4, 095	−3
Industrial Alcohol	133		−133
Internal Revenue	3, 362	4, 072	+710
Loans and Currency	840	1, 734	[2] +894
Mint	11	14	+3
Narcotics	100	93	−7
Public Debt	24	25	+1
Public Debt Accounts and Audits	109	207	[2] +98
Public Debt (miscellaneous)	29	26	−3
Public Health	181	180	−1
Register of the Treasury	298	389	[2] +91
Secret Service	15	15	
Secretary	47	63	+16
Solicitor of the Treasury	4		−4
Supply	102	91	−11
Treasurer of the United States	830	1, 387	[2] +557
Procurement:			
(a) Public Works	700	633	−67
(b) Branch of Supply	194	326	[2] +132
Emergency Rolls:			
(a) Banking		468	[3] +468
(b) Coast Guard		41	[3] +41
(c) Public Works		700	[3] +700
Total	12, 480	16, 208	+3, 728
FIELD SERVICE			
Coast Guard	10, 867	9, 831	−1, 036
Customs	8, 715	8, 515	−200
Disbursements		6	+6
Industrial Alcohol	1, 326		−1, 326
Internal Revenue	8, 493	13, 904	+5, 411
Mint	504	1, 245	+741
Narcotics	297	298	+1
Public Debt	28	28	
Public Health	9, 556	10, 080	+524
Secret Service	102	102	
Procurement: (a) Public Works	1, 360	1, 292	−68
Total	41, 508	45, 561	+4, 053

[1] Establishment of the Division of Disbursements.
[2] Increase of temporary employees.
[3] Employees on the emergency rolls.

INCREASE IN NUMBER OF EMPLOYEES IN TREASURY DEPARTMENT

Departmental.—The increase in the Division of Disbursements is due to the fact that the Disbursing Division has taken over all of the disbursing activities in the District of Columbia and is gradually taking over similar activities in the field offices. Personnel from these various disbursing activities have been transferred to the Disbursing Division.

The increase of 894 employees in the Division of Loans and Currency is accounted for by reason of the necessity for augmenting the force to handle the increased financing of the Government, including the handling of securities for the Home Owners' Loan Corporation. The increase in force in the Office of the Register of the Treasury is accounted for for the same reasons.

The increase of 557 employees in the Office of the Treasurer of the United States is due to the necessity for temporary additional personnel in that office to handle the increased check work growing out of the emergency activities.

The increase in the Branch of Supply, Procurement Division, is due to the consolidation of purchasing activities in that organization. The Branch of Supply is gradually enlarging its definite quantity purchases with increased benefits to the Government in obtaining the lowest market prices.

The increases on the emergency rolls are due to the activities growing out of the operations of the Emergency Banking, Gold Reserve and Silver Purchase Acts, Coast Guard construction on emergency funds, and public buildings construction under the $65,000,000 appropriation for the emergency construction of public buildings.

Field services.—The decrease of 1,036 employees in the Coast Guard was necessary in order to keep within the limit of available appropriations for the year.

The increase of 5,411 employees in the Internal Revenue service is accounted for by the transfer of all of the personnel formerly in the Industrial Alcohol Bureau (now the Alcohol Tax Unit), together with the transfer from the Department of Justice of personnel engaged in the Prohibition Bureau of that Department and the additional personnel required in handling processing and miscellaneous tax work of the Bureau.

In the Mint Bureau, the increase of 741 employees is due to the emergency work growing out of operations under the Gold Reserve and Silver Purchase Acts.

The increase of 524 employees in the Public Health Service is due to the temporary emergency rural health work under an allotment of Federal Emergency Relief Administration funds.

RETIREMENT OF EMPLOYEES

Under the civil-service retirement system there are now but 12 employees, 10 in the departmental and 2 in the field services of the Treasury, whose retention has been authorized by the President under the provisions of the economy act. Up to the present time 36 employees of the Treasury Department in Washington, and 186 of the field services, whose services were discontinued on account of necessary reduction of force on or since June 30, 1933, and who have served 30 years or more, have made application for annuity under the provisions of section 8 (a) of the act of June 16, 1933.

Since the passage of the Civil Service Retirement Act, effective August 20, 1920, 6,526 employees have been retired from the Treasury, 2,392 being departmental and 4,134 field employees.

From November 30, 1933, to November 30, 1934, 124 employees were retired from the departmental service on account of age, and 155 were retired on account of disability. During the same period 177 employees were retired from the field services on account of age, and 104 were retired on account of disability.

Number of persons retired or, eligible for retirement, retained in the departmental and field services of the Treasury under the Civil Service Retirement Act, and under sec. 204 of the Economy Act of June 30, 1932, and sec. 8 (a) of the Independent Offices Appropriation Act of June 16, 1933

Bureau, office, or division	Retained	Retired				
		On account of age from Aug. 20, 1920, to Nov. 30, 1934	On account of disability from Aug. 20, 1920, to Nov. 30, 1934	Granted annuity under sec. 7	Granted annuity on account of involuntary separation 30 years' service	Total
DEPARTMENTAL						
Accounts and Deposits		1	1		1	3
Appointments		1	3	2		6
Auditors		86	11	1		98
Bookkeeping and Warrants		10	6			16
Chief Clerk		107	34	1		142
Coast Guard	1	6	7		3	13
Comptroller of the Currency		39	16			55
Customs	1	6	2		3	11
Disbursement	1	3	3		1	8
Engraving and Printing	2	657	398	14	1	1,070
Internal Revenue	1	93	110	8	11	222
Loans and Currency		58	92			150
Mint		1	1		2	4
Narcotics		1	2		1	4
Printing			2			2
Procurement	3	49	31	2	8	90
Prohibition		5				5
Public Debt Accounts and Audit		4	5			9
Public Debt Service		8	4			12
Public Health		7	7	6		20
Public Moneys		3	1			4
Register of the Treasury		40	62	1	1	104
Secret Service	1	10	2			12
Secretary			3		3	6
Supply		7	8			15
Treasurer		105	182		1	288
War Risk Insurance		14	1			15
Total departmental	10	1,327	994	35	36	2,392
FIELD						
Coast Guard		24	4		1	29
Custodian		733	240	3	8	990
Customs	1	1,322	341	6	123	1,792
Internal Revenue		418	128	136	51	733
Mint and Assay	1	286	44	5	2	337
Narcotics		2	2			4
Prohibition		16	8	3		27
Public Health		85	73	12	6	176
Subtreasury		24	3	29		56
Total field	2	3,398	850	200	186	4,134
Grand total	12	4,725	1,844	235	222	6,526

APPROPRIATIONS, IMPOUNDINGS, RESERVATIONS, AVAILABLE BALANCES, ESTIMATE 1935

A statement as to all appropriations (exclusive of permanent and indefinite appropriations) showing (1) the amount appropriated and/or made available in the 1935 appropriation act for the Treasury Department or in deficiency acts; (2) unobligated balance on June 30, 1934, available for obligation after that date; (3) any amount estimated to be drawn under the indefinite appropriation provided in title II, sec. 21 (e), of the Independent Offices Act, 1935; (4) any amount made available from N. R. A. or other emergency funds; (5) any amount transferred from any other department or bureau or office of the Treasury; (6) the amount impounded pursuant to law; (7) the amount reserved by administrative direction; (8) any amount transferred to any other department or bureau or office of the Treasury; and (9) the net amount available for obligation during the present fiscal year

Bureau or office and appropriation title	Appropriation 1935 or made available in 1935 appropriation act	Unobligated balance as of June 30, 1934, available for obligation	Amount estimated to be drawn under indefinite appropriation provided in title II, sec. 21 (e), of Independent Offices Act, 1935 [1]	Any amount made available from N. R. A. or other emergency funds	Amounts transferred from any other department or bureau of the Treasury	Amount impounded pursuant to law	Amount reserved by administrative direction [1]	Amounts transferred to other departments or bureaus of the Treasury	Net amount available for obligation in the fiscal year 1935
Office of Secretary of the Treasury:									
Salaries, Office of Secretary of the Treasury	$250,000		$14,894		$27,900				$292,794
Expenses, emergency banking, Gold Reserve and Silver Purchase Act		$4,355,537							4,355,537
Recoinage of Danish West Indian coins of Virgin Islands	25,000								25,000
Subscriptions to paid-in surplus, Federal land banks	75,000,000	9,138,523							84,138,523
Payment to Federal land banks, reduction in interest rate on mortgages	7,950,000	7,970,743							15,920,743
Subscriptions to preferred shares, Federal savings and loan associations		48,500,000							48,500,000
Subscriptions to capital stock, Federal Deposit Insurance Corporations		497,850							497,850
Advances to Agricultural Adjustment Administration for Cotton, 1934-Mar. 1, 1934	100,000,000								100,000,000
Payment to officers and employees of the United States in foreign countries due to appreciation of foreign currency		160,491					$3,882		156,609
National industrial recovery funds				$402,250				385,750	16,500
Total, Office of Secretary of the Treasury	183,225,000	70,621,144	14,894	402,250	27,900		3,882	385,750	253,901,355
Office of Solicitor of the Treasury:									
Salaries, Office of Solicitor of the Treasury	27,900							27,900	
Office of Chief Clerk and Superintendent:									
Salaries, Office of Chief Clerk and Superintendent	459,000		24,500		972	$3,500		7,244	473,728
Contingent expenses, Treasury Department	123,660	2,500							126,160
Lands and other property of the United States	500								500
Total, Office of Chief Clerk and Superintendent	583,160	2,500	24,500		972	3,500		7,244	600,388
Division of Supply:									
Salaries, Division of Supply	156,600		8,700						165,300
Printing and binding, Treasury Department	525,000		39,375						564,375
Stationery, Treasury Department	275,000								275,000
Total, Division of Supply	956,600		48,075						1,004,675
Office of Commissioner of Accounts and Deposits:									
Salaries, Office of Commissioner of Accounts and Deposits	113,040		3,391			500			115,931
Library, Treasury Department	1,000								1,000
Total, Office of Commissioner of Accounts and Deposits	114,040		3,391			500			116,931
Division of Bookkeeping and Warrants:									
Salaries, Division of Bookkeeping and Warrants	150,390		8,355			800			157,945
Contingent expenses, public moneys	150,000								150,000
Recoinage of minor coins	65,000								65,000
Total, Division of Bookkeeping and Warrants	365,390		8,355			800			372,945
Public Debt Service:									
Public Debt Service	1,892,500		103,750			5,000			1,991,250
Distinctive paper for United States securities	531,992								531,992
Total, Public Debt Service	2,424,492		103,750			5,000			2,523,242
Division of Appointments:									
Salaries, Division of Appointments	39,492		2,194						41,686
Office of disbursing clerk:									
Salaries, office of disbursing clerk	47,610							47,610	
Division of Disbursement:									
Salaries and expenses, Division of Disbursement			35,200		1,127,500				1,162,700
Working fund, Treasury Department, Public Works				14,964					14,964
Working fund, Treasury Department, National Industrial Recovery				9,101					9,101
Working fund, Treasury Department, Emergency Relief Administration				26,652					26,652
General expenses, Agricultural Adjustment Administration (transferred to Treasury, Division of Disbursement)				21,125					21,125
Advances to Agricultural Adjustment Administration (transfer to Treasury, Division of Disbursement)				15,500					15,500
Total, Division of Disbursement			35,200	87,342	1,127,500				1,250,042

See footnotes at end of table.

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Bureau or office and appropriation title	Appropriation 1935 or made available in 1935 appropriation act	Unobligated balance as of June 30, 1934, available for obligation	Amount estimated to be drawn under indefinite appropriation provided in title II, sec. 21 (e), of Independent Offices Act, 1935	Any amount made available from N. R. A. or other emergency funds	Amounts transferred from any other department or bureau of the Treasury	Amount impounded pursuant to law	Amount reserved by administrative direction	Amounts transferred to other departments or bureaus of the Treasury	Net amount available for obligation in the fiscal year 1935
Bureau of Customs:									
Collecting the revenue from customs	$18,500,000		$950,000					$2,000	$19,448,000
Office of Treasurer of the United States:									
Salaries, Office of Treasurer of the United States	1,080,000		60,000			$35,000			1,105,000
Salaries, Office of Treasurer of the United States (N. C. R.)	294,300								294,300
Total, Office of Treasurer of the United States	1,374,300		60,000			35,000			1,399,300
Office of Comptroller of the Currency:									
Salaries, Office of Comptroller of the Currency	211,050		11,725						222,775
Salaries, Office of Comptroller of the Currency (N. C. R.)	46,152		2,564						48,716
Total, Office of Comptroller of the Currency	257,202		14,289						271,491
Bureau of Internal Revenue:									
Collecting the internal revenue	37,450,510		1,640,690		$4,086,974	700,000		32,340	42,445,844
Refunding taxes illegally collected	40,000,000	$16,972,994							56,972,994
Total, Bureau of Internal Revenue	77,450,520	16,972,994	1,640,690		4,086,974	700,000		32,340	99,418,838
Bureau of Industrial Alcohol:									
Salaries and expenses, Bureau of Industrial Alcohol	4,086,974							4,086,974	
Bureau of Narcotics:									
Salaries and expenses, Bureau of Narcotics	1,244,899					19,899	$8,000	19,000	1,198,000
Coast Guard:									
Salaries, Office of Coast Guard	300,000		16,667					1,458	315,209
Pay and allowances, Coast Guard	14,224,808		1,095,856		35,000				15,354,664
Fuel and water, Coast Guard	1,134,600								1,134,600
Outfits, Coast Guard	1,074,057								1,074,057
Rebuilding and repairing stations, etc. Coast Guard	145,590								145,590
Communication lines, Coast Guard	109,574								109,574
Civilian employees, Coast Guard	88,942								88,942
Contingent expenses, Coast Guard	173,795								173,795
Repairs to Coast Guard vessels	1,000,000		15,000						1,015,000
Retired pay former life-saving service	95,294								95,294
Coast Guard Academy		57,497					[1] 57,497		
Additional vessels, Coast Guard		117,525					[1] 117,525		
National industrial recovery funds		6,978,806							6,978,806
Total, Coast Guard	18,346,400	7,153,828	1,126,723		35,000		175,022	1,458	26,485,471
Bureau of Engraving and Printing:									
Salaries and expenses, Bureau of Engraving and Printing	4,566,040		350,225					15,994	4,900,261
Secret Service Division:									
Salaries, Secret Service Division	34,146		1,897						36,043
Suppressing counterfeiting and other crimes	599,294		27,058						626,352
Salaries, White House police	103,950		7,485						111,435
Uniforms and equipment White House police	2,000								3,000
Total, Secret Service Division	740,390		36,440						776,830
Public Health Service:									
Salaries, Office of Surgeon General	274,113		15,228						289,341
Pay, etc., commissioned officers	1,397,606		180,161		65,107				1,642,874
Pay of acting assistant surgeons	270,000		15,000			5,000			280,000
Pay of other employees	877,500		68,750			8,250			938,000
Freight, transportation, etc.	23,160								23,160
Maintenance, National Institute of Health	50,000								50,000
Books, Public Health Service	450								450
Pay of personnel and maintenance of hospitals	4,915,000		192,175		576,450	50,000		76,085	5,557,540
Quarantine Service	322,150			50,860					373,010
Preventing the spread of epidemic diseases	199,718		7,641			3,359			204,000
Field investigation of public health	209,313		9,343			2,500			216,156
Interstate Quarantine Service	33,495								33,495
Studies of rural sanitation	35,037			1,000,000					1,035,037
Control of biologic products	39,524		1,339						40,863
Expenses, Division of Venereal Diseases	58,808		2,898						61,706

See footnotes at end of table.

APPROPRIATIONS, IMPOUNDINGS, RESERVATIONS, AVAILABLE BALANCES, ESTIMATE 1935—continued

A statement as to all appropriations (exclusive of permanent and indefinite appropriations) showing (1) the amount appropriated and/or made available in the 1935 appropriation act for the Treasury Department or in deficiency acts; (2) unobligated balance on June 30, 1934, available for obligation after that date; (3) any amount estimated to be drawn under the indefinite appropriation provided in title II, sec. 21 (e), of the Independent Offices Act, 1935; (4) any amount made available from N. R. A. or other emergency funds; (5) any amount transferred from any other department or bureau or office of the Treasury; (6) the amount impounded pursuant to law; (7) the amount reserved by administrative direction; (8) any amount transferred to any other department or bureau or office of the Treasury; and (9) the net amount available for obligation during the present fiscal year—Continued

Bureau or office and appropriation title	Appropriation 1935 or made available in 1935 appropriation act	Unobligated balance as of June 30, 1934, available for obligation	Amount estimated to be drawn under indefinite appropriation provided in title II, sec. 21 (e), of Independent Offices Act, 1935	Any amount made available from N. R. A. or other emergency funds	Amounts transferred from any other department or bureau of the Treasury	Amount impounded pursuant to law	Amount reserved by administrative direction	Amounts transferred to other departments or bureaus of the Treasury	Net amount available for obligation in the fiscal year 1935
Public Health Service—Continued.									
Expenses, Division of Mental Hygiene	$455,000								$455,000
Educational exhibits	1,000								1,000
Medical and hospital service, penal institutions			$9,182		$418,478			$46,165	381,495
Total, Public Health Service	9,155,869		481,717	$1,050,800	1,060,035	$60,100		122,234	11,557,128
Bureau of the Mint:									
Salaries, Office of Director of the Mint	33,156		1,842	5,262					40,260
Transportation of bullion and coin	6,000						$100		5,900
Contingent expenses, Office of Director of the Mint	5,300						100		5,200
Salaries and expenses, mints and assay offices	1,064,103		55,448			5,551		1,000	1,113,000
Total, Bureau of the Mint	1,108,559		57,290	5,262		5,551	200	1,000	1,164,360
Procurement Division, Branch of Supply:									
Salaries and expenses, Procurement Division, Branch of Supply	225,792		16,392		78,399				320,583
Procurement Division, Public Works Branch:									
Sites and construction, act May 25, 1926, as amended	13,000,000	−$14,028,398							−1,028,398
Emergency construction of public buildings, act July 21, 1932		1,688,543					1,688,543		
Emergency construction of public buildings, act June 19, 1934	65,000,000						[2] 5,000,000	1,540,000	58,460,000
Emergency repairs to public buildings, act June 19, 1934					1,540,000				1,540,000
Acquisition of Triangle properties		289,616					289,616		
Miscellaneous public-building projects:									
Lexington, Ky., narcotic farm	814,815	18,146					[3] 814,815		18,146
Washington, D. C., post office	400,000	149,419					[3] 471,398		78,021
Washington, D. C., National Institute of Health	50,000	28,028					[3] 50,000		28,028
Washington, D. C., Treasury Building vault		853,218					803,218		50,000
National Industrial Recovery funds		46,171,427					[3] 2,334,558		43,836,869
Public Works allotment to Treasury				2,500,000					2,500,000
Furniture for Triangle buildings		464,517							464,517
Rent of temporary quarters	27,150								27,150
Repairs and preservation of public buildings	650,000								650,000
Mechanical equipment for public buildings	500,000								500,000
Vaults and safes for public buildings	50,000								50,000
General expenses of public buildings	365,055		137,000			5,000			497,055
Outside professional services	500,000	−1,287,032							787,032
Operating force for public buildings	1,305,000		15,000			5,000			1,315,000
Furniture and repairs of same	190,000								190,000
Operating supplies for public buildings	395,000								395,000
Salaries, Procurement Division, Public Works branch	270,000		25,600			5,000			290,600
Total, Procurement Division, Public Works branch	83,226,800	34,324,591	177,600	2,500,000	1,540,000	15,000	11,251,938	1,540,000	108,962,053
American Printing House for the Blind:									
To promote the education of the blind	65,000								65,000
Total, Treasury Department, exclusive of permanent and indefinite appropriations, retirements of the public debt, and Bureau of the Budget	408,134,449	120,075,037	5,151,725	4,045,714	7,956,770	854,359	11,449,643	6,292,804	535,787,809

[1] Administrative reserves were set up under certain appropriations of the Treasury Department to absorb all or part of the amounts necessary on account of the 5-percent salary restoration for 1935, for which an appropriation is provided in title II, sec. 21 (e), of the Independent Offices Act for 1935. The amounts shown represent the estimated net amounts which will be drawn under the indefinite appropriation, and such reserves set up are not shown in the column "Amount reserved by administrative direction." The details as to the amounts required on account of the 5-percent pay restoration and the estimated amounts which will be absorbed are shown in detail on statement 4 (a).

[2] Estimated unobligated balance June 30, 1935.

[3] Reserved for payment of prior year obligations.

SALARIES, OFFICE OF THE SECRETARY OF THE TREASURY

CONSOLIDATION OF APPROPRIATIONS

Mr. ARNOLD. Gentlemen, we will take up this first item, "Salaries, Secretary of the Treasury", and so forth. That is a consolidated item. Will you tell us what items that have heretofore been carried separately are included in this item, giving the appropriations for 1935 and the estimates for 1936?

Mr. McREYNOLDS. These amounts as given in the clerk's note on page 7, of the bill are the 1935 items.

Salaries, Secretary's Office: The 1935 appropriation was $250,000. The estimate for 1936 for the same item is $266,888.

Mr. TABER. Is that an increase in personnel?

Mr. McREYNOLDS. That is to bring the salaries up to 100 percent instead of 90 percent.

Office of the Solicitor: The appropriation for 1935 was $27,900; the estimate for 1936 is $31,000; also solely to bring the salaries up to a 100-percent basis.

Chief Clerk and Superintendent: Appropriation for 1935, $459,000; estimate for 1936, $520,000. That includes not only the bringing up of the salaries to 100 percent, but also the employment of some additional guards and mechanics because of the change in the building situation.

Division of Supply: Appropriation for 1935, $156,600; estimate for 1936, $171,000. The increase is entirely to bring the salaries up to 100 percent. There is a little decrease because of one position, but the increase is due entirely to the difference between 100 percent and 90 percent.

Division of Appointments: Appropriation for 1935, $39,492; estimate for 1936, $43,880. That increase is attributable entirely to the 100 percent salary as against 90 percent.

Division of Research and Statistics was included with Commissioner of Accounts and Deposits before. A part of the office was taken out, representing $36,480 from the 1935 appropriation.

Mr. ARNOLD. And what do you carry for 1936?

Mr. McREYNOLDS. $36,480.

That makes the total of those consolidated offices $969,472.

Mr. TABER. There is no increase on account of the 100 percent?

Mr. McREYNOLDS. Yes; the 100 percent applies to that item also. The 1935 figure should be $36,480 minus 10 percent. That would make the 1935 figure $965,024, and the 1936 figure $1,061,200. The $1,061,200 is the total of those items that I have given you less $8,048 to take care of certain lapses. We just cut it off arbitrarily.

Mr. LUDLOW. Had it not been for the lapses, it would have been $8,048 more?

Mr. McREYNOLDS. Yes, sir; it would be $1,069,248.

ADDITIONAL GUARDS

Mr. LUDLOW. In all these items except one, you say, the increase is attributable to the increase in salaries to 100 percent?

Mr. McREYNOLDS. Yes, sir; that is true.

Mr. LUDLOW. Which one is the exception?

Mr. McREYNOLDS. It is in the Chief Clerk's office.

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TREASURY DEPARTMENT APPROPRIATION BILL, 1936

HEARINGS CONDUCTED BY THE SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS, HOUSE OF REPRESENTATIVES, IN CHARGE OF THE TREASURY DEPARTMENT APPROPRIATION BILL FOR THE FISCAL YEAR 1936, ON THE DAYS FOLLOWING, NAMELY:

FRIDAY, DECEMBER 14, 1934.

OFFICE OF THE SECRETARY OF THE TREASURY

STATEMENTS OF HON. HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY; D. W. BELL, COMMISSIONER OF ACCOUNTS AND DEPOSITS; WILLIAM H. McREYNOLDS, ADMINISTRATIVE ASSISTANT; S. R. JACOBS, ASSISTANT COMMISSIONER, PUBLIC DEBT SERVICE

Mr. ARNOLD. We have with us this morning, Mr. Morgenthau, the Secretary of the Treasury, and we will be glad to hear him. Do you care to make a general statement, Mr. Secretary?

GENERAL STATEMENT

Secretary MORGENTHAU. Yes; I would like to make a brief general statement and, following that, I will be glad to answer any questions you desire to ask.

Mr. Chairman and gentlemen of the committee, I understand that following your usual procedure you are calling before you the heads of the various Treasury activities, who will give to you such detailed explanations of the estimates as may be desired. I shall not, therefore, go beyond placing in the record a brief statement touching on the Treasury budget for 1936. Any additional information the committee may desire, however, will be gladly furnished.

The grand total of appropriations for the Treasury for 1935 is $1,835,746,022 as against estimates for 1936 of $1,606,742,064, indicating a reduction of $229,003,958 due almost wholly to the omission of emergency appropriations in the Treasury 1936 budget. Eliminating from the comparison made such items as the sinking fund, interest on the public debt, internal revenue, customs, and other miscellaneous refunds, indefinites, and public-buildings construction, the appropriations for operating expenses of the Treasury Department during 1935 aggregate $106,122,334, as compared with estimates for 1936 of $121,143,934, an increase of $15,021,600; $10,838,195 of the increase mentioned is due to the fact that appropriations for 1935 are on a 90-percent salary basis, whereas the estimates for 1936 have been submitted on a 100-percent salary basis. The actual increase therefore may be said to be slightly over $4,000,000, made up principally of the following items:

Coast Guard	$2,200,000
Bureau of Engraving and Printing	780,000
Public Health Service	675,000
Division of Disbursement	710,700

The increase of $2,200,000 in the Coast Guard is due principally to the shortage of funds appropriated for 1935, and to provide for the operation of new equipment which will be placed in commission during 1936. The increase of $780,000 under the Bureau of Engraving and Printing is due to an increase in the number of sheets of all classes to be delivered in 1936 over the number authorized for delivery in 1935 of 17,352,616, made up in most part of internal-revenue stamps required under the liquor taxing laws. The increase of $675,000 under the Public Health Service covers principally additional funds required for the equipment and operation of the new hospital at Stapleton, Long Island, N. Y., equipment for new infirmary building at Fort Stanton, N. Mex., and for the maintenance and operation of the narcotic farm at Lexington, Ky., for a full year. An estimate is included in the Budget for 1936 to cover the Division of Disbursements, for which no appropriation was provided in 1935.

Certain consolidations have been made in the estimates for 1936 under the Office of the Secretary, Office of Commissioner of Accounts and Deposits, Coast Guard Service, and public-works branch of the Procurement Division, with a view to reducing the number of appropriation items carried in the Budget and on the books of the Treasury, but more especially to afford greater flexibility with resultant economy in expenditures. In view of its advantages it is hoped that the committee will give favorable consideration to the consolidated estimates.

The Division of Disbursement has completed its organization of the disbursing functions in the District of Columbia. Regional offices have been established in New York City, Boston, and Philadelphia, and a regional office will be established in Atlanta in the near future. Similar regional offices will be established in other Federal Reserve cities from time to time, and it is expected that the field organization will be completed before the end of the current fiscal year.

The Procurement Division has completed its organization and is now making splendid progress in its consolidation of purchases, and in the public-works branch excellent progress is being made in the construction of buildings under the $65,000,000 emergency appropriation.

Tables with respect to the number of employees in the Department, including the field service, and with respect to civil-service retirements, have been prepared for insertion in the record if desired. Statements also are available for the record showing savings effected under the various economy measures restricting expenditures during the current year. Actual savings for 1934 under these provisions of law amounted to $9,754,554.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

Mr. Arnold. At this point, may we have a statement of receipts and disbursements from general sources, to go into the record?

Secretary Morgenthau. We will be glad to furnish that.

Mr. Bell. Do you want 1936 included?

Mr. Arnold. We ought to have the statement for 1934, that being complete. For 1935 and 1936 we would have it on an estimated basis. We should have those 3 years.

(The statement requested is as follows:)

A résumé of the financial plan which the General Budget Summary shows for 1936, as compared with 1934 and 1935, is presented below.

(In millions of dollars)

	1934	1935	1936
I. Regular:			
1. Receipts	2,762	3,123	3,422
2. Expenditures:			
(1) Operation and maintenance of regular departments and establishments	1,066	1,235	1,622
(2) Veterans' pensions and benefits	556	816	740
(3) Interest on national debt	757	825	873
(4) Tax refunds (exclusive of processing taxes)	53	68	68
Total regular expenditures	2,432	2,748	3,303
II. Recovery and relief:			
1. Agricultural Adjustment Administration:			
Processing taxes	353	589	570
Expenditures (including refunds of processing taxes)	290	785	472
Excess of expenditures over taxes	−63	+196	−98
2. Other recovery and relief expenditures	3,993	4,475	4,110
Total recovery and relief expenditures	3,930	4,671	4,012
Total expenditures (exclusive of debt retirements)	6,362	7,419	7,314
Net deficit	3,629	4,296	3,892
Debt retirements	360	573	636
Gross deficit	3,989	4,869	4,528

RECEIPTS FROM ALL SOURCES FOR 1934

Mr. Arnold. Mr. Secretary, can you give us a statement of the revenues from all sources for the fiscal year 1934?

Secretary Morgenthau. Yes.

Mr. Bell. Income taxes amounted to $817,961,000; miscellaneous internal revenue, $1,469,593,000; processing taxes on farm products, $353,049,000; customs, $313,434,000; other miscellaneous receipts, including Panama Canal tolls, receipts from sale of public lands, etc., about $161,000,000, making a total of $3,115,000,000 in ordinary receipts, including processing taxes, for the fiscal year 1934, excluding processing taxes the receipts amounted to $2,762,000,000.

ESTIMATED RECEIPTS FOR 1935

Mr. Arnold. Can you give us a statement of the estimated figures under that same head for the fiscal year 1935?

Mr. Bell. I am sorry I do not have the detailed data with me, but the estimated receipts for 1935, exclusive of processing taxes, will amount to about $3,217,000,000, an increase over the same items of receipts in 1934 of about $455,000,000.

Mr. Arnold. The increase is how much?

Mr. Bell. About $455,000,000.

Mr. Arnold. Is the processing taxes included in that?

Mr. Bell. No, sir; it has been excluded.

PROCESSING TAXES

Mr. TABER. The processing taxes are running at quite a considerably larger figure this year than last, are they not?

Secretary MORGENTHAU. Yes; much larger, due principally to the fact that the programs were not effective during the entire year 1934.

Mr. TABER. How much do you figure the processing taxes will amount to in 1935?

Mr. BELL. About $569,000,000, as I recall.

Mr. TABER. That is about $300,000,000 more than this year.

Mr. BELL. Yes, sir; that is right. Of course, there is quite a lag in the processing taxes.

DEBT-REFUNDING OPERATIONS

Mr. ARNOLD. How have you been coming along with refunding operations, Mr. Secretary?

Secretary MORGENTHAU. Very well, I think.

Mr. ARNOLD. Can you give us any information as to how far you have gone in the refunding of demands for new obligations, under your refunding program?

Mr. BELL. I have a statement of that which I can put in the record, if you would like to have it, showing the new issues put out and new funds acquired since January 1931 up to date.

Mr. ARNOLD. I think it would be a very valuable statement to have in the record.

(The statement referred to is as follows:)

Public debt issues and redemptions, January 1931 to Dec. 17, 1934

[In millions of dollars]

Date	Character of securities: Maturing issue	Character of securities: New issue	Amount: Matured	Amount: Issued	Amount: New funds	Amount: Gross public debt at end of each month
January 1931						
February						16,163.3
March		Treasury bills		86.8	86.8	16,230.7
Do.	3¼-percent notes A-1930-32	3⅜-percent bonds, 1941-43	625.5	593.8		
Do.	3½-percent notes B-1930-32	Certificates of indebtedness, 1½ percent TS2 1931	482.6	300.2	408.6	16,582.9
April		Certificates 2-percent T M 1932		621.9		
Do.		Certificates 1⅜-percent TD2 1931		275.1		
May		Treasury bills		154.1	429.4	16,655.4
June	Treasury bills		4.0		[1] 4.0	16,527.1
Do.	Certificate of indebtedness, 2⅞ percent TJ 1931	3⅛-percent bonds, 1946-49	429.4	821.4		
July	Certificate of indebtedness, 1⅞ percent TJ2 1931	Treasury bills	130.9	80.0	312.1	16,801.5
August	Treasury bills		1.4		[1] 1.4	16,801.6
September		Treasury bills		80.0	80.0	16,883.8
Do.	Certificates of indebtedness, 3¾ percent TS 1931	3 percent bonds of 1951-55	334.2	800.4		
Do.	Certificates of indebtedness, 1½ percent TS2 1931	Certificates, 1¼ percent TS 1932	300.2	314.3	481.0	17,320.6
October		Treasury bills				
November				.7		
December		Treasury bills		51.9	51.9	17,291.7
Do.	Certificates of indebtedness 1¼ percent TD 1931	Certificates 2¾ percent TJ 1932	268.4	324.6		17,310.0
Do.	Certificates of indebtedness 1¼ percent TD2 1931	Certificates 3 percent TS2 1932	275.1	398.2	328.0	17,825.6
	3½ percent notes C 1930-32	3¼ percent notes 1932	411.7	600.4		
					2172.4	
January 1932	Treasury bills					
February	do.		1.9		[1] 1.9	17,816.9
Do.		3⅛ percent certificates of indebtedness A-1932	56.0	227.0	312.4	18,125.6
March	2 percent certificates of indebtedness TM 1932	3¾ percent certificates of indebtedness A-1933		144.4		
Do.		3¼ percent certificates of indebtedness TD-1932	632.9	333.5		
Do.		3¾ percent certificates of indebtedness TM-1933		660.7	400.0	18,596.7
Do.		2 percent certificates of indebtedness Mar. 15, 1933		28.0		
		Treasury bills		1.7		

[1] Excess of maturities.

Public debt issues and redemptions, January 1931 to Dec. 17, 1934—Continued

Date	Character of securities: Maturing issue	Character of securities: New issue	Amount: Matured	Amount: Issued	Amount: New funds	Amount: Gross public debt at end of each month
April		2 percent certificates of indebtedness Mar. 15, 1933.		7.0	109.3	18,596.7
Do.		Treasury bills		102.8		
May	Treasury bills	2 percent Treasury notes 1934	3.2	244.2	480.2	19,036.9
Do.		2 percent certificates of indebtedness B-1933		239.2		
June	2¾ percent certificates of indebtedness TJ 1932	3 percent notes A 1935	324.6	416.6	462.7	19,487.0
Do.	Treasury bills	1½ percent certificates of indebtedness TJ-1933	3.1	373.5		
July 1932		Treasury bills		31.2	31.2	19,611.8
August	3¼-percent certificates of indebtedness A-1932	2¼-percent notes 1933-34	227.6	345.3		
Do.		3¼-percent notes A-1936		365.1	484.0	20,067.2
Do.		Treasury bills		1.2		
September	1¾-percent certificates of indebtedness TS-1932	3¼-percent notes A-1937	314.5	834.4		
Do.	3-percent certificates of indebtedness TS2-1932	1¾-percent certificates of indebtedness TS-1933	398.2	451.4	548.5	20,611.2
Do.	Treasury bills		24.6			
October	3¼-percent certificates of indebtedness TO-1932	3-percent notes B-1937	333.5	508.3	196.6	20,812.5
Do.		Treasury bills		21.6		
November	Treasury bills		2.5		[1] 2.5	20,806.5
December	3¼-percent notes 1932	2¾-percent notes B-1936	600.4	380.5	12.9	20,805.1
Do.	Treasury bills	¾-percent certificates of indebtedness TD-1933	.6	234.4		
					3,027.4	
January 1933	Treasury bills		1.2		[1] 1.2	20,801.7
February	3¼-percent certificates of indebtedness A-1933	2⅝-percent notes A-1938	144.4	277.5	133.1	20,934.7
March	3¾-percent certificates of indebtedness TM-1933	4-percent certificates of indebtedness TAG-1933.		489.1		
Do.	2-percent certificates of indebtedness March 15, 1933.	4¼-percent certificates of indebtedness TD2-1933.	660.7	473.3	424.6	21,362.5
Do.		Treasury bills	33.6	176.5		
April		Treasury bills		101.2	101.2	21,441.2
May	2-percent certificates of indebtedness B-1933	2⅞-percent notes C-1936	239.2	572.4	393.6	21,853.4
Do.		Treasury bills		60.4		
June	1½-percent certificates of indebtedness TJ-1933	2⅞-percent notes B-1938	373.9	623.9	685.8	22,538.7
Do.	Treasury bills	¾-percent certificates of indebtedness TM-1934	24.3	460.1		
July						22,609.9
August	4-percent certificates of indebtedness TAG-1933	3¼-percent bonds of 1941	408.1	835.0	488.0	23,098.5
Do.	1¼-percent certificates of indebtedness TS 1933	1⅝-percent notes B-1935	231.1	353.9		
Do.	Treasury bills		.7			
September	1¼-percent certificates of indebtedness TS-1933	¾-percent certificates of indebtedness TS-1934	220.4	174.0	[1] 47.0	23,050.8
Do.	Treasury bills		1.5			
October (exchange)	4¼-percent Liberty Loan bonds 1933-38	4¼-3¼-percent bonds 1943-45	645.4	645.4		23,050.8
November (called for exchange)	4¼-percent Liberty Loan bonds 1933-38	4¼-3¼-percent bonds 1943-45	190.0	190.4	499.8	23,534.1
December (exchange)	4¼-percent Liberty Loan bonds 1933-38	4¼-3¼-percent bonds 1943-45	53.2	53.3		
Do.	¾-percent certificates of indebtedness TD-1933	2¼-percent certificates of indebtedness TD-1934	254.4	992.5	316.0	23,814.5
Do.	4¼-percent certificates of indebtedness TD2-1933.	Treasury bills	473.3	51.2		
					2,993.9	
January 1934		2½ percent notes C-1935		528.1		
Do.		1½ percent certificates of indebtedness TS-1934		524.7	1,262.6	25,071.1
Do.		Treasury bills		211.0		
February		2½ percent notes D-1935		418.3		
Do.		3 percent notes C-1937		428.7	1,012.0	26,065.1
Do.		Treasury bills		165.0		
March	¾ percent certificates of indebtedness TM-1934	3 percent notes C-1938	460.1	455.2	[1] 4.9	26,157.3
April (called for exchange)	4¼ percent Liberty Loan bonds 1933-38	3¼ percent bonds 1944-46	898.2	1,037.3	[1] 95.4	26,118.3
Do.	3 percent notes A-1934		234.3			
May (called)	4¼ percent Liberty Loan bonds, 1933-38	3¼ percent bonds 1944-46	47.0	24.6	[1] 7.3	26,155.9
Do.	3 percent notes A-1934	Treasury bills	9.9	25.5		
June (called)	4¼ percent Liberty Loan bonds 1933-38	3 percent bonds 1946-48	9.0	824.4		
Do.	2⅝ percent notes B-1934	2⅞ percent notes A-1939	316.9	528.5	887.1	27,053.1
Do.	¾ percent certificates of indebtedness TJ-1934	2 percent Postal Savings notes, June 30, 1939	174.9	33.0		
July		Treasury bills		91.0	92.0	27,189.2
August	2¼-percent notes B-1934		26.3		[1] 103.6	27,079.9
Do.	Treasury bills		73.9			
September (called)	4¼-percent Liberty Loan bonds 1933-38	3¼-percent bonds 1944-46	825.4	233.6		
Do.	1½-percent certificates of indebtedness TS-1934	2½-percent notes D-1938	524.7	596.1	134.6	27,189.6
Do.		Treasury bills		150.0		
Do.		1½-percent notes D-1936		512.0		
October (called)	4¼-percent Liberty Loan bonds 1933-38	3¼-percent bonds 1944-46	325.4	215.3		
Do.		2½-percent notes D-1938		8.0	30.2	27,198.0
Do.		Treasury bills		125.3		
November	4¼-percent Liberty Loan bonds 1933-38	...do		150.2		
Do.		2-percent Postal Savings notes June 30, 1939	48.9	10.0	111.3	27,298.9
December (1 to 17)	4¼-percent Liberty Loan bonds 1933-38	Treasury bills	5.7	149.2		
Do.	2¼-percent certificates of indebtedness T. D. 1934.	2-percent Federal Deposit Insurance Corporation notes Dec. 1, 1939.	992.3	100.0		
Do.		3⅛-percent Treasury bonds 1949-52		491.4	1,194.5	28,493.4
Do.		1⅝-percent Treasury notes E-1939		686.7		
Do.		2¼-percent Treasury notes A-1939		755.4		
					4,462.3	

[1] Excess of maturities.

REDUCTION IN INTEREST RATE

Secretary MORGENTHAU. It is a thing that is particularly interesting to me, because we have had a constantly falling rate on the debt. The average rate is constantly falling.

Mr. BELL. The average rate at the end of November was 3 percent.

Secretary MORGENTHAU. As against 3.33 percent in November 1933 when I came in. The interest rate has constantly dropped.

Mr. ARNOLD. What difference does that make in the annual interest expenditures?

Mr. BELL. The amount of the annual interest charge is increasing, because the public debt is increasing, but it is not increasing nearly as much as it would if it were not for the falling interest rate.

Secretary MORGENTHAU. Suppose we put it this way: Our interest charges are a very little bit more today than 1 year ago, with the outstanding indebtedness greatly increased, on account of the fact that we are paying less for our money. In other words, on November 30, 1934, the total annual charge for interest was $808,000,000, on a total interest-bearing debt of $26,761,000,000; whereas 1 year ago the annual charge was $772,000,000 on a total interest-bearing debt of $23,161,000,000.

Mr. ARNOLD. The interest charge is still around $800,000,000.

Mr. BELL. Yes, sir.

Mr. ARNOLD. But had it not been for the better interest rate you have been getting, what would that liability have been?

Mr. BELL. At the rate of 3.33 percent on $26,761,000,000 of debt, the interest charge would be about $891,000,000.

Mr. ARNOLD. It would be about $75,000,000 more?

Mr. BELL. About $83,000,000 more.

SUBSCRIPTIONS TO TREASURY OFFERINGS

(See p. 11.)

Mr. ARNOLD. Has the country been absorbing those new issues?

Secretary MORGENTHAU. This is one of the best things that has happened: On Monday, a week ago, we offered the public $900,000,000 of securities for new money, $450,000,000 of 15-18 year 3¼ percent Treasury bonds and $450,000,000 for 18-month 1⅛ percent Treasury notes, and we sold all of them in a day. The cash allotment for the long-term issue was 14 percent and for the 18-month issue the allotment was 18 percent. These allotments were exclusive of those made on subscriptions of $10,000 and less, which were allotted in full. That gives you an indication of what the demand was.

Mr. ARNOLD. That would indicate a readiness on the part of the public to absorb those new issues.

Secretary MORGENTHAU. Yes; it was the most successful issue that had been floated in 4 years.

Mr. McLEOD. Does that mean there was trouble with some other issues?

Secretary MORGENTHAU. I should say so.

Mr. McLEOD. To what extent?

Secretary MORGENTHAU. In the issue in September, for a while it looked as though it would not go. There was so much pessimistic talk in New York that I think they succeeded in frightening themselves.

Mr. McLEOD. And the difficulty resulted in a delay in the disposition of the bonds?

Secretary MORGENTHAU. They dragged.

Mr. McLEOD. How long did they drag?

Secretary MORGENTHAU. As a matter of fact, the drag took place for about 3 or 4 days after the Maine election. There seemed to be a kind of shock on that account, but they seemed to recover from it, and from that time on things got very much better.

Mr. ARNOLD. Which seems to be the more easily marketed, the long-term securities or the short-term securities?

Secretary MORGENTHAU. Up to this issue, we have found recently that the shorter-term issues have been more in demand.

Mr. ARNOLD. The short-term issues have increased very decidedly in the past few years. Does there seem to be a tendency on the part of the country to want long-term securities?

Secretary MORGENTHAU. It has been that way in the last month or so.

Mr. ARNOLD. Have you been refinancing those short-term issues into long-term issues?

Secretary MORGENTHAU. If my memory is correct, I think that in this calendar year we have converted our maturities into $2,800,000,000 long-term issues. That is better than one-half of the increase in the gross public debt.

Mr. ARNOLD. And the short-term securities have been correspondingly decreasing, have they not, or have they remained about normal to take care of the additional requirements?

Secretary MORGENTHAU. They have increased with one exception. We have no more 1-year certificates outstanding at all. The 1-year certificates have been eliminated. We have increased the 6-month paper, where we have been borrowing $75,000,000 each week, getting that money at around 0.20 percent, which is very cheap money. We have no 1-year certificates at the present time. For instance, on December 15 this year, $992,000,000 of 1-year 2¼-percent Treasury certificates come due, and we have been able to convert them, giving the holders their choice of two kinds of paper, namely, 1⅛ percent for 18 months or 4½ years at 2½ percent. So we have converted 1-year certificates, which had an interest rate of 2¼ percent, into 18-month paper at 1⅛ percent or 4½-year paper at 2½ percent. So you can see that is the tendency. In other words, we are getting money much cheaper.

Mr. BELL. In the exchange $765,000,000 went into the 4½-year 2½-percent notes, and only $210,000,000 went into the 18-month 1⅛-percent securities.

Secretary MORGENTHAU. That shows you definitely what happened to the 1-year securities.

STATUS OF FOREIGN DEBT

Mr. Arnold. What is the situation with reference to the foreign indebtedness?

Secretary Morgenthau. Shortly after I came into the Treasury the State Department took over the foreign-debt responsibility, and they announced that they would handle it. Since I have been in the Treasury, all that we do is to give them technical information when things come up requiring it.

Mr. Arnold. Can you give us any information as to what has been received?

Secretary Morgenthau. Finland has paid.

Mr. Bell. The indications are that Finland will pay on December 15.

Secretary Morgenthau. It is entirely out of my hands.

Mr. Arnold. In connection with these projects for 1936, are you taking into consideration any payments on the foreign debt?

Secretary Morgenthau. No.

Mr. Taber. How about 1935?

Secretary Morgenthau. No.

Mr. Bell. Nothing except from Finland, which is relatively small, being less than $300,000.

INVESTMENT BY BANKS IN GOVERNMENT SECURITIES

Mr. Ludlow. Mr. Secretary, reverting to the sale of securities, are banks investing more than ever in Government securities?

Secretary Morgenthau. I cannot say that they are investing more than ever, because my experience covers only 12 months, but the banks have taken a very good share of those securities.

Mr. Ludlow. It was my observation that they were investing pretty heavily in Government securities.

Secretary Morgenthau. Yes; they are investing, I would say, very well.

Mr. McLeod. Do you know what proportion of the Government securities they have taken?

Secretary Morgenthau. I cannot state that now.

Mr. Ludlow. Have you any figures showing increased investments by banks in Government securities?

Secretary Morgenthau. Yes. For the first time, in the last bank call, we asked the banks to show how much they held in long-term securities and how much in short-term securities, and that information will be available for the first time.

Mr. Arnold. You can furnish a statement of that for the record.

Secretary Morgenthau. Yes.

(Statement referred to is as follows:)

Statement showing as of June 30, 1934, the amount of United States Government securities guaranteed by the United States Government owned by insured banks and trust companies as reported to the Federal Deposit Insurance Corporation on call report no. 1

[In thousands of dollars]

	National banks	State banks members Federal Reserve	State banks not members Federal Reserve	Morris Plan and industrial banks	All banks
Number of banks	5,417	958	7,439	62	13,876
United States Government Securities:					
Bonds	$2,430,022	$1,418,420	$309,995	$4,806	$5,220,244
Treasury notes	1,612,931	1,255,997	174,992	1,004	3,045,894
Certificates of indebtedness	298,337	338,825	19,772		656,494
Treasury bills	290,211	491,380	3,783		794,344
	5,627,192	3,499,162	508,582	2,810	9,707,076
Obligations guaranteed by United States Government:					
Reconstruction Finance Corporation	173,970	39,030	922		235,962
Federal Farm Mortgage Corporation	33,671	7,453	20,469	1	61,595
Home Owners' Loan Corporation	147,977	94,522	52,606	892	295,997
	357,618	151,023	83,998	893	593,524

SUBSCRIPTIONS TO TREASURY OFFERINGS

(See p 8.)

Mr. Ludlow. Did this recent sale, or offering, indicate the peak in oversubscriptions to Treasury offerings?

Mr. Bell. No, sir. There have been others that have gone higher in amount. However, this was pretty well up. It was over 5 billions. At one time we had 8 billions, but under somewhat different conditions, however.

Mr. Ludlow. It is remarkable that at this time you should have had such a large oversubscription.

Mr. Taber. It is a desirable thing to have Government obligations taken up, insofar as possible, by private individuals, and that the banks should lend their money for commercial purposes, insofar as possible.

Secretary Morgenthau. I agree with you; but I also happen to belong to the school that thinks the banks, being privately owned, owe a duty to their depositors. I do not think that anybody here in Washington can tell them what to do, because, after all, all of their responsibility is to their depositors. I do not think that all the pounding of desks in the world will compel a bank to make a loan unless the management wants to do it.

Mr. Ludlow. Of course, they have a trust obligation there, and they have to take care of their investments. This, of course, is in response to that trust.

Secretary Morgenthau. I would like to see individuals buy them; but when I consider that 12 months ago, when I came in, I had to pay from 2¼ to 3 percent for 12 months' to 3-year money, and when I consider that I have just concluded the sale of 18-months securities at 1⅛ percent, you will appreciate that during those 12 months we have traveled quite a distance.

Mr. TABER. Of course, the question of the advantage to the country of an extremely low rate of interest is a debatable subject. The Government and everybody else would be better off if there was a sufficient demand for good commercial loans to boost the rate of interest decidedly. Your tax receipts would be so far beyond what they are now, that the interest rate would be a minor item by comparison.

Secretary MORGENTHAU. I do not think it will ever be a minor item, but as long as conditions remain as they are, I think you would be the first to criticize me if I paid too much for money.

Mr. TABER. I would.

Secretary MORGENTHAU. I am pretty proud of the fact that in 12 months we have been able to borrow 4½-year money at 2⅞ percent and 18-month money at 1⅛ percent.

Mr. TABER. That to a certain extent is symbolical of the deflation of bank loans.

Secretary MORGENTHAU. No, sir; I am sorry I do not agree with you. I think it is symbolical of confidence in the Government.

ADEQUACY OF REVENUE COLLECTING FORCE

(See p. 198)

Mr. ARNOLD. Mr. Secretary, are you getting the maximum collections of revenue with your present force?

Secretary MORGENTHAU. No; I am not.

Mr. ARNOLD. How can that situation be met?

Secretary MORGENTHAU. As I understand it, in connection with income taxes, we have some 200,000 returns from the field which we have not been able to audit for lack of funds, and I am asking for another $3,000,000 so that all of those returns can be audited.

Mr. ARNOLD. What additional revenue do you figure that that $3,000,000 expenditure will bring into the Treasury?

Secretary MORGENTHAU. $75,000,000.

Mr. ARNOLD. How many additional men will it take to accomplish that?

Secretary MORGENTHAU. You would divide 4,000 into 3,000,000.

Mr. MCREYNOLDS. About 750 additional field men.

Mr. ARNOLD. These would be revenue agents?

Mr. MCREYNOLDS. Yes, sir.

Mr. ARNOLD. And there would be about 750 of them?

Mr. MCREYNOLDS. Yes, sir.

Mr. ARNOLD. And you think that the employment of those 750 men, with clerical costs and overhead, amounting in all to about $3,000,000, will bring into the Treasury something like $75,000,000 of additional money that you would not otherwise get?

Secretary MORGENTHAU. Yes.

Mr. MCLEOD. They would be working on what specific cases?

Secretary MORGENTHAU. They would take individual returns from $25,000 upward, and corporation returns from $75,000 upward.

Mr. MCLEOD. Would they be back taxes or current taxes?

Secretary MORGENTHAU. Those would be the last returns. We have 200,000 returns that we are unable to audit because we do not have enough men. It seems a shame not to audit them.

Mr. MCLEOD. There are a great many back-tax cases in the Treasury Department at the present time, are there not, and is there not a campaign on in the Department at this time for the collection of back taxes?

Secretary MORGENTHAU. Yes; we are going after it, and Mr. Helvering's Bureau is making valuable progress.

Mr. ARNOLD. You are asking $3,000,000 more for the employment of 750 additional men.

Secretary MORGENTHAU. Yes.

Mr. ARNOLD. Is that included in this bill?

Secretary MORGENTHAU. No; because I only asked for it this week. It must be put in. I was slow in asking for it. This has been recently brought to my attention, so that the $3,000,000 additional I am asking is not included in the bill. I have asked the Budget for it.

Mr. ARNOLD. It will be covered in a supplemental estimate?

Secretary MORGENTHAU. Yes. May I say on that subject, that I am rather pleased at the result of the one unemployment project we have. We asked for an allocation of $2,400 a week for 100 unemployed white-collar workers. They have been working for 4 weeks in New York, on miscellaneous tax cases. At a cost of $9,600 for the first 4 weeks, up to December 5, they collected $39,000, and recommended assessments amounting to $141,000, making a total of $180,000.

Mr. ARNOLD. That is a good showing.

Secretary MORGENTHAU. It is a wonderful showing, and we want to extend it to other cities. All of those men came from relief rolls.

PEAK OF PUBLIC DEBT

Mr. ARNOLD. In view of the present conditions, can you give us any idea as to when the peak of our public debt may be reached?

Secretary MORGENTHAU. No; I do not know. I cannot answer that.

SALE OF SECURITIES

Mr. MCLEOD. What was the year you had trouble in the sale of securities?

Secretary MORGENTHAU. This last September, immediately after the Maine election, was what I had in mind. That took place immediately after the Maine election.

Mr. MCLEOD. What was the amount of that issue, approximately?

Mr. BELL. A total of $1,334,000,000, all of which was refunding.

Mr. MCLEOD. Was that long-term or short-term securities?

Mr. MORGANTHAU. Both.

Mr. BELL. On September 15 we had a maturity of 8-month 1½-percent Treasury certificates amounting to approximately $525,000,000. We offered in exchange for these maturing certificates a 1½-percent Treasury note maturing September 15, 1936. Practically all of the maturing securities were exchanged.

Mr. TABER. There was new money in that September 15 offering, I think.

Mr. BELL. No, sir.

Mr. MCLEOD. Was that the whole of it?

Mr. BELL. That was the whole of the maturity. We had at the same time an offering of 2-year 2½-percent Treasury notes and an additional issue of 10–12-year 3¼-percent Treasury bonds dated April 16, 1934, in exchange for Fourth 4¼-percent Liberty bonds, maturing October 15, 1934.

Mr. MCLEOD. What did you do with them?

Mr. BELL. The amount of the Fourth 4¼-percent Liberty bonds maturing on call on October 15, 1934, was over $1,000,000,000. We received in response to the exchange offerings just mentioned $588,000,000 of the 2½-percent 4-year Treasury notes and $234,000,000 of the 10–12-year 3¼-percent Treasury bonds. The fact that a large part of the exchanges went into the shorter-term securities is an indication of the conditions existing at that time to which the Secretary called your attention.

Mr. MCLEOD. Since then, there has been no trouble?

Secretary MORGENTHAU. This almost unbelievable change has taken place since September 15. There has been a complete change of sentiment.

CONSOLIDATED ESTIMATES

Mr. LUDLOW. Mr. Secretary, in your opening statement you spoke about the consolidation of estimates here, which really represents a great innovation in the way estimates are presented, as compared with former years. I gather from your statement that the principal reason for that was greater flexibility of allotments. I wonder if you could furnish more extensive information as to the reason for those various consolidations.

Mr. MCREYNOLDS. I wonder if you would not be willing to discuss that after the Secretary has concluded, because we will go into that in full detail later. It is something that the Secretary personally has not had a full opportunity to go into.

Mr. LUDLOW. The Secretary mentions it in his opening statement, but if we can obtain the information later, it will be agreeable to me.

INTEREST CHARGES AND RATES

Mr. MCLEOD. The chairman asked a few minutes ago how the interst charges on the public debt compared with those in the past years: Do you have the present interest charges?

Mr. BELL. Do you want the rate or the amount.

Mr. MCLEOD. Both the rate and amount.

Mr. BELL. On June 30, 1919, the annual interest charge was $1,054,000,000, and the average annual interest rate was 4.18 percent. It remained about that until 1922, when the interest charge had dropped to $963,000,000, and the average annual interest rate was 4.24 percent. Then, in 1924, the interest charge was $877,000,000, and the average annual rate was 4.18 percent. In 1929, the interest charge was $657,000,000 and the average annual interest rate was 3.95 percent. The total annual interest charge reached a low point in 1931, when it amounted to $589,000,000, the average annual interest rate being .57 percent. In 1933, the interest charge increased to $742,000,000 with an average interest rate of 3.35 percent. On June 30, 1934, the annual interest charge was $842,000,000, and the average interest rate was 3.18 percent.

Mr. MCLEOD. And the interest-charge figure for this year is $800,000,000.

Mr. BELL. That is the estimate for interest payments for this year. The average interest rate at this time is 3.02 percent.

Mr. ARNOLD. Mr. Secretary, we thank you. You probably will not want to stay here but we will be glad to have you, if you wish to remain.

Secretary MORGENTHAU. I would like to leave it this way: If something comes up while your hearings are in progress, and you would like to have me here, just phone me and I will come right up.

Mr. ARNOLD. That is very kind of you.

Mr. TABER. May I ask one more question?

Secretary MORGENTHAU. Surely.

ADEQUACY OF 1936 BUDGET ESTIMATES

Mr. TABER. I presume you are not familiar with the items in the Budget that has been submitted here?

Secretary MORGENTHAU. Only with the totals.

Mr. TABER. You would probably not know, yourself, from your own examination of the situation, whether or not those items would be sufficient to carry the Department along?

Secretary MORGENTHAU. Well, I am in just the same position that I was a year ago. If you remember, I came up here and made a statement, in which I said: "The figures that I am submitting will be sufficient with one exception. I will have to come back at a later date and ask you for money for the alcohol tax unit." And I came back a month or two later and asked for additional funds to run that organization. But that situation does not exist today, with the exception of the additional $3,000,000 which I am asking for the tax work——

Mr. TABER. That is in here, is it not; or is that in the deficiency?

Secretary MORGENTHAU. No; that is not here. With that exception, what we are asking for is sufficient, so far as it is humanly possible to estimate, to run the Treasury for 1936.

Mr. TABER. That $3,000,000 does not relate to 1936 anyway, does it?

Secretary MORGENTHAU. Yes; it does.

Mr. TABER. All 1936?

Secretary MORGENTHAU. Yes.

Mr. TABER. But it is not in here?

Secretary MORGENTHAU. No. With that exception, these figures are the outside, top figures. We will not be back asking for any more money.

Mr. ARNOLD. All right, Mr. Secretary. We thank you very kindly, and we are mighty glad you came down.

(The statements submitted by Secretary Morgenthau are as follows:)

Increases and decreases in estimates under Treasury Department for 1936, as compared with appropriations for 1935 (100% basis)

	Increases	Decreases	Net
Operating expenses:			
Office of Secretary	$75,212		
Office of Solicitor		$31,000	
Office of Chief Clerk	23,640		
Division of Supply	173,250		
Office of Commissioner of Accounts and Deposits		9,640	
Division of Bookkeeping and Warrants	6,660		
Public Debt Service		27,978	
Division of Appointments		43,880	
Division of Disbursement	637,800		
Office of Treasurer		57,500	
Office of Comptroller		1,782	
Bureau of Internal Revenue		525,244	
Bureau of Narcotics		94,037	
Coast Guard Service	2,212,141		
Bureau of Engraving and Printing	778,457		
Secret Service Division	24,970		
Public Health Service	674,388		
Bureau of the Mint	90,951		
Procurement Division:			
Supply Branch	200,799		
Public Works Branch	76,917		
Total	4,975,186	791,781	+$4,183,405
Increase account pay restoration			+10,838,195
Total			+15,021,600
Nonoperating expenses:			
Office of Secretary	1,100,000		
Division of Bookkeeping and Warrants	791,850		
Public Debt Service	743,358		
Bureau of Customs	2,999,300		
Office of Treasurer		35,000	
Bureau of Internal Revenue	8,899,700		
Public Health Service	5,300		
Procurement Division, Public Works Branch		12,064,615	
Total	14,539,508	12,099,615	+2,439,893
Increase account pay restoration			+86,400
Total			+2,526,293
Grand total			17,547,893

Indefinites and special funds made annual under provisions of the Permanent Appropriation Repeal Act of 1934, and amounts included in the estimates for 1936 under these headings

Division of Bookkeeping and Warrants:	
Recoinage of silver coins	$700,000
Relief of the indigent, Alaska	20,000
Refunding moneys erroneously received and covered [1]	76,850
Bureau of Customs:	
Refund of excessive duties; Debentures or drawbacks, bounties, or allowances; Refunding duties on goods destroyed; Refunding proceeds of unclaimed merchandise; Proceeds of goods seized and sold	[2]14,000,000
Bureau of Internal Revenue:	
Refunding legacy taxes; Allowance or drawback; Redemption of stamps	[3] 2,000,000
Additional income tax on railroads in Alaska	4,700
	16,801,550

[1] Estimate covers expenditures for entire Government service.
[2] Consolidated estimate.
[3] Consolidated under "Refunding Internal Revenue collections", which includes expenditures covering the former annual appropriation "Refunding taxes illegally collected."

Number of employees

Bureau, office, and division	Oct. 31, 1933	Oct. 31, 1934	Gain (+) or loss (−)
DEPARTMENTAL SERVICE			
Accounts and Deposits	42	45	+3
Appointments	21	22	+1
Bond roll (miscellaneous)	7	15	+8
Bookkeeping and Warrants	73	75	+2
Budget	35	31	−4
Chief Clerk	402	393	−9
Coast Guard	218	189	−29
Comptroller of Currency	392	345	−47
Customs	187	174	−13
Disbursing clerk	25		−25
Disbursements		343	[1]+343
Engraving and Printing	4,098	4,095	−3
Industrial Alcohol	133		−133
Internal Revenue	3,362	4,072	+710
Loans and Currency	840	1,734	[2]+894
Mint	11	14	+3
Narcotics	100	93	−7
Public Debt	24	25	+1
Public Debt Accounts and Audits	109	207	[2]+98
Public Debt (miscellaneous)	29	26	−3
Public Health	181	180	−1
Register of the Treasury	258	349	[2]+91
Secret Service	15	15	
Secretary	47	65	+18
Solicitor of the Treasury	4		−4
Supply	102	91	−11
Treasurer of the United States	830	1,387	[2]+557
Procurement:			
(a) Public Works	700	633	−67
(b) Branch of Supply	194	326	[2]+132
Emergency Rolls:			
(a) Banking		468	[3]+468
(b) Coast Guard		41	[3]+41
(c) Public Works		709	[3]+709
Total	12,480	16,203	+3,723
FIELD SERVICE			
Coast Guard	10,567	9,531	−1,036
Customs	8,715	8,515	−200
Disbursements		6	+6
Industrial Alcohol	1,326		−1,326
Internal Revenue	8,493	13,904	+5,411
Mint	504	1,245	+741
Narcotics	297	298	+1
Public Debt	28	28	
Public Health	9,556	10,080	+524
Secret Service	162	162	
Procurement: (a) Public Works	1,360	1,292	−68
Total	41,308	45,391	+4,083

[1] Establishment of the Division of Disbursements.
[2] Increase of temporary employees.
[3] Employees on the emergency rolls.

INCREASE IN NUMBER OF EMPLOYEES IN TREASURY DEPARTMENT

Departmental.—The increase in the Division of Disbursements is due to the fact that the Disbursing Division has taken over all of the disbursing activities in the District of Columbia and is gradually taking over similar activities in the field offices. Personnel from these various disbursing activities have been transferred to the Disbursing Division.

The increase of 894 employees in the Division of Loans and Currency is accounted for by reason of the necessity for augmenting the force to handle the increased financing of the Government, including the handling of securities for the Home Owners' Loan Corporation. The increase in force in the Office of the Register of the Treasury is accounted for for the same reasons.

The increase of 557 employees in the Office of the Treasurer of the United States is due to the necessity for temporary additional personnel in that office to handle the increased check work growing out of the emergency activities.

The increase in the Branch of Supply, Procurement Division, is due to the consolidation of purchasing activities in that organization. The Branch of Supply is gradually enlarging its definite quantity purchases with increased benefits to the Government in obtaining the lowest market prices.

The increases on the emergency rolls are due to the activities growing out of the operations of the Emergency Banking, Gold Reserve and Silver Purchase Acts, Coast Guard construction on emergency funds, and public buildings construction under the $65,000,000 appropriation for the emergency construction of public buildings.

Field services.—The decrease of 1,036 employees in the Coast Guard was necessary in order to keep within the limit of available appropriations for the year.

The increase of 5,411 employees in the Internal Revenue service is accounted for by the transfer of all of the personnel formerly in the Industrial Alcohol Bureau (now the Alcohol Tax Unit), together with the transfer from the Department of Justice of personnel engaged in the Prohibition Bureau of that Department and the additional personnel required in handling processing and miscellaneous tax work of the Bureau.

In the Mint Bureau, the increase of 741 employees is due to the emergency work growing out of operations under the Gold Reserve and Silver Purchase Acts.

The increase of 524 employees in the Public Health Service is due to the temporary emergency rural health work under an allotment of Federal Emergency Relief Administration funds.

RETIREMENT OF EMPLOYEES

Under the civil-service retirement system there are now but 12 employees, 10 in the departmental and 2 in the field services of the Treasury, whose retention has been authorized by the President under the provisions of the economy act. Up to the present time 36 employees of the Treasury Department in Washington, and 186 of the field services, whose services were discontinued on account of necessary reduction of force on or since June 30, 1933, and who have served 30 years or more, have made application for annuity under the provisions of section 8 (a) of the act of June 16, 1933.

Since the passage of the Civil Service Retirement Act, effective August 20, 1920, 6,526 employees have been retired from the Treasury, 2,392 being departmental and 4,134 field employees.

From November 30, 1933, to November 30, 1934, 124 employees were retired from the departmental service on account of age, and 155 were retired on account of disability. During the same period 177 employees were retired from the field services on account of age, and 104 were retired on account of disability.

Number of persons retired or, eligible for retirement, retained in the departmental and field services of the Treasury under the Civil Service Retirement Act, and under sec. 204 of the Economy Act of June 30, 1932, and sec. 8 (a) of the Independent Offices Appropriation Act of June 16, 1933

Bureau, office, or division	Retained	Retired				
		On account of age from Aug. 20, 1920, to Nov. 30, 1934	On account of disability from Aug. 20, 1920, to Nov. 30, 1934	Granted annuity under sec. 7	Granted annuity on account of involuntary separation 30 years' service	Total
DEPARTMENTAL						
Accounts and Deposits		1	1		1	3
Appointments		1	3	2		6
Auditors		86	11	1		98
Bookkeeping and Warrants		10	8			18
Chief Clerk		107	34	1		142
Coast Guard	1	8	7		3	18
Comptroller of the Currency		39	16			55
Customs	1	8	2		3	13
Disbursement	1	5	2		1	9
Engraving and Printing	2	667	398	14	1	1,070
Internal Revenue	1	99	110	8	11	222
Loans and Currency		58	92			159
Mint		1	1		2	4
Narcotics		1	2		1	4
Printing			2			2
Procurement	3	49	31	2	8	90
Prohibition		5				5
Public Debt Accounts and Audit		4	5			9
Public Debt Service		8	5			13
Public Health		7	7	6		30
Public Moneys		3	1			4
Register of the Treasury		40	62	1	1	104
Secret Service	1	10	2			12
Secretary			3		3	6
Supply		7	8			15
Treasurer		105	182		1	288
War Risk Insurance		14	1			15
Total departmental	10	1,327	984	35	36	2,392
FIELD						
Coast Guard		24	4		1	29
Custodian		728	248	3	3	982
Customs	1	1,322	341	6	122	1,792
Internal Revenue		416	128	138	51	733
Mint and Assay	1	285	44	5	2	337
Narcotics		2	2			4
Prohibition		16	6	5		27
Public Health		85	73	12	6	175
Subtreasury		24	3	29		56
Total field	2	2,898	860	200	186	4,134
Grand total	12	4,225	1,844	235	222	6,526

APPROPRIATIONS, IMPOUNDINGS, RESERVATIONS, AVAILABLE BALANCES, ESTIMATE 1935

A statement as to all appropriations (exclusive of permanent and indefinite appropriations) showing (1) the amount appropriated and/or made available in the 1935 appropriation act for the Treasury Department or in deficiency acts; (2) unobligated balance on June 30, 1934, available for obligation after that date; (3) any amount estimated to be drawn under the indefinite appropriation provided in title II, sec. 21 (e), of the Independent Offices Act, 1935; (4) any amount made available from N. R. A. or other emergency funds; (5) any amount transferred from any other department or bureau or office of the Treasury; (6) the amount impounded pursuant to law; (7) the amount reserved by administrative direction; (8) any amount transferred to any other department or bureau or office of the Treasury; and (9) the net amount available for obligation during the present fiscal year

Bureau or office and appropriation title	Appropriation 1935 or made available in 1935 appropriation act	Unobligated balance as of June 30, 1934, available for obligation	Amount estimated to be drawn under indefinite appropriation provided in title II, sec. 21 (e), of Independent Offices Act, 1935 [1]	Any amount made available from N. R. A. or other emergency funds	Amounts transferred from any other department or bureau of the Treasury	Amount impounded pursuant to law	Amount reserved by administrative direction [1]	Amounts transferred to other departments or bureaus of the Treasury	Net amount available for obligation in the fiscal year 1935
Office of Secretary of the Treasury:									
Salaries, Office of Secretary of the Treasury	$250,000		$14,894		$27,900				$292,794
Expenses, emergency banking, Gold Reserve and Silver Purchase Act		$4,355,137							4,335,537
Recoinage of Danish West Indian coins of Virgin Islands	25,000								25,000
Subscriptions to paid-in surplus, Federal land banks	75,000,000	9,136,523							84,136,523
Payment to Federal land banks, reduction in interest rate on mortgages	7,950,000	7,970,743							15,920,743
Subscriptions to preferred shares, Federal savings and loan associations		48,500,000							48,500,000
Subscriptions to capital stock, Federal Deposit Insurance Corporations		497,650							497,650
Advances to Agricultural Adjustment Administration for Cotton, 1934–Mar. 1, 1934	100,000,000								100,000,000
Payment to officers and employees of the United States in foreign countries due to appreciation of foreign currency		160,491					3,883		156,608
National industrial recovery funds				$402,250				385,750	16,500
Total, Office of Secretary of the Treasury	183,225,000	70,021,144	14,894	402,250	27,900		3,883	385,750	253,601,555
Office of Solicitor of the Treasury:									
Salaries, Office of Solicitor of the Treasury	27,900							27,900	
Office of Chief Clerk and Superintendent:									
Salaries, Office of Chief Clerk and Superintendent	459,000		24,500		972	3,500		7,244	473,728
Contingent expenses, Treasury Department	123,660	2,500							126,160
Lands and other property of the United States	500								500
Total, Office of Chief Clerk and Superintendent	583,160	2,500	24,500		972	3,500		7,244	600,388
Division of Supply:									
Salaries, Division of Supply	156,000		8,700						164,700
Printing and binding, Treasury Department	525,000		39,375						564,375
Stationery, Treasury Department	275,000								275,000
Total, Division of Supply	956,000		48,075						1,004,075
Office of Commissioner of Accounts and Deposits:									
Salaries, Office of Commissioner of Accounts and Deposits	113,040		3,391			500			115,931
Library, Treasury Department	1,000								1,000
Total, Office of Commissioner of Accounts and Deposits	114,040		3,391			500			116,931
Division of Bookkeeping and Warrants:									
Salaries, Division of Bookkeeping and Warrants	150,390		8,355			800			157,945
Contingent expenses, public moneys	150,000								150,000
Recoinage of minor coins	65,000								65,000
Total, Division of Bookkeeping and Warrants	365,390		8,355			800			372,945
Public Debt Service:									
Public Debt Service	1,892,500		103,750			5,000			1,991,250
Distinctive paper for United States securities	531,992								531,992
Total, Public Debt Service	2,424,492		103,750			5,000			2,523,242
Division of Appointments:									
Salaries, Division of Appointments	39,492		2,194						41,686
Office of disbursing clerk:									
Salaries, office of disbursing clerk	47,610							47,610	
Division of Disbursement:									
Salaries and expenses, Division of Disbursement			35,200		1,127,500				1,162,700
Working fund, Treasury Department, Public Works				14,964					14,964
Working fund, Treasury Department, National Industrial Recovery				9,101					9,101
Working fund, Treasury Department, Emergency Relief Administration				26,652					26,652
General expenses, Agricultural Adjustment Administration (transferred to Treasury, Division of Disbursement)				21,125					21,125
Advances to Agricultural Adjustment Administration (transfer to Treasury, Division of Disbursement)				15,500					15,500
Total, Division of Disbursement			35,200	87,342	1,127,500				1,250,042

[1] See footnotes at end of table.

A statement as to all appropriations (exclusive of permanent and indefinite appropriations) showing (1) the amount appropriated and/or made available in the 1935 appropriation act for the Treasury Department or in deficiency acts; (2) unobligated balance on June 30, 1934, available for obligation after that date; (3) any amount estimated to be drawn under the indefinite appropriation provided in title II, sec. 21 (e), of the Independent Offices Act, 1935; (4) any amount made available from N. R. A. or other emergency funds; (5) any amount transferred from any other department or bureau or office of the Treasury; (6) the amount impounded pursuant to law; (7) the amount reserved by administrative direction; (8) any amount transferred to any other department or bureau or office of the Treasury; and (9) the net amount available for obligation during the present fiscal year—Continued

Bureau or office and appropriation title	Appropriation 1935 or made available in 1935 appropriation act	Unobligated balance as of June 30, 1934, available for obligation	Amount estimated to be drawn under indefinite appropriation provided in title II, sec. 21 (e), of Independent Offices Act, 1935	Any amount made available from N. R. A. or other emergency funds	Amounts transferred from any other department or bureau of the Treasury	Amount impounded pursuant to law	Amount reserved by administrative direction	Amounts transferred to other departments or bureaus of the Treasury	Net amount available for obligation in the fiscal year 1935
Bureau of Customs:									
Collecting the revenue from customs	$18,500,000		$950,000					$2,000	$19,448,000
Office of Treasurer of the United States:									
Salaries, Office of Treasurer of the United States	1,080,000		60,000			$35,000			1,105,000
Salaries, Office of Treasurer of the United States (N. C. R.)	294,300								294,300
Total, Office of Treasurer of the United States	1,374,300		60,000			35,000			1,399,300
Office of Comptroller of the Currency:									
Salaries, Office of Comptroller of the Currency	211,050		11,725						222,775
Salaries, Office of Comptroller of the Currency (N. C. R.)	46,152		2,564						48,716
Total, Office of Comptroller of the Currency	257,202		14,289						271,491
Bureau of Internal Revenue:									
Collecting the internal revenue	37,450,520		1,040,690		$4,086,974	100,000		32,340	42,445,844
Refunding taxes illegally collected	40,000,000	$16,972,994							56,972,994
Total, Bureau of Internal Revenue	77,450,520	16,972,994	1,040,690		4,086,974	100,000		32,340	99,418,838
Bureau of Industrial Alcohol:									
Salaries and expenses, Bureau of Industrial Alcohol	4,086,974							4,086,974	
Bureau of Narcotics:									
Salaries and expenses, Bureau of Narcotics	1,244,899					19,899	$8,000	19,000	1,198,000
Coast Guard:									
Salaries, Office of Coast Guard	300,000		16,667					1,458	315,209
Pay and allowances, Coast Guard	14,224,608		1,095,056		35,000				15,354,664
Fuel and water, Coast Guard	1,134,800								1,134,800
Outfits, Coast Guard	1,074,057								1,074,057
Rebuilding and repairing stations, etc. Coast Guard	145,830								145,830
Communication lines, Coast Guard	109,874								109,874
Civilian employees, Coast Guard	88,942								88,942
Contingent expenses, Coast Guard	173,795								173,795
Repairs to Coast Guard vessels	1,000,000		15,000						1,015,000
Retired pay former life-saving service	95,294								95,294
Coast Guard Academy		57,497					[1] 57,497		
Additional vessels, Coast Guard		117,525					[1] 117,525		
National industrial recovery funds		6,978,806							6,978,806
Total, Coast Guard	18,347,200	7,153,828	1,126,723		35,000		175,022	1,458	26,486,271
Bureau of Engraving and Printing:									
Salaries and expenses, Bureau of Engraving and Printing	4,559,060		356,225					18,994	4,896,291
Secret Service Division:									
Salaries, Secret Service Division	34,146		1,897						36,043
Suppressing counterfeiting and other crimes	591,294		37,058						628,352
Salaries, White House police	103,950		7,485						111,435
Uniforms and equipment White House police	3,000								3,000
Total, Secret Service Division	732,390		46,440						778,830
Public Health Service:									
Salaries, Office of Surgeon General	274,113		15,228						289,341
Pay, etc., commissioned officers	1,597,606		180,161		65,107				1,842,874
Pay of acting assistant surgeons	270,000		15,000			5,000			280,000
Pay of other employees	877,500		45,750			8,250			915,000
Freight, transportation, etc.	25,160								25,160
Maintenance, National Institute of Health	50,000								50,000
Books, Public Health Service	450								450
Pay of personnel and maintenance of hospitals	4,915,000		192,175		576,450	50,000		75,000	5,557,556
Quarantine Service	322,150			50,860					373,010
Preventing the spread of epidemic diseases	199,718		7,641			3,259			204,100
Field investigation of public health	209,312		9,342			[2] 2,500			216,154
Interstate Quarantine Service	35,495								35,495
Studies of rural sanitation	25,032			1,000,000					1,025,032
Control of biologic products	39,524		1,359						40,883
Expenses, Division of Venereal Diseases	58,806		2,898						61,704

See footnotes at end of table.

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Bureau or office and appropriation title	Appropriation 1935 or made available in 1935 appropriation act	Unobligated balance as of June 30, 1934, available for obligation	Amount estimated to be drawn under indefinite appropriation provided in title II, sec. 21 (e), of Independent Offices Act, 1935	Any amount made available from N. R. A. or other emergency funds	Amounts transferred from any other department or bureau of the Treasury	Amount impounded pursuant to law	Amount reserved by administrative direction	Amounts transferred to other departments or bureaus of the Treasury	Net amount available for obligation in the fiscal year 1935
Public Health Service—Continued.									
Expenses, Division of Mental Hygiene	$455,000								$455,000
Educational exhibits	1,000								1,000
Medical and hospital service, penal institutions			$9,182		$418,478			$46,165	381,495
Total, Public Health Service	9,155,869		481,717	$1,650,800	1,000,035	$80,109		122,234	11,557,138
Bureau of the Mint:									
Salaries, Office of Director of the Mint	33,150		1,842	5,262					40,260
Transportation of bullion and coin	6,000						$100		5,900
Contingent expenses, Office of Director of the Mint	5,300						100		5,200
Salaries and expenses, mints and assay offices	1,064,100		55,448			5,551		1,000	1,113,000
Total, Bureau of the Mint	1,108,550		57,290	5,262		5,551	200	1,000	1,164,350
Procurement Division, Branch of Supply:									
Salaries and expenses, Procurement Division, Branch of Supply	225,792		16,392		78,380				320,573
Procurement Division, Public Works Branch:									
Sites and construction, act May 25, 1926, as amended	13,000,000	−$14,026,396							−1,026,396
Emergency construction of public buildings, act July 21, 1932		1,688,543					1,688,543		
Emergency construction of public buildings, act June 19, 1934	95,000,000						[1] 5,000,000	1,540,000	88,460,000
Emergency repairs to public buildings, act June 19, 1934					1,540,000				1,540,000
Acquisition of Triangle properties		269,616					269,616		
Miscellaneous public-building projects:									
Lexington, Ky., narcotic farm	614,615	16,146					[2] 614,615		16,146
Washington, D. C., post office	400,000	140,419					[2] 471,388		79,031
Washington, D. C., National Institute of Health	50,000	26,023					[3] 50,000		26,023
Washington, D. C., Treasury Building vault		853,218					803,218		50,000
National Industrial Recovery funds		46,171,437					[1,2] 2,334,558		43,836,879
Public Works allotment to Treasury				2,500,000					2,500,000
Furniture for Triangle buildings		464,517							464,517
Rent of temporary quarters	27,150								27,150
Repairs and preservation of public buildings	650,000								650,000
Mechanical equipment for public buildings	500,000								500,000
Vaults and safes for public buildings	50,000								50,000
General expenses of public buildings	365,035		137,000			5,000			497,035
Outside professional services	500,000	−1,287,032							767,932
Operating force for public buildings	1,305,000		15,000			5,000			1,315,000
Furniture and repairs of same	100,000								100,000
Operating supplies for public buildings	395,000								395,000
Salaries, Procurement Division, Public Works branch	270,000		25,000			5,000			290,000
Total, Procurement Division, Public Works branch	93,220,800	34,324,391	177,000	2,500,000	1,540,000	15,000	11,251,938	1,540,000	108,662,053
American Printing House for the Blind:									
To promote the education of the blind	65,000								65,000
Total, Treasury Department, exclusive of permanent and indefinite appropriations, retirements of the public debt, and Bureau of the Budget	408,154,440	128,075,057	5,151,725	4,065,714	7,959,779	854,359	11,419,040	6,282,504	535,797,009

[1] Administrative reserves were set up under certain appropriations of the Treasury Department to absorb all or part of the amounts necessary on account of the 5-percent salary restoration for 1935, for which an appropriation is provided in title II, sec. 21 (e), of the Independent Offices Act for 1935. The amounts shown represent the estimated net amounts which will be drawn under the indefinite appropriation, and such reserves set up are not shown in the column "Amount reserved by administrative direction." The details as to the amounts required on account of the 5-percent pay restoration and the estimated amounts which will be absorbed are shown in detail on statement 4 (a).

[2] Estimated unobligated balance June 30, 1935.

[3] Reserved for payment of prior year obligations.

SALARIES, OFFICE OF THE SECRETARY OF THE TREASURY

CONSOLIDATION OF APPROPRIATIONS

Mr. ARNOLD. Gentlemen, we will take up this first item, "Salaries, Secretary of the Treasury", and so forth. That is a consolidated item. Will you tell us what items that have heretofore been carried separately are included in this item, giving the appropriations for 1935 and the estimates for 1936?

Mr. McREYNOLDS. These amounts as given in the clerk's note on page 7, of the bill are the 1935 items.

Salaries, Secretary's Office: The 1935 appropriation was $250,000. The estimate for 1936 for the same item is $266,888.

Mr. TABER. Is that an increase in personnel?

Mr. McREYNOLDS. That is to bring the salaries up to 100 percent instead of 90 percent.

Office of the Solicitor: The appropriation for 1935 was $27,900; the estimate for 1936 is $31,000; also solely to bring the salaries up to a 100-percent basis.

Chief Clerk and Superintendent: Appropriation for 1935, $459,000; estimate for 1936, $520,000. That includes not only the bringing up of the salaries to 100 percent, but also the employment of some additional guards and mechanics because of the change in the building situation.

Division of Supply: Appropriation for 1935, $156,600; estimate for 1936, $171,000. The increase is entirely to bring the salaries up to 100 percent. There is a little decrease because of one position, but the increase is due entirely to the difference between 100 percent and 90 percent.

Division of Appointments: Appropriation for 1935, $39,492; estimate for 1936, $43,880. That increase is attributable entirely to the 100 percent salary as against 90 percent.

Division of Research and Statistics was included with Commissioner of Accounts and Deposits before. A part of the office was taken out, representing $36,480 from the 1935 appropriation.

Mr. ARNOLD. And what do you carry for 1936?

Mr. McREYNOLDS. $36,480.

That makes the total of those consolidated offices $969,472.

Mr. TABER. There is no increase on account of the 100 percent?

Mr. McREYNOLDS. Yes; the 100 percent applies to that item also. The 1935 figure should be $36,480 minus 10 percent. That would make the 1935 figure $965,024, and the 1936 figure $1,061,200. The $1,061,200 is the total of those items that I have given you less $8,048 to take care of certain lapses. We just cut it off arbitrarily.

Mr. LUDLOW. Had it not been for the lapses, it would have been $8,048 more?

Mr. McREYNOLDS. Yes, sir; it would be $1,069,248.

ADDITIONAL GUARDS

Mr. LUDLOW. In all these items except one, you say, the increase is attributable to the increase in salaries to 100 percent?

Mr. McREYNOLDS. Yes, sir; that is true.

Mr. LUDLOW. Which one is the exception?

Mr. McREYNOLDS. It is in the Chief Clerk's office.

December 17, 1934.

MEMORANDUM FOR THE PRESIDENT:

The plan which you discussed with me yesterday is, as I understand it, as follows:

That for the time being our future policy in regard to the purchase of silver will fall into the following categories:

(1) The purchase of American newly mined silver or silver salvaged in the United States;

~~(2) The purchase of silver properly certified as not having originated in China;~~

(2) The purchase of silver offered to us for sale by the Central Bank of China.

(3) The Treasury through its Fiscal Agent, the Federal Reserve Bank of New York, may buy any silver coming from any source ~~other than China~~ which is offered to it for sale at a price of 55¢ or less.

The Treasury shall not permit the general or world market price of silver to fall substantially below 55¢ an ounce.

The foregoing arrangement with the Federal Reserve Bank of New York will be made with the understanding that it may be terminated at any time on one week's notice.

This proposal will be forwarded by the Federal Reserve Bank of New York to the Central Bank of China via the Chinese Consul in New York with the suggestion that the Central Bank of China send a representative at once to the United States.

FDR

HMorgenthau

Submitted to FDR on Sunday, 12/16/34, at 2 P.M.

VERY CONFIDENTIAL

Introductory

1. The unmodified prosecution of our present silver policy is tending to produce an early and major economic crisis in China. Recent cables indicate that such a crisis is now near at hand.

2. The rise in the value of silver that has been creating difficulties for China began about the time Great Britain and Japan went off gold, long before the inauguration of our silver policy, but the latter has greatly increased these difficulties.

3. China cannot stay on her present silver standard unless the value of silver ceases to rise-- is at least substantially stabilized at around present levels. Probably even a reduction is required from China's standpoint. But our policy calls for a further rise in the world price of silver.

4. If the United States is to maintain her traditional role of friendship for China and effectively to display sympathy for her in her plight-- and perhaps to avoid hostile feeling against her on the part of the Chinese-- remedial action would seem to be necessary immediately.

5. Our trade with China is of considerable importance. We are China's leading customer and leading source of imports, and the United States has had a favorable balance on its trade with China throughout the last four years. In the last nine months, the United States supplied 27 percent of China's total imports, double those supplied by Japan or Great Britain. During the last two years, we have absorbed 18 percent of total Chinese exports. Our trade with China comprises only about 3 percent of our total imports and exports; but this measure of the absolute importance of our trade with China is misleading because such trade is of very considerable importance to certain areas and industries in this country.

6. It is highly desirable that any action taken to meet the emergency be such as will contribute to our longer-term silver program stated in the silver message to Congress. Various alternative lines of action are outlined in the following.

7. Each of the alternative lines of action outlined below, except the first, is predicated upon an immediate agreement between the President and Congressional leaders whereunder the price of silver will be held at 55 cents an ounce for the time reasonably necessary to exhaust the possibilities of reaching an agreement with China; and whereunder a public announcement to this effect may be made if such be deemed advisable. All of the suggested alternatives are in accord with the mandates of the Silver Purchase Act of 1934.

Alternative No. I

China might be informed, as diplomatically as possible, that, despite our sympathy and good will, the American policy permits it no modification.

(1) A serious crisis in China, affecting not only the port cities and the coastal fringe, but a large part of the Chinese population, would appear to be inevitable and imminent, in this event.

(2) China might be driven to adopting the gold standard or the sterling standard. In this case, the only remaining important country on the silver standard will have been lost to it, and our objective of increasing the world's monetary use of silver will have been made more difficult of achievement, and the value of our silver holdings will be seriously impaired.

(3) Hostile sentiment against the United States might be engendered.

(4) This negative decision definitely means the withdrawal of the United States as an active influence in Far Eastern affairs, leaving that field to Japan, Great Britain, and other countries.

Alternative No. II

The President, by proclamation, fixes the monetary value of silver at 90 cents an ounce; announces that the Treasury will purchase all silver offered at that price, subject to the limitations of the Silver Purchase Act of 1934; China devalues her monetary unit by 50 percent, making her new Chinese dollar equivalent to about 28 cents United States; China adopts bi-metallism by making her new dollar convertible into both gold and silver at the ratio of 38 8/9-1, the same ratio as would obtain in the United States; the United States arranges a substantial credit for China to meet the difficulties of transition.

(1) This might be the first step in the establishment of bi-metallic monetary group, under dollar leadership.

(2) By making her currency convertible into both gold and silver, China would require both gold and silver reserves.

(3) Unless the Silver Purchase Act of 1934 were amended, the United States could not adopt the unlimited coinage or purchase of silver at the fixed mint price, as would be necessary for absolute bi-metallism, whereas China would be asked to do this. Difficulties in maintaining equal monetary ratios between gold and silver in the two countries might be encountered after the United States had exhausted its legal silver purchase requirements, leaving China as the principal monetary market for silver.

(4) On the other hand, the reduction in the monetary value of silver from $1.29 an ounce to 90 cents an ounce would increase the American requirements for additional silver, under the law, from approximately 1,300,000,000 ounces, the amount of present legal deficiency, to about 1,[illegible],000,000 ounces. These legal needs for additional silver would be reduced by 3 ounces for each ounce of gold that we exported.

(5) A price of 90 cents an ounce might produce a very considerable flow of silver, possibly from India, to this country, at the expense, in part, of our gold supplies. Insofar as this brought about a better world distribution of gold and reduced our own silver requirements, the effects would be wholesome. Insofar as a very large part of the world's available monetary silver came to our shores, the prospect would be diminished that other countries could be induced to expand their monetary use of silver.

(6) Simultaneous announcement of China's revaluation and of the American 90-cent monetary value for silver, without prior leakage of information, would be imperative to avoid speculative and other disturbances.

(7) The sharp rise in the American price for silver, especially when coupled with an agreement with China whereunder common mint ratios for gold and silver would be maintained by the two countries, might touch off a wave of inflationary sentiment capable of creating temporary disturbances in the speculative market and in the market for Government securities. The common stocks of silver-producing enterprises could be expected to advance very sharply, unless through taxation or otherwise domestic silver producers were to be paid a smaller price than foreign suppliers. The prices of staple commodities, common stocks in general, and exchange on foreign countries might also be expected to register increases, whereas inflation fears might temporarily depress the prices of Government and other high-grade bonds.

(8) Devaluation in China might be more difficult than in more developed countries because silver coins in China are not token coins but the ultimate money, and are usually valued by weight and fineness. To the extent that the devaluation were made effective, Chinese debtors would experience relief and Chinese staples would rise in price. The Chinese Government could appropriate, by taxation or otherwise, the revaluation profits on the silver held by banks and others in China; and China might retain her present export tax on silver as a source of revenue.

(9) It is significant to note that since 1930 China has had a customs gold unit for import duties and gold exchange currency; the latter consisting of bank notes issued by the Central Bank of China and redeemable in demand in drafts on foreign financial centers having the gold standard. In a measure, therefore, China is already employing both gold and silver money.

(10) The precise degree of devaluation by China, as well as the precise character of other arrangements entered into in connection with this or other alternatives, may well be left to negotiation.

Alternative No. III

The President, by proclamation, fixes the monetary value of silver at 90 cents an ounce; announces that the Treasury will purchase all silver offered at this price or less, subject to the limitations stated in the Silver Purchase Act of 1934; China devalues her monetary unit by 50 percent, making her new Chinese dollar equivalent to about 28 cents United States; and the United States arranges a substantial credit to China to meet the difficulties of transition.

This alternative differs from that just outlined (under No. II) primarily in the fact that China would assume no responsibility for the maintenance of a definite ratio between gold and silver.

In other respects the considerations outlined under No. II apply with equal force to the present alternative.

Alternative No.IV

The United States proceeds with its present silver purchase program, but offers China the necessary credits for the establishment of the dollar exchange standard for the Chinese monetary unit at the ratio of one dollar Chinese to 25 cents United States, as compared with the present exchange rate of about 34 cents. This would be equivalent to a devaluation of more than 25 per cent in the Chinese currency unit and hence would have some beneficial effects upon China.

(1) Under such a plan, China would retain the use of silver as an actual circulating medium but her silver requirements could be reduced in at least three ways:

(a) The silver content of her coins could be reduced, so as to make them token coins, as is generally the case in other countries.

(b) Her silver reserve requirements would be diminished by the fact that part of her monetary reserves would consist of dollar exchange. This dollar exchange, moreover, would give her a call on as much American silver as she might require for circulation purposes, and for such gold as she required for international payments.

(c) The devaluation of the Chinese dollar from 36 cents to 25 cents in American equivalent would add commensurately to the monetary value of her silver holdings.

(2) China's dollar exchange standard, under such a plan, would be perfectly compatible with her continued internal use of silver money in much the same way as is the case with the Philippines and with India. The Philippine peso is a silver coin whose international value is constantly maintained at 50 cents in American money by the readiness of the United States at all times to buy and sell dollar exchange at the rate of $1 for two pesos. The sterling value of the silver rupee is similarly maintained.

(3) The American credits that China might require under such a plan might be supplied jointly by (a) the sale to the United States of as much silver bullion as China could comfortably spare at a handsome price, of, say, 60 cents an ounce, payment by the United States to consist of dollar exchange credits; and (b) a loan to China of the balance of the credit required, the loan to take the form of dollar exchange credits.

(4) Under such a proposal, China would be offered a distinct inducement in the form of a high price for her silver; the United States would further satisfy the mandate of the law by adding to her silver holdings; and the loss of silver to China would be more than matched by her gain in dollar exchange credits.

(5) The adoption of the dollar exchange standard by China would immediately place her upon the gold standard, so far as the external value of her currency is concerned; but if the United States were subsequently to adopt a bi-metallic standard and China continued to tie her monetary unit to the American dollar, China, too, would be in effect upon the bi-metallic standard. The Chinese, however, should be given the privilege of altering the official exchange rate on the United States if the character of the American dollar changed.

(6) If this alternative be combined with No. III, under which the United States would establish a fixed monetary value of 80 cents an ounce for silver, China would be able to fix the amount of silver in her coins without fear of frequent and unpredictable changes by reason of unfixing American monetary value for silver; the latter would be maintained as a part of the currency system of both China and the United States; and a step would be taken toward a dollar bloc currency in which other nations might later join. The character of this dollar bloc currency would then be essentially bi-metallic but the responsibility for maintaining it, at this stage, would rest entirely upon the United States.

This is Henry Morgenthau, Jr.

Prof. W: Oh yes Mr. Morgenthau.

H.M.Jr: How are you?

Williams: Very well thank you.

H.M. Jr: Professor Williams I'm calling you up confidentially for this reason. We're going to try - the Chinese situation seems to come to a head.

Williams: Yes.

H.M.Jr: And over the week-end I'm going to take a hand at writing a financial program for China. That is from a currency standpoint.

Williams: Yes.

H.M.Jr: I wondered if you could come down and spend a couple of days with us and help us.

W: Well what day is the conference on?

H.M.Jr: Well it will run - what I would like to do is to start it tomorrow morning and run Friday and Saturday and have something for the President on Sunday.

W: Well I have one or two engagements here. If I could come down for Saturday and not for tomorrow would that be of any help?

H.M.Jr: Yes very much.

W: I'll try to come down tomorrow but I'm afraid I might not be able to but I could still get down on Saturday morning.

H.M.Jr: Fine.

W: Alright. I'll do the very best I can.

H.M.Jr: And might I ask you this. Who comes to your mind who knows the Chinese financial things well in this country?

W: That's a difficult question. of course just returned from there. He would probably know.

H.M.Jr: Yes of course his men are there advising now. He left three men behind him.

W: Yes.

H.M.Jr: And they don't seem to have done very well.

W: Then you sent Rogers over.

H.M.Jr: Yes.

W: Those are the men that come to my mind right off.

H.M.Jr: I see.

W: I suppose there are some men in New York who know.

H.M.Jr: Well I'm asking the National City and Chase who they've got.

W: Yes.

W: Burgess at the bank might have someone in mind.

H.M.Jr: Well I'll look for you. When you come I think the simplest way would be to just go to Dr. Viner's office.

W: Yes.

W. Alright

H.M.Jr: Thank you. Goodby.

December 13, 1934.
Thursday

H.M.Jr: I'm calling you to talk to you very confidentially.

Stern (Chase Bank) Yes.

H.M.Jr: We're going to try to see if we can do something to help China with her troubles.

S: Yes.

H.M.Jr: Who in your opinion knows the most about

Stern: We had one specialist in the bank here who handles the actual trading and exchange. His name is Curtin. He is Assistant Cashier of the bank and he works under my supervision.

H.M.Jr: It isn't a question of buying or selling. It's the idea of possibly setting up a new currency for China.

S: I see.

H.M.Jr: I mean a man that just deals with it wouldn't help much would it?

S Not much. Now I imagine,we have Mr. Shepard Morgan in our organization who was the assistant - you may know him - of Parker Buford in Berlin in connection with the mark situation. He has a great deal of experience. He was in all these conferences in Europe in connection with the Dawes' loan, etc.

H.M.Jr: Well does he know China?

S: He doesn't know China.

H.M.Jr: I want somebody that lied out there.

S: Who lives out there?

H. M. Jr: Yes who's been there.

S: Well we have one man who has been out there for six months or so but that's about all we have. Mr. Frank, incidentally, has often been out to China.

H.M.Jr: Who?

S: Mr. Frank, our Treasurer. I think he knows quite a little about the currency. He isn't a trained economist.

H.M.Jr: Well we have plenty of those.

S: Yes plenty of those.

H.M.Jr: But he knows the currency?

S: He knows the currency.

H. M.Jr: He would be the best you have then.

S: I imagine he would be the best we have. He has had actual experience in China.

H.M.Jr: What's his name?

S: N. R. Funck - F - u - n - c - k.

H.M.Jr. Funk?

S: Yes. Funck- Assistant Cashier.

H.M.Jr: Could you have him down here tomorrow?

S: Yes.

H.M.Jr: And have him here to stay over Sunday?

S: Over Sunday?

H.M.Jr: Yes.

S: Yes surely.

HM.Jr: And let him come down and ask for Dr. Viner see?

S: Who?

H.M.Jr: Dr. Viner - V i n e r.

S: Dr. Viner yes.

H.M.Jr: Can he be here tomorrow morning?

S: He'll be there tomorrow morning.

H.M.Jr: Fine.

S: Alright if there is anything else we can do here we'll be glad to do it, Mr. Secretary.

H.M.Jr: Funck?

S: Yes Funck - F u n c k.

H.M.Jr: Now remember no cables to China that anything else is going on, you see?

S: No - no cables.

HM.Jr: Absolute secrecy.

S: Absolutely.

H.M.Jr: Right.

H.M.Jr: Thank you

S: Thank you - goodby.

H.M.Jr: Goodby.

December 13, 1934.
Thursday.

December 17th

H. M. Jr. told Lochhead that he wanted a tonnage rate on United States gold and silver and that he did not want to put a rate on the value of a shipment. Lochhead said it was the custom to do it that way. H. M. Jr. replied: "Let's change the custom".

The President told H. M. Jr. that the reason he gave Bernard Baruch the job he now has was because he told him he was very unhappy and that he was thinking of joining the Liberty League.

Dec 17, 1934

CAPSULE EDITION OF VINER-HARDY REPORT.

Foreword

1. Commercial loans by banks have not risen.
2. Is credit available to those business men who do need added funds to enable them to contribute to rising volume of business.
3. Survey investigates this question and success of "loans to industry".

Findings of Fact

1. Small unsatisfied demand for credit by solvent borrowers who could make sound use of working capital; but a significant factor in retarding business recovery.
2. Pressure for liquidation of old capital loans is serious.
3. Direct lending by Federal Reserve and R.F.C. so far has had little effect on general state of credit. Both agencies doing efficient work within limits of law, but suffer from over-expectation aroused by optimistic publicity of what they could do.

Recommendations

1. Encourage banks to make 1-year sound capital loans.
2. Liberalize Federal Reserve rediscount eligibility rule.
3. Abandon "slow" classification in examinations.
4. Give up "loans to industry" by Reserve System.

5. Continue direct loans through R.F.C. or new intermediate credit system, and on more liberal basis.

   (a) Permit loans to clear up existing indebtedness.

   (b) Permit fixed capital loans as well as working capital loans.

   (c) Abandon policy of making no installment sale loans.

   (d) Abandon policy of making no loans to brewing industry.

   (e) Give local agencies authority to close finally loans of less than $10,000.

   (f) Maintain offices in all cities of 50,000 or more.

Description of the Study

1. Inception

   In August at suggestion of Secretary of Treasury to find facts

   (a) Bank liquidity as cause

   (b) Attitude of examining officials

   (c) Unwillingness to borrow

   (d) Banking risk involved

2. Area Surveyed

   Number of banks

   Loan figures of banks.

3. Scope and Organization

   Sixty investigators

   All towns of 10,000 or more

Mostly loans of $10,000 or less

1850 cases completed

1788 cases appraised and tabulated

1497 applicants

4. Analysis of Reports

Purpose of Loan --- 60% for working capital

Merit of Application --- 20% good; 35% not good

Reason for Refusal ---

(a) inadequate working capital

(b) inadequate net worth

(c) unsatisfactory earnings record

(d) disbelief in capital loans

5. Effect of interest rate on willingness to borrow

If rate 4%, willing to borrow $42.6 million

" " 6% " " " $25.7 "

" " 8% " " " $ 7.4 "

THERE IS A STRONG REACTION AMONG BANKS AND BANK EXAMINERS AGAINST WORKING CAPITAL LOANS, AND CURRENT CREDIT DIFFICULTIES CENTER VERY LARGELY IN THIS FIELD.

1. New Capital Loans

Accepted banking theory - banks should make only self-liquidating loans - not slow or capital loans. In practice - banks have always made capital loans. Bankers and examiners now stressing the theory. Publicizing conservative policies. Trying to re-educate business and public. Stress depositor protection, and emphasize trust character of other people's money.

THIS WAVE OF "RIGHTEOUSNESS" LARGELY ACCOUNTABLE FOR CURRENT DISCONTENT OVER UNAVAILABILITY OF BANK CREDIT, AND CONSTITUTES SERIOUS OBSTACLE TO WIDESPREAD EXPANSION IN VOLUME OF EMPLOYMENT AND PRODUCTION.

2. Old Capital Loans.

LIQUIDATION OF OLD DEBTS POSSIBLY A MORE SERIOUS DISTURBING FACTOR

Even borrowers who have kept up interest payments and reduced principal being forced to liquidate.

Pressure on old loans makes it useless to apply for new.

3. Old Debt and New Borrowings

New cash supplied by banks might be siezed by old creditors. Composition of existing debt not much help because banks won't lend to concerns using such expedients.

4. Influence of Examiners

Criticism applies to F.D.I.C. examiners as well as national and state examiners.

State banks more critical of examiner attitude than national banks.

Small banks more critical than large.

Some banks more liberal since learning of changed Washington attitude toward "slow" loans.

5. Collateral

Greater insistence on collateral than in past years.

Fewer character loans

6. Trade Credit

Much easier situation than bank credit.

7. Beer and Liquor Loans

Considerable evidence of discrimination against this industry.

(a) Not stabilized

(b) Overdeveloped

(c) Social and moral objections

8. Finance Companies

Many banks will not led to finance companies.

Many concerns which cannot borrow from banks, borrow from finance companies.

Federal Direct Loans to Industry

Comparatively recent development.

Description of legislation authorizing

Direct Loans by the Chicago Federal Reserve Bank

Description of applications

(a) Mostly from manufacturers, processors and contractors

(b) Mostly for small amounts

(c) Mostly from smaller units

(d) Few from distributors

(e) Few from capital goods industries

Disposition Made of Applications

(a) 620 applications

(b) 28 approved unconditionally

(c) 483 rejected

(d) 105 pending

(e) chief reasons for rejection were "insufficient security" and "unsatisfactory financial condition".

(f) Technicalities as to what are "established" concerns and what are "commercial or industrial" purposes.

(Building and engineering contractors not commercial or industrial.)

(Business begun in May, 1933 is not established.)

Federal reserve bank follows much same rule in lending as do commercial banks, except will make loans of longer maturity.

Direct Loans by the RFC (Chicago agency)

Description of applications

Largest single class from heavy producers' goods industries.

Small loans predominate

Disposition made of Applications

(a) 172 applications

(b) 104 rejected in Chicago

(c) 9 more rejected in Washington

(d) Chief difficulties are in requirements for "adequate security"; that they must be for working capital (not required in the law); and will not be made to pay existing indebtedness.

THE STANDARDS OF THE R.F.C. ARE STRICTER THAN THOSE OF COMMERCIAL BANKS

THE CHICAGO AGENCY OF THE R.F.C. IS MORE RIGID THAN IS THE FEDERAL RESERVE BANK OF CHICAGO.

The application blanks should be simplified, and procedure decentralized.
Some criticism of overawing size and atmosphere and brusque uncooperative attitude of RFC & FRB officials.

December 17th

Sir George Schuster came to see the Secretary. The following is the conversation between the two men:

H. M. Jr. How did you find the conditions on your trip?

Sir George: Generally there is no doubt that the impression is that things are much better. I think there is a little conspiracy to be optimistic now. What are you going to do in regard to the housing policy? Are you going in for a government financed scheme; are you going in for direct cash relief or work relief?

H.M.Jr. Those are things which will be settled between now and the first of January.

Sir George. I think a big public works housing scheme competing with private enterprises would be dangerous. Unless you embark on an excessively extravagant scheme (you have the money) you will not bring back recovery.

H.M.Jr: One thing that people keep talking about England and the United States working together - I feel that we cannot make any real headway until England makes the first move towards joining hands on recovery.

Sir George: What sort of move do you think they could make? I think there is a misunderstanding on both sides. When you go to the people who have actually got the angle of affairs they say we entirely agree but the difficulty is putting that into practice.

H.M.Jr: I do not believe we will ever get together until somebody cracks up. Take for instance we are responsible for collecting revenue. Every single ship that smuggles liquor flies the English flag. All I ask of the English is to do what every other country does. A ship should not be permitted to sail for unknown destinations flying a British flag. We

H.M.Jr: We have not used our Stabilization Fund to punish anybody.

Sir George: Do you think that the British have used its Stabilization Fund in that way?

H.M.Jr: We do not feel that we can get anywhere with Governor Norman.

Sir George: Are we deliberately trying to keep it around $5.00?

H.M.Jr: I think the British is competing in the world's market for its own advantage.

Sir George: The Stabilization Fund has, I think, been used to produce a permanent level. It is only used to even out abnormal situations. The Treasury and the Bank of England work in close contact.

H.M.Jr: I think it is absolutely hopeless to get together with England.

Sir George: Our people feel exactly the same way.

H.M.Jr: I have no prejudices. I am a new person in the Treasury. I feel that they do not want to co-operate with us.

Sir George: I think our people got a shock out of the World Economic Conference and, therefore, you are suffering for it.

H.M.Jr: Everybody in the Treasury that had anything to do with that conference is out - Acheson, Sprague, Jimmy Warburg, Douglas - they have nothing more to do with the Treasury. Has England been aware of this?

Sir George: Would you say that the time is ripe for any big measure of co-operation now?

H.M.Jr: I do not like roundabout methods as they always have done. If some person connected with the British financial end would show any indication of wanting to talk they would get a kindly reception at this end. I feel that I have been slapped on both cheeks. England would have to cross the imaginary line first.

H. M. Jr: Yes?

David Lawrence calling.

H. M. Jr: Hello

L: I just wanted to tell you I thought that report by Viner was the best piece of work I've seen done in a long time.

H. M. Jr: Really?

L: Oh I think it's a splendid approach. The technique in it is good. The fellow apparently didn't pay any attention to trying to whitewash somebody. They wanted to get at the guts of the thing and they did and I think they've got something there that's very constructive and very useful. If we could use the same sort of technique in sort of checking ourselves in other places in the government like Labor and Tennessee Valley we'd have something that we could stop.

H. M. Jr: Well I personally feel that healthy criticism is good and I'm never afraid of it.

L: Well I think that this particular thing not only does that but it gives you the way out;in many places it's suggestive. I'm hopeful - of course I suppose it wouldn't be useful to do it in the other districts because it would only show the same thing probably.

H. M. Jr: That's all.

L: But on the other hand it has just occurred to me that a lot of fellows in these other districts are going to read report and say to themselves well I guess it isn't the same in our district and so on. It would take an awful lot of work to do it in the other districts.

H. M. Jr: Well what I had in mind confidentially was to wait a couple of months and then go in and check in another district to see whether the things had improved or not.

L: Sure. But I think that the whole thing - I'm going to write an article about it. I think that the whole idea of authorizing somebody to go out fearlessly and make a survey like that and come up with some serious contributions like that is one of the most important things that could be done.

H.M. Jr: Right.

L: I really liked it. I read every word of it last night. I took it home and read it from beginning to end. And while most of the things in there I had known I had never really felt because they were corroborated with such technical and scientific findings and that's why I think the bankers themselves when they read that - I notice you're going to print it - we're going to call attention to it in our paper and when the copies come out they'll all read it because it's tremendously important.

H. M. Jr: That's right.

L: Well I just wanted to pass that on to you - because of the impression I got from it.

H. M. Jr: I appreciate your calling.

L: O.K.

H. M. Jr: Thank you.

L: Goodby

December 18, 1934.
Tuesday.

December 19th

Herman Oliphant is trying to crowd me to give FDIC $40,000,000 revenue from the check taxes. I told him I was tired - not to crowd me - that I might get disagreeable. He then asked me whether I had given the President the memo which Oliphant had given me increasing the revenue to J. Edgar Hoover by $600,000. I said to him: "Just because Hoover gave you a good time on Sunday is no reason for my increasing his budget". "Seriously I've not interfered in a single departmental budget and I would not think of going over Bell's head to the President". It is poor organization.

December 20th

Mayor Walmsley came in to see me to-day. I said: "What are they saying in New Orleans about our indictment of people like Seymour Weiss who are close to Huey Long"? He said: "Huey Long got all of his leaders together a few days ago and said to them I want you to go out and tell your district captains and their lieutenants that there is nothing to worry about this Washington stuff; that I have something on that S O B cripple in the White House that will keep him from doing anything against me. I know that he tours around in a boat with a degenerate and that if I ever spring that he can't touch me".

December 19, 1934.

The sub-committee on banking legislation of the Interdepartmental Loan Committee met at 1:00 p.m. in the office of the Secretary of the Treasury.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,

T. Jefferson Coolidge, Undersecretary of the Treasury,

Herman Oliphant, General Counsel, Treasury Department,

Jacob Viner, Assistant to the Secretary of the Treasury,

Herbert E. Gaston, Assistant to the Secretary of the Treasury,

Jesse H. Jones, Chairman, RFC,

Leo T. Crowley, Chairman FDIC,

Marriner S. Eccles, Governor Federal Reserve Board,

Chester Morrill, Secretary Federal Reserve Board,

Lynn P. Talley, President, Commodity Credit Corporation,

C.B. Upham.

The matter under discussion being legislation amendatory of the Federal Reserve Act, Mr. Eccles made an opening statement. Speaking of the fundamental approach to the problem, he read the following three paragraphs:

> The formulation of a legislative program is absolutely dependent upon the determination, first, of the answer to the fundamental question whether or not there shall be lodged in Washington full control over, and responsibility for, the conduct of the Federal Reserve System so far as the determination and execution of national economic and monetary policies is concerned.
>
> It is essential that any program shall provide for strengthening the Federal Reserve Board which should have such responsibility and dignity as will attract the very highest type of persons.
>
> The Board's responsibility should not in any way be limited in matters of national policy. The Federal reserve banks should have primary responsibility for local matters, for relationships

with member banks, and for the quality of bank credit. The Board could and should have the opportunity of using the Federal reserve bank Governors and other officials in an advisory capacity through an open market committee or otherwise, but the ultimate determination of these policies must rest with the Board. From the point of view of the country at-large the issue is whether the financial machinery of the country is to be run from Washihgton, with some danger of political interference, or from New York, with definite assurance that that would be banker control.

In the very nature of things, and by reason of lack of responsibility and authority, Mr. Eccles said, the Federal Reserve Board must be a weak board. The regional banks have too much independence and autonomy. They are privately owned, they determine their own open market purchases, the member banks elect six of the nine directors. In no other country is there representation of commercial banks on the board of the central bank. The Governors of the regional banks have no statutory authority and yet in some of the banks, the Governor is the most important factor in the institution. The local board selects the Governor and the Governor controls the open market operations.

There is considerable demand from Congress and from the public for changes in the law because they have no assurance that the future operations of the system will be any more satisfactory than in the past.

Mr. Eccles stated that from 75 to 90 per cent of the personnel is anti-Administration. Mr. Jones interjected the remark that they were not anti-Administration before the present Administration came into power.

Mr. Eccles suggested that section 12 (a) of the Federal Reserve Act be amended to make clear that the Federal Reserve Board can initiate and force discount rates and open market policies. The

Board should be authorized to appoint an open market committee, and have power to control purchases and sales.

Mr. Morgenthau pointed out that there had been no change in the volume of holdings of Government securities during the whole past year. Mr. Jones inquired if there had been any occasion for increased purchases by the reserve system. Mr. Morgenthau stated that the open market committee had neither blocked nor helped the program, but added that they had endorsed financing plans in each instance, when consulted for advice and opinion. Mr. Jones was of the opinion that the Administration can influence the conduct of open market operations without the legislation being suggested. Mr. Coolidge indicated that in September Burgess had sold the short-term holdings of the New York bank and helped in other ways to make the September conversion a success.

Mr. Morgenthau stated that the two things which he and the President and Mr. Eccles had agreed on some weeks ago were that the Federal Reserve Board be given the veto power over appointments of Governors of the regional banks, and that the open market committee should be appointed by and controlled by the Federal Reserve Board. He said that he stood on that and would work for that, but could not guarantee anything more than that. Mr. Eccles was of the opinion that without those two changes, the Federal Reserve Board might as well be eliminated.

Mr. Morgenthau wondered if there were much use of transferring the most important function of the system to the present board, and whether the situation would be any better. Mr. Eccles replied that the principle must be dealt with and commented that there will never be a good board unless it has some power and authority. Mr. Morgenthau asked what difference it made who the twelve Governors were if the open market function were given to the Board. Mr. Eccles was of the opinion that they exercise other functions of importance.

Mr. Morgenthau advanced the opinion that Congress does not like to "have heads taken off", and suggested that it would be easier to get the power transferred if personalities were not involved.

Mr. Eccles stated that there was a conflict between the Governor and the Chairman in each bank. Mr. Coolidge was of the opinion that, generally speaking, the appointments by the banks of Governors had been better than the Government appointments of Chairmen. Mr. Oliphant wondered if he meant that they gave better support to the Administration.

Mr. Crowley suggested the possibility of patterning a reorganization after the Farm Credit Administration. Mr. Morgenthau thought not. He suggested that in that case new jobs were being created, and in addition the land banks had no champion in Washington. Mr. Jones was of the opinion that a strong Governor of the Federal Reserve Board can be virtually the Board, and can control open market operations under the present set-up.

Mr. Eccles advanced as his second proposal that the chairman of each regional bank should be made the chief executive officer with the title of Governor. All of the duties of Federal Reserve agent would be given to him. He would be ex-officio chairman of an executive committee, would serve one year at a salary to be fixed by the Federal Reserve Board and he would be a Class C director. Strong chairmen would be appointed by the Federal Reserve Board.

Mr. Crowley thought it would be sufficient to appoint strong Chairmen under the present law, and cited Minneapolis as an example where the chairman ran the bank.

Mr. Morgenthau renewed his doubt about transferring the open market function to the present board, and indicated that he found the Governors of the regional banks easier to deal with than the Federal Reserve Board.

Mr. Jones stated again that the Secretary of the Treasury and the Governor of the Federal Reserve Board can do anything they want to under the present set-up. No legislation is needed, in his opinion, and none should be sought now without clearing with Senator Glass and Senator Fletcher.

Mr. Oliphant suggested that there will be several fights on the matter in the Committees of Congress and that if it gets on the floor the first amendment will be to strike out all after the enacting clause and insert the Cutting bill, and that the second amendment will be to have the Government take over the stock of the Federal Reserve banks.

Mr. Morgenthau reminded the committee that it had been agreed to take the legislation first to the President and then to the Hill. Mr. Jones said that he would confine the legislation to transferring the open market committee to the Board and would sell that idea to Glass and Fletcher.

Mr. Oliphant referred to the fact that the Federal Reserve gold had been taken over over Glass' opposition.

Mr. Oliphant commented that the country is afire with the idea of issuing non-interest bearing bonds. Mr. Coolidge replied that if the people with money are antagonized, the Government will be unable to sell bonds that bear interest. Mr. Oliphant said that we will have to "go to bat" on whether the Administration can control the financial policy of the country. Mr. Coolidge said he wants to see a committee that will oppose the President if they think they should. Mr. Oliphant expressed the opinion that pending the creation of some sort of Federal monetary authority, the President ought to be able to say whether the money of the people goes into Government bonds.

Mr. Morgenthau again referred to the fact that the President had agreed to only two things -- the veto power on Governor appointments and a transfer of the open market powers to the Federal Reserve Board.

Mr. Coolidge suggested a compromise. He said he is thinking of how best to finance the Government on a sound basis during the coming year. The reserve banks feel it is their money which is being invested, and dislike to see the power of investing their money transferred to someone else. If it is done, there will be resentment and if a jam comes, it will be harder to sell bonds on a sound basis. He said that he would like to have a committee of the regional Governors appoint a part of the open market committee, and the Federal Reserve Board the rest. Mr. Viner suggested three by the Federal Reserve Board and two by the Governors. Mr. Coolidge suggested vice versa.

Mr. Morgenthau stated that the President's idea is to have one banking bill with three or four titles.

Mr. Morgenthau asked Governor Eccles to furnish him with a history of open market operations in the years from 1927 on -- with proposals and actions of the Federal Reserve Board and the regional banks in parallel columns.

Mr. Morgenthau suggested that the present porposal does not begin to be as serious as taking the gold from the reserve banks an suggested that it is better than to wipe out the present system. If it is such a shock that it kills the March fifteenth financing, the Treasury can carry on for three months anyway.

Mr. Eccles commented that the shock had already been administered in the form of his appointment as Governor.

Mr. Morgenthau suggested that three things be tried: (1) that the six appointive members of the Federal Reserve Board be reduced to three; (2) that two regional Governors be added to the Federal Reserve Board as ex officio members to serve for terms of one year; and (3) transfer the open market committee to the Federal Reserve Board.

Mr. Viner suggested that the chairman of the FDIC replace the Comptroller of the Currency on the Federal Reserve Board.

Mr. Oliphant liked the Morgenthau suggestion because it is a step toward a central bank. Mr. Viner liked it because it takes the regional character out of the system. Mr. Coolidge liked it because he likes to see regional governors on the Federal Reserve Board.

It was suggested that some sort of pension or pay until expiration of their terms be provided for the members of the Federal Reserve Board who are dropped.

Mr. Gaston suggested that the boards of the twelve regional banks might select the Governors to go on the Federal Reserve Board, rather than letting the twelve Governors do it, to which Mr. Eccles said that such an arrangment would solve the problem of the two Governors on the board voting to select their successors.

Mr. Eccles reiterated his desire to combine the offices of the regional Chairman and Governor.

Mr. Eccles suggested that the Governor of the Federal Reserve

Board should be appointed for four years, or that it should be co-terminous with his appointment as Governor, which is understood to be for the duration of the Administration.

Mr. Eccles suggested having no regional Governors on the Federal Reserve Board, but having them appointed to an open market committee instead.

Mr. Morgenthau, Mr. Jones, and Mr. Oliphant were called away, and the meeting continued for a short time in group conference and discussion.

Yes ?

H.M.Jr: Marriner, I've been thinking this thing over and I think it's good business if we had O'Connor here at one o'clock.

Oh golly I ----

H.M.Jr. Well it's just a question whether you want him on the inside and have a dispute inside the family or whether you want him up on the hill saying well he didn't know what's going on and then to fight you on the hill. I thought it over very carefully and I think it's good to have him here. He's a member of your Board.

Eccles: Well none of the other members of the Board will be there and I think at this time it would be a mistake myself. I think that he's just in a position to emasculate your program. Well I'd like to let's get the thing cleared with the President and ----

H.M.Jr: The President has ever right to say to me well what does the Comptroller think about this thing.

E: Well he won't though will he?

H.M.Jr: Yes I think he will. After all he is the Comptroller you can't just frighten him out - he's close to Grant.

E: Of course this program of mine - it eliminates the Comptroller. Now personally I don't want to take the responsibility and if he's going to be there I want to revise the whole program.

H.M.Jr: I see.

E: Because why should I come in and suggest these changes. As far as the Federal Reserve it really is not material. I mean this amalgamating of your examinations and the question of charters, etc. What I'm suggesting here - I don't want to suggest with the corner there because it immediately-- it seems to me that it's up to the administration to do that - it's up to you as the Secretary - it's up to the President to suggest it but it isn't up to me. This is Federal Reserve legislation that I'm presenting and if O'Connor is going to be there then the program I've got ought to be greatly altered. I would very much prefer this time that he not be there and then I should say this that I can revise this Comptroller's end of it and go over the Federal Reserve legislation with him as a Board Member of the Federal Reserve.

H.M.Jr: O.K.

E: Then when it comes to the Comptroller's part of it I think that that's something that you and Leo Crowley and I.

H.M.Jr: Well we'll have to present it to him at sometime.

E: Well I'm willing to do that and I think you're absolutely right if he's going to be here but we've got to get rid of him.

H.M.Jr: Right.

E: Well what are we going to do about it?

H.M.Jr: Well I'm not going to do anything, Marriner, I didn't appoint him. I mean the President of the United States appointed him.

E: Do you want us over here - as a Member of this Board are you in favor of with-drawing this offer?

H.M.J: Well I'd go through with the thing. You said you'd let him know and if he doesn't let you know I would with-draw it and appoint somebody else.

E: I'd told him that's what I was going to do.

H.M.Jr: Yes.

E: And he hasn't said a damn word.

H.M.Jr: Well then I don't know when you have your next Board meeting.

E: Well we put it off till Friday.

H.M.Jr: Well I'd take it up on Friday - it's the last of the week and if he hasn't accepted by then I'd close it out.

E: I'm going to call him tomorrow and tell him that that's what I'm going to recommend then, see.

H.M.Jr: Right.

E: Alright then. Well we'll be over there at one o'clock. Did Mrs. Klotz say anything to you about bringing Mr. Moyle over?

H.M.Jr: That's alright.

E: Alright thanks.

December 19, 1934 - Wednesday.

Rene Leon's views on the European and far Eastern Financial Situation as expressed to Secretary Morgenthau on December 19, 1934

The flow of gold from country to country at the present time is not influenced at all by balances of trade but is merely the flight of liquid capital. As this capital tends to flow to London it would ordinarily result in a sharp appreciation of the pound sterling. The action of the United States in setting a fixed buying and selling price for gold allows Great Britain to hold the pound sterling down against the United States dollar by simply purchasing dollars whenever there is a heavy inflow of capital to London from the Continent. If the United States discontinued a fixed price for gold, Great Britain could no longer be sure of obtaining gold from the United States and would have to give up the present plan of buying dollars against sales of sterling. This would deprive the gold speculators of at least a minimum fixed price and they would give up speculation in gold with the result that these funds would flow back to business channels. Britain would be forced to seek an agreement with the United States on exchange stabilization.

* * * *

He claims he has never been in full agreement with the Silver Purchase Act of 1934 because it is too inflexible and binds the Treasury to a policy of bidding up the price of silver with no way of controlling the market, as under the Silver Bill the Treasury can only sell silver at $1.29 per ounce. He feels that the situation in Chinese banking centers is critical because of money stringency and uncertainty caused by the drain of silver from the financial centers. That this is not of any great importance as it affects only those Chinese interested in export trade and cotton spinning mills established in China by Indian and Japanese interests to exploit Chinese labor. He states that foreign banks have quite a lot of influence on the Chinese Government and specifically mentioned the Hong Kong and Shanghai Banking Corporation as having great influence on the Government in Nanking. He feels that the United States has control over Japan because of the fact that we could stop the purchase of silk at any time, which would deprive them of their main export market. Claims that such action would not hurt our cotton exporters as loss of sales to the Japanese mills would be offset by sales to other mills to replace the Japanese output. That the rise in silver prices hurts only a small percentage of Chinese is concurred in by all Chinese he has contact with excepting those financially interested in banks or export trade.

Hello?

Hello.

Henry Morgenthau, Jr.

Oh, how do you do, Mr. Secretary.

H.M.Jr: Is this Felix Frankfurter.

F: It is and I'm very sorry I missed you the other day.

H.M.Jr: Right. What I called you up about is this. I've talked to the President about the development of a program on taxation of corporations, you see?

F: Yes.

H.M.Jr: And particularly holding companies and I understand from him that you'd have some ideas - partly on taxes and partly to be controlled in other ways.

F: Yes.

H.M.Jr: And I don't know whether you'd put it down in writing or not but in talking to him about it again this morning I said that this is such a tremendous thing that I thought if we had to start somewhere we'd start with Public Utility Holding Companies.

F: Yes.

H.M.Jr: And try to work it out on them.

F: Yes.

H.M.Jr: And then if we got a good formula we could broaden it out.

F: Yes.

H. M.Jr: How does that sound to you?

F: That sounds very well indeed.

H.M.Jr: And then he said I should get ahold of Cochran and Cohen and bring them into the picture.

F: Yes.

H.M.Jr: And I just wanted to say that anything that you had which you thought would help us in formulating this thing why I'd be delighted to get it.

F: Well now I'll tell you, Mr. Secretary, while I have you on the line.

H.M.Jr: Yes.

F: The President the other night talked with me about a general utility holding program. In connection with that of course there are many matters which have nothing to do with taxation at all.

H.M.Jr: Yes.

F: --

And you know there's a power committee in existence that's been working on the problem with reference to matters having nothing to do with taxation. And of that Committee Cohen is General Counsel.

H.M.Jr: I see.

F: Judge Staley, Meyer Cook and such people like that.

H. M. Jr: Yes. Well we'd better get together on it.

F: --

H. M. Jr: I don't think they've been in touch with Jackson.

F: Well you see I didn't get the President's message until Monday and I got word to them yesterday ------
----

H.M.Jr: Well I think I'll call them up myself because on account of a little ill feeling about a year ago and I'd like to straighten it out and tell them that we're

F: Yes - you know it makes a difference.

H.M.Jr: I'll call them right away.

F: You know them, don't you?

H.M.Jr: Oh yes I do know Cochran.

F: Well now he's as good a banker as any down there.

H.M.Jr: When you come down the next time I'd like to have you and Oliphant and myself eat together.

F: Fine. Before you ring off, Mr. Secretary.

H.M.Jr: Surely.

F: There are two or three other matters - the purpose of which is regulation for taxation- corporate abuses -- -- and the President during the last two years talked to me about those matters. Hello?

H.M.Jr: Hello - there's something the matter with the wire.

F: Hello?

H.M.Jr: Hello - I'm here yet.

F: These are matters affecting so-called phone(?) corporations - a corporation doing business in a state in which it isn't incorpoated and not doing business in a state in which it is. And he told me-- --.

H.M.Jr: What I'm going to tell him is this if --

F: There's something the matter with the line - I don't hear you

H.M.Jr: What I'm trying to say - I'll call him up and tell him that anything that they're doing we want to work together.

F: Fine.

H.M.Jr: And that our end of it is the tax end of it and -----

F: Just a second - I missed it all - Hello? Hello?

H.M.Jr. Hello - what I'm saying is that the tax end of it is the easiest weapon.

F: Absolutely.

H.M.Jr: And if they're working on any end that affects the public utilities we ought to be working together.

F: Quite right.

H.M.Jr: Because when we get through we want a public utility left.

H.M.Jr: This corporation - in taxes - we could do an awful lot you know.

F: I think it's the most powerful way of getting at these things ----------------

H.M.Jr: And I think we could do it very fine.

F: I don't think there's any doubt about that.

H.M.Jr: And of course the holding utility companies - electric - are the worse.

F: Yes - I don't think there's any doubt but that that is the most effective way of dealing with the problem.

H.M.Jr: Any time you've got anything just call me - let me know a couple of days before so you can come and have lunch with Oliphant and myself.

F: Good. Thank you ever so much. Alright Mr. Secretary.

H.M.Jr: Thank you.

F: Thank you very much.

H.M.Jr: Goodby.

December 19, 1934.
Wednesday.

December 21, 1934.

Miss Roche

Mr. Coolidge

The Secretary pointed out at the meeting yesterday that he felt the funds derived from unemployment insurance should be deposited in the Treasury for safekeeping. If this is to be the case it seems to me that the rate to be paid on such funds should be outside the control of the Secretary of the Treasury. It is obvious he would be in an embarrassing position because, while the less he pays for the funds would be the most satisfactory to the Treasury, it would not be satisfactory to the beneficiaries of the money. The rate could be either fixed in the first place at, say, three per cent and be a charge against the Treasury for the use of the funds, or it could vary in accordance with any agreed upon principle, such as the average rate of Treasury borrowings or based on the rediscount rate of the New York Bank, or possibly a rate determined by the Reserve Board as fair from time to time.

I am merely giving you these suggestions without attempting to present any argument as to the best method. Once the funds are in the hands of the Secretary, the obligation is a Treasury obligation and there is nothing to be gained by the beneficiaries of the funds as to the method used by the Secretary in using the funds unless he can obtain higher rates in the market. It seems to me that he should invest as far as possible in a special security bearing the appropriate rate of interest or in marketable obligations of the United States, or obligations guaranteed by the United States yielding a higher rate. The last method might be criticised as giving the Treasury too much control over the prices of outstanding bonds and should be given consideration from this point of view, but not by your Committee. It is a question for the Treasury to decide as a matter of financial policy.

H. M. Jr: How are you?

Bullitt: How are you old scoundrel - I called you three times. I'm terribly sorry that I couldn't be there tonight but I'm going up to the place where our children are educated - Deerfield. My little girl is appearing as a heroine of her school play. I haven't seen her since she left Moscow this summer. She just insists on my coming up. How is your kid - up there?

H.M.Jr: Well they got back here last Saturday - they get three weeks.

B: Oh they're back already.

H.M.Jr: Yes.

B: He's a nice boy, Henry.

H.M.Jr: I think he is.

B: He's a peach. I was delighted to see him in Moscow.

H.M.Jr: He says that you gave him a good time.

B: Was he pleased?

H.M.Jr: Oh very much - very much. As a matter of fact when Harry Hopkins met him down at the Vienna he took Henry aside and talked to him for an hour. He said he got more out of Henry on housing than he got out of anybody else.

B: That's swell. Well look here when are we going to get together?

H.M.Jr: Well I'm leaving Friday to get back Wednesday morning so I don't know whether you will be back then or not.

B: Well I expect to get back here sometime between the 28th and the 1st probably.

H.M.Jr: Well whenever you get back.

B: Well I'll call up right away and we'll -----

H.M.Jr: Are you talking from the State Department?

B: No I'm not.

H.M.Jr: Oh.

B: Why do you want to say anything?

H.M.Jr: Well I'll just ask you this.

B: Yes.

H.M.Jr: How critical do you think the Chinese situation is?

B: Extremely.

H.M.Jr: Extremely.

B: I can tell you very very briefly over the phone just what it is. The --- now I have this from ten or fifteen people and some of whom are men that I've know for years and some whom I've talked with. They expect or fear - have feared - feared when I left a collapse before the Chinese settlement day which is the 1st of February. What they all said to me was that one of the most important things would be if the last (?) government purchasing silver there could leave it in some National Bank in Shanghai. Well I said that's simply transparent and said it doesn't mean anything. They said the fact is that 50% of the silver reserve has been held by foreign banks in their own vaults in Shanghai and nobody has ever gotten a because they actually hadn't left China. They further said that they had discovered by a very careful check-up that the immigrant from Chinese outside of the Bank of China were very much larger than they had ever saw. In fact they were almost three times what they had estimated. They say not until, as I remember the figure - 600 million Chinese dollars per annum - last year in the depressing times which balances their trade deficit and that the essential thing in the situation was the fact that people saw silver going out of the country and, therefore, there had been and was a very big flight of capital and it was going on very very steadily. My Secretary has just handed me something on the phone now - was just put in my hand says an opinion of a man I consider much of a competent banker in that entire country - would you like me to read it to you for a second?

H.M.Jr: I've got plenty of time.

B: Well just let me read you this. "Very much disturbed about the present financial situation in China and expressed the opinion there might well be a crisis before the first of February. He said that the foreign banks in Shanghai and throughout China were withdrawing from all commitments which were throwing a an unprecedented strain on the Chinese banks. That the flow of silver out of the country was beginning to make everyone extremely nervous - that there was already a flight of capital from the country and it was impossible to say when a panic might start. He suggested that it might be possible to allay these fears if the government of the United States in purchasing silver from China would allow the silver to remain in the vaults of some American bank in Shanghai. He mentioned the National City Bank of New York. --------------------
He said that many times as much as 60% of the silver of China had been held by foreign banks and there should be no worry whatsoever in China because the silver was still in the country. He seemed to fear that this measure might really be effective and thought it might be advisable to send a mission to Washington to explain the financial situation of China. I then expressed the opinion that nothing could be more undesirable than a mission of such a nature. I said that if the Chinese government considered the Chinese Foreign Minister in Washington unable to discuss such a question with the government of the United States it might be advisable to have one man come unofficially and without -- to explain the situation but that the announcement of a mission would produce entirely unpleasant action in America.

H.M.Jr: Is this you or your man? Who's speaking now is that you?

B: About just sending one man..

H.M.Jr: Yes.

B: I said send one man instead of sending a mission - right?

H.M.Jr: Did you see my cable?

B: No I haven't seen it.

H.M.Jr: Well I've asked for one man from the Central Bank of China.

B: Well that's very interesting - that's a coincidence of a great mind.

B: Well now I've talked with everybody there including the Finance Minister and and Shung and the Director the Bank of China - in fact the latter gentleman is the one from whom this quotation came and in my opinion - you see, Henry, the way I look at it is this. We're running a policy directed toward keeping China from falling completely under the domination of Japan.

H.M.Jr: You're telling me?

B: Yes I know it. And the one chance of keeping that from happening is the maintenance of the power of who, in my opinion, is a very fine fellow and while on the one hand we are doing everything diplomatically to support him we've got to be careful not to make considerable difficulties for him on the financial side - I mean he said to me---

H.M.Jr: Who said to you?

B: The general and everybody else - all the leaders - the Finance Minister and all of that - because we know perfectly well that the United States government is very friendly to China and that she has absolutely no intention by a policy of trying to mess us up but, nevertheless, it is messing us up terribly - we can't stop the export of silver - this law we passed forbidding the export of silver - putting a tax on it doesn't mean anything because the Japanese are smuggling it out by way of the Tien Shen Railway. They smuggle it out from Shang Tong in junks. We haven't got enough coast defense boats to stop more than one out of every ten of the smuggling junks and the British are smuggling it out Canton ~~(?)~~ to Hong Kong and the result is that to stop the thing we have got to stop somehow the outflow of money from here.

H. M. Jr: Well I've practically stopped it.

B: Well that's swell. I'm really delighted because ---

H.M.Jr: Let me ask you this. How much of what you're telling me have you had a chance to tell the President.

B: I wish I could remember accurately. I talked to him so much about so many different things that I don't remember to what extent I've had the chance to emphasize this particular one.

H.M.Jr: You didn't stress the Chinese thing?

B: Oh yes I've talked at great length about that - much more than on anything else but I don't remember how specifically I went into this particular thing. I may have explained it fairly well. We were talking about different aspects of the Far Eastern thing.

H.M.Jr: The thing is this. I think we've gone a long way - I don't see why we --

B: Yes.

H.M.Jr: I think he can see me on that.

B: Can you leave that stuff there?

H.M.Jr: No - I'll tell you why. Under the law we have to issue silver certificates against silver we purchase so we've got to bring the silver back - you see. Now we can't leave it there - got to take it out in January or the latter part of February but we can't leave it there permanently because we are directed to issue silver certificates up to the value of silver purchases, see?

B: I see perfectly.

H.M.Jr: Now the reason that I wanted somebody here was that the Chinese Minister here is a lovely fellow and he gives a swell dinner but what he doesn't know about money is ----

B: Well now I say the last thing that was said to me by the Minister of Finance on the dock in New York - the last thing he said was that a mission be sent and I said the same thing to him - For God's sake if you want to get some results don't spoil it in advance by announcing a mission but just send somebody like little (Pey) ? who is the most intelligent man in China, to my mind. He is the Director of the Bank of China in Shanghai and if they send him over it will- Pey is one of the finest little fellows I know - absolutely as straight as a string.

H.M.Jr: P e i ?

B: Yes P e i

H.M.Jr: I've been terribly embarrassed about the thing - I've been just directed as an agent and I think we've gone a long way. To sum up my feelings I've had in the office here that I was on the pay of the Japanese I've been earning my pay. See? I mean that sums up my feelings.

B: Yes yes - I agree. That's fine. You been in a lot of hot spots before and you've got a good broad shoulder I know.

H.M.Jr: Well when you get back I'm anxious to see you.

B: Thanks a lot Henry, goodby

H.M.Jr: Goodby.

December 19, 1934.
Wednesday.

FEDERAL RESERVE BANK OF NEW YORK

Washington, D. C. December 18, 1934.

Excellency:

We should be greatly obliged if you would be kind enough to send in your private code a cable in the enclosed form from us, as Fiscal Agent of the United States, addressed to the Central Bank of China. We shall be glad to reimburse you for any expense incurred by you in this connection.

Thanking you for your courtesy and assuring you of our high regard we beg to remain.

Faithfully yours,

J. E. Crane,
Deputy Governor.

His Excellency,
The Chinese Minister,
Washington, D. C.

CABLE

To: The Central Bank of China

As Fiscal Agent of the United States for the purchase of silver, we beg to advise you that for the time being the following program will be pursued with respect to purchases of silver for the account of the United States:

(a) No silver in China will be purchased above fifty-five cents per fine ounce and none except from you on the basis of a mutually satisfactory arrangement;

(b) When the world price of silver outside of China is at or below fifty-five cents per fine ounce purchases of silver at home or abroad will be made as may be deemed advisable and steps will be taken to prevent the world price of silver from falling substantially below fifty-five cents per fine ounce;

(c) This program may be terminated at any time on one week's notice;

(d) You are invited to send a representative at your earliest convenience to discuss these and related matters.

Federal Reserve Bank of New York.

COPY

CHINESE LEGATION
WASHINGTON

December 27, 1934.

My dear Mr. Secretary:

I beg to inform you that I have received the following cablegram dated December 27, 1934, from Dr. H. H. Kung, Minister of Finance at Nanking, with the request that it be communicated to you:

> "China deeply appreciates American Government's meeting China's difficulty regarding silver. The Reserve Bank's message is receiving most careful consideration and the views of China will be communicated as soon as practicable. Meanwhile I am instructed to request that you transmit the following from the Central Bank of China to the Federal Reserve Bank: 'As Chinese Government's fiscal agent we have noted the silver purchase program set forth in your communication. We gladly

accept

Honorable Cordell Hull,
Secretary of State.

accept your invitation to send a representative to discuss the matter set forth in your message together with related matters and shall shortly advise you of his name and the date of his sailing.' "

I am, my dear Mr. Secretary,

Very sincerely yours,

SAO-KE ALFRED SZE.

Dec 31. 1934
9.30 A.M.
OK. H.M.Jr.

Cable to be sent to the Central Bank of China by the Federal Reserve Bank of New York through the Chinese Legation in Washington.

As fiscal agent of the United States for the purchase of silver, we beg to advise you that the program with reference to such purchase outlined in our cable to you of December 18, 1934 will, pursuant to clause C in our cable of December 18, be deemed terminated one week after ~~on~~ your receipt of the present communication.

We shall welcome an opportunity to discuss the whole matter with the representative mentioned in Clause D in our previous cable.

HM Jr.

December 28, 1934.

A sub-committee of the Interdepartmental Loan Committee to consider banking legislation in the Comptroller's annual report met at 11:15 A.M. in the office of Undersecretary Coolidge.

Those present were:

Mr. Coolidge,

Mr. Eccles,

Mr. Talley,

Mr. O'Connor,

Mr. Upham.

Mr. Eccles made a preliminary statement to the effect that his understanding and that of Mr. Morgenthau, to whom he had just talked, was that the legislative recommendations of the Comptroller were not to be cleared except in conjunction with other banking legislation. Mr. Coolidge added that the sub-committee was not charged with the duty of backing up the recommendations of the Comptroller, but with seeing if there are any which are objectionable or which conflict with other proposals. Mr. Eccles stated that in his opinion any recommendations in the report should have the approval of the Administration before being submitted to the Congress. If the Comptroller should make a recommendation now, and the President a contrary proposal later, it would be unfortunate. Mr. Coolidge was of the opinion that the whole difficulty might be avoided if the Comptroller postponed the submission of his report until after the President had submitted his banking bill to Congress.

Mr. O'Connor read the letter addressed to him by Mr. Morgenthau under date of December 21, and his reply. Mr. O'Connor said that most of his recommendations were for technical changes and in most instances involved no important matter of department or banking policy.

He then proceeded to read and explain the recommendations, starting with one which had not been included in the text of his report when first submitted, but added later, providing, in an amendment to Section 23 of the Revenue Act of 1934, for national banks to subtract for income tax purposes the amount paid by them to the RFC as dividends on preferred stock. State banks are allowed to deduct interest on capital notes sold to the RFC and the Comptroller was of the opinion that national banks should be placed on equal footing. It was agreed to.

Mr. O'Connor then proceeded with a number of recommendations contained in his report.

1. Inclusion of partnerships in the definitions of affiliates in the Banking Act of 1933 was passed for the time being.
2. To amend Section 11 (a) of the Banking Act of 1933 to except from classification of demand deposits trust funds upon which State law requires that interest be paid was agreed to.
3. To amend Section 12 of the Banking Act of 1933 to extend the time within which loans made to bank officers must be repaid was agreed to.
4. To amend Section 13 of the Banking Act of 1933 with respect to loans by banks to their affiliates was agreed to.
5. Dealing with Section 18 of the Banking Act of 1933 and clarification thereof was agreed to, but the suggestion was made that it be drafted in the form of a definite recommendation for legislative action rather than being left to the initiative of Congress.
6. To amend Section 19 of the Banking Act of 1933 which would

exempt a holding company from the requirement of obtaining a permit to vote upon the question of placing the bank in voluntary liquidation was agreed to. Mr. Eccles suggested that it be developed to include the affiliates of member banks as well as those of national banks.

7. Dealing with a contradiction between Section 16 of the Banking Act of 1933 and Section 21 of that Act was agreed to.
8. To amend Section 21 (a) (2) of the Banking Act of 1933 was agreed to.
9. To amend Section 22 of the Banking Act of 1933 with respect to eliminating double liability on bank stock was agreed to. after considerable discussion with suggestions that there be included the requirement that double liability might be eliminated until surplus equals capital and the further requirement that dividends are not to be paid out of such surpluses.
10. To amend Section 5243, Revised Statutes, with respect to the use of the word INTERNATIONAL in the title of a State institution was agreed to.

The recommendations with respect to FDIC were agreed to with the exception of the one proposing to divert the proceeds of the bank check tax to the FDIC. Mr. Eccles was of the opinion that matters relating to the FDIC should be omitted from the Comptroller's report.

The last recommendation of the Comptroller that the Act permitting banks to use any United States bonds bearing 3-3/8 percent interest or less as security for the issuance of circulating notes be extended for another four years was disapproved.

The Interdepartmental Loan Committee met in the office of the Secretary of the Treasury at 10:30 A.M.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,

T. Jefferson Coolidge, Undersecretary of the Treasury,

Stanley Reed, General Counsel, Reconstruction Finance Corporation,

John H. Fahey, Chairman, Home Owners' Loan Corporation,

Lynn P. Talley, President, Commodity Credit Corporation,

F.F. Hill, Deputy Governor, Farm Credit Administration,

George N. Peek, President, Export-Import Bank,

Ward M. Buckles, Agricultural Adjustment Administration,

Steward McDonald, Federal Housing Administration,

Warren L. Pierson, General Counsel, Export-Import Bank,

J.F.T. O'Connor, Comptroller of the Currency,

C.B. Upham, Secretary of the Committee.

Mr. Talley submitted a proposed draft of legislation to extend the life of the Commodity Credit Corporation. Mr. Morgenthau observed that the President's budget message would have a bearing on this and other emergency agencies, and suggested that the matter be left until after the budget message has been made public.

Mr. Hill reported on farm credit legislation and a sub-committee was appointed to clear it. The committee is made up of Governor Myers , Mr. Davis, Mr. Talley and Mr. Coolidge.

Mr. Morgenthau stated that the President had asked him and Mr. Bell if the lending agencies needed additional money for administrative expenses, and that they had assured the President that it was all in the budget. This was confirmed by those present.

Mr. Eccles reported that they are working on the bank legislation which will be requested by the Federal Reserve System and that it should be ready in a week.

Mr. O'Connor reported that the statute requires him to submit legislative recommendations in his annual report, that most of them are technical in character, and were included in the Bulkley omnibus banking bill which was lost in the final hours of the last session of Congress. His office has been embarrassed ever since by certain ambiguities in the Banking Act of 1935, which he would like to have cleared up. The matter was referred to a sub-committee made up of Mr. Coolidge, Mr. Eccles, Mr. Talley and Mr. O'Connor.

Mr. Morgenthau read a letter of December 26th from the Special Adviser to the President on Foreign Trade, with a memorandum attached outlining a bill for establishing the Export-Import Bank by statute. It was stated that the $100,000,000 involved could be secured from the Reconstruction Finance Corporation without increasing their borrowing limit. It was explained that the Russian bank will be kept separate from the Cuban bank, the latter serving all the world except Russia.

Mr. Morgenthau read a letter dated December 26th, from the Chairman of the Federal Home Loan Bank Board. He asked that the second $50,000,000 of a $100,000,000 authorization be now appropriated for the purchase of capital stock in Federal Savings and Loan Associations. It having developed that the Budget Bureau had refused this, Mr. Fahey stated that he thought he might get it out of the Home Owners' Loan Corporation authorization. Some $15,000,000 of the first $50,000,000 has been used, with about $5,000,000 additional committed, and demands coming in at the rate of about $1,000,000 a week.

Mr. Morgenthau inquired about possible competition between the Federal Savings and Loan Associations and other Federal agencies insuring mortgages. Mr. Fahey suggested the appointment of a sub-committee to deal with mortgages and housing generally. The Committee was appointed, to consist of Mr. Fahey, Chairman, Mr. Ickes, Mr. Moffett, Mr. Eccles and Mr. Jones.

Mr. McDonald agreed to send to Mr. Morgenthau a copy of Federal Housing Administration regulations, which Mr. Morgenthau said are reported by hearsay to be pretty stringent.

Mr. Fahey stated that he would like to see developed as soon as possible a comprehensive and unified program on housing. Mr. Coolidge reported on a plan for legislation to provide for selling ten-year bonds at a discount, in multiples of $25.00. They would sell at 78 and increase in value to maturity, being paid off at par. They would be marketed through postal savings and other agencies. The committee approved setting a limit of $10,000 to any person in any year. Mr. Morgenthau thought a billion dollars might be raised in this way. It was stated that 20-year bonds can now be sold at a discount and there are some $50,000,000 outstanding.

Mr. Talley suggested that such an issue would remove the problem of investing postal savings funds.

It was agreed that there would be no "drive" for sale of the bonds.

Mr. O'Connor suggested that the Government keep the bond for the investor and give him a receipt, stressing that many people are deterred from buying bonds because they have no safekeeping facilities.

Mr. Morgenthau referred to the development as the first encouragement given to saving by this Administration.

Mr. Fahey suggested similar action with respect to five-year bonds, and Mr. Morgenthau replied that the Treasury is not interested in five year money just now.

AGENDA

Interdepartmental Loan Committee

December 28, 1934.

1. Report of sub-committee (Gov. Talley) on extension of the Commodity Credit Corporation.
2. General statement by Deputy Governor Hill of the FCA on legislative plans, and appointment of sub-committee to meet either Jan. 2 or Jan. 3 to agree on details.

   Governor Myers,

   Mr. Davis,

   Mr. Talley,

   Mr. Coolidge.
3. Report of sub-committee (Mr. Crowley) on FDIC legislation.
4. Report of sub-committee (Gov. Eccles) on FRS legislation.
5. Clearance of banking legislation suggested in annual report of the Comptroller of the Currency.

December 30, 1934.

A sub-committee of the Interdepartmental Loan Committee to consider banking legislation in the Comptroller's annual report met at 2:30 P.M. in the office of the Secretary of the Treasury.

Those present were:

Mr. Coolidge,

Mr. Oliphant,

Mr. Eccles,

Mr. Talley,

Mr. O'Connor,

Mr. Upham.

It was agreed that the Comptroller would delay his report until the President had submitted banking legislation.

It was agreed that the Comptroller would omit the recommendations with respect to the check tax and National bank notes and that he would confer further with Mr. Eccles and Mr. Coolidge with respect to the inclusion of partnerships as affiliates of banks and with respect to voting permits for affiliates.

AFFIDAVIT

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 ownor 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 comapny.

Signed Leo T. Crowley

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

My commission expires
August 10, 1939 Henry T. Ivey Notary Public