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1. We are going to have recovery and F.D.R. will not get the credit for it. Complete confusion in public's mind as to what is going on in Washington.
2. Men in charge of recovery agencies have lost faith in the New Deal. Morale at all-time low ebb.
3. If they once thought F.D.R. would not be re-elected you would see them leave ship like a lot of rats.
4. Almost impossible to get a successful business man to-day to come and work for government. They all have been treated so badly.
5. Allotment of four billion eight is not being done the way F.D.R. said he would. No relation to unemployment needs of community. Said he would put all projects in an envelope.
6. What I am afraid of that maximum spending will be reached next June and that everybody will say it would be crazy to stop just before election. Therefore spending must be geared now to taper off in March. Unless spending is entirely revamped now we are headed right towards uncontrolled inflation. F.D.R. must completely change administration set up of four billion eight now or the country is sunk. He must stop allotting vast sums for reclamation and land purchases. He must stop these new projects that cannot be completed this year. How can he ever balance the budget if he is always starting new projects that will take five and six years to complete. Not one cent should come out of the four billion eight that will not be spent within the year. He has said this himself again and again.

P. W. A. funds still available should be used for these continuation projects and not four billion eight.

Chart I

What F. D. R. needs at once is a graph showing each month through June 1936 how much money out of four billion eight will be spent by months and how many people will be given work. This ought to do the trick. If F.D.R. made every agency stick 100% to the schedule. This is the only way he can save the country and himself.

Chart II

Next a chart showing money given to projects that will not be completed by June 1936 and how much it will take to complete them.

Give me these two charts and with the power to enforce them and I will stop worrying.

Chart I and II should show all money spent as well as lent by all Federal Agencies. The excuse to give to the public for the need for this information (if he needs any excuse) is that Treasury and Budget need this information on which to base their financing.

Chart III

Forecast number of people by months that will be taken care of either through relief or public works.

F.D.R. - Issue order at once no more contracts let than cannot be completed by June 15, 1936 - all spending and loaning agencies.

STATEMENT OF SECRETARY MORGENTHAU  
to the  
SENATE FINANCE COMMITTEE,  
THURSDAY, AUGUST 1, 1935.

Mr. Chairman and Members of the Committee:

I am pleased to respond to your invitation to appear before you and to discuss briefly pending tax proposals. On July 8 I had an opportunity to make a statement to the Ways and Means Committee of the House of Representatives, which was then about to begin preparation of a tax bill to give effect to the recommendations contained in the President's Message to the Congress of June 19. That statement summarized the Treasury's position with respect to the President's recommendations and I should like to have you regard it as a part of my statement here today. (I will read it if you wish).

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The President, in the message to which I have referred, stated that his recommendations were based on studies of our tax system carried on in the Treasury Department as well as the excellent research work done by the staff of the Joint Committee of Congress on Internal Revenue Taxation. All of the data gathered by the Treasury Department will of course be made freely available to your committee. I should like to refer particularly to studies carried on by Mr. Robert H.

Jackson, counsel of the Bureau of Internal Revenue.

Mr. Jackson has summarized and analyzed a great deal of data from income tax and estate tax returns which bear directly on the President's recommendations. He is prepared to present this summary and analysis to you.

I shall not attempt to review the data that has been gathered, but only to indicate its scope. It deals with such questions as these:

The extent to which our national revenues are now derived from taxes laid directly on the consumer and the extent to which they are derived from taxes based on the ability to pay.

The changes in the balance of taxation as between these two classes that have been brought about by the depression and other causes within the last few years.

The distribution of income and the degree of concentration of high incomes.

The effectiveness of income tax rates as modified by various devices for escaping taxation.

Whether existing surtax schedules are fully consistent with the principle of ability to pay.

The actual yield of present estate taxes as related to the size of estates.

Devices for avoiding estate taxes.

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Problems of administering and collecting an inheritance tax.

Stability of yield of a graduated corporation income tax as compared to stability of yield of a flat tax rate.

Extent of the concentration of income and of assets in the hands of large corporations.

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I cite this material merely to indicate the willingness of the Treasury to offer such assistance to your Committee as you may desire.

In conclusion, I want to add an earnest word as to the use to which any additional revenue that the proposed new taxes will produce should be put. Ordinary expenditures for the general purposes of government have been held within the revenues. We have incurred and are incurring large emergency expenditures according to a carefully planned program for the sole object of caring for the urgent needs of our citizens and promoting recovery. Additional revenue which will necessarily fall short of meeting our full needs will not warrant new or additional expenditures outside our budget plans. Any such new or additional expenditures would not conform to the best interests of the national credit. I

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hope the Congress will provide that the proceeds of the new taxation you are considering shall be preserved scrupulously for the purpose, first, of reducing the deficit, and, later, of reducing the public debt.

## REVENUE ACT OF 1935

THURSDAY, AUGUST 1, 1935

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10 a. m., in the Finance Committee room, Senate Office Building, Senator Pat Harrison (chairman) presiding.

Present: Senators Harrison (chairman), King, George, Barkley, Connally, Gore, Costigan, Clark, Byrd, Lonergan, Gerry, Guffey, La Follette, Metcalf, and Capper.

The CHAIRMAN. The committee will be in order. All right, Mr. Secretary.

### STATEMENT OF HON. HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY

Mr. MORGENTHAU. Mr. Chairman and members of the committee, I am pleased to respond to your invitation to appear before you and to discuss briefly pending tax proposals. On July 8 I had an opportunity to make a statement to the Ways and Means Committee of the House of Representatives, which was then about to begin preparation of a tax bill to give effect to the recommendations contained in the President's message to the Congress of June 19. That statement summarized the Treasury's position with respect to the President's recommendations, and I should like to have you regard it as a part of my statement here today. I will read it if you wish, Mr. Chairman.

The CHAIRMAN. It was introduced before the Ways and Means Committee?

Mr. MORGENTHAU. Yes.

The CHAIRMAN. It is not necessary to read it.

Mr. MORGENTHAU. The President, in the message to which I have referred, stated that his recommendations were based on studies of our tax system carried on in the Treasury Department as well as the excellent research work done by the staff of the Joint Committee of Congress on Internal Revenue Taxation. All of the data gathered by the Treasury Department will of course be made freely available to your committee. I should like to refer particularly to studies carried on by Mr. Robert H. Jackson, counsel of the Bureau of Internal Revenue. Mr. Jackson has summarized and analyzed a great deal of data from income tax and estate tax returns which bear directly on the President's recommendations. He is prepared to present this summary and analysis to you.

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The CHAIRMAN. Now, Mr. Secretary, I want to ask you some questions with reference to this bill. There are some of us who are quite willing to go along with the recommendations made by the President in his message, but the bill that has been presented to the House, to the minds of some of us does not conform strictly to the President's recommendation. Can you tell the committee whether or not, in your opinion, it conforms to the President's recommendations?

Mr. MORGENTHAU. Mr. Chairman, if you will be patient with me a minute, in answering your direct and clear question. Your committee has its experts and the Treasury have theirs. You place me in a very embarrassing position when you ask me practically to analyze a bill that has passed the House.

The CHAIRMAN. It has been introduced, it has been reported out by the committee.

Mr. MORGENTHAU. Well, it is pending before the House. If I attempt to answer your question, I do not know whether I am able to, but if I attempt to answer it I immediately have to get into the discussion of rates and schedules, and the position that I have taken, since I have been Secretary of the Treasury, is that it is not proper, or within my province, to attempt to tell Congress what the rates and schedules of any revenue bill should be. I have always attempted to place at your disposal, and the disposal of the Ways and Means Committee, all the facilities of the Treasury on any technical question, and I feel any time that your committees have called on us for technical information we have always given it as quickly and rapidly as it was within our power to do so, and I do hope you will not ask me to analyze the bill which is now pending before the House.

The CHAIRMAN. Mr. Secretary, it is not only to keep from embarrassing you but trying to remove us from an embarrassing situation that I am asking you these questions. You need not answer them if you do not desire to answer them. I have had numerous conferences with the President, as you have, with reference to the President's suggestions. It matters not whether I agree with the President's philosophy on this thing, but evidently it is based upon the work of the Treasury Department, because it is inconceivable that the President would make any recommendation to Congress without first conferring with the Secretary of the Treasury and the Treasury experts. As I stated, there are some of us that desire to go along with the President, as we have done. That is my desire.

He recommends on a graduate corporation tax a graduated scale from 10.75 percent to 16.75 percent. The House has greatly modified that and they work it within one-half percent variation, from 13.25 to 14.25 percent, and then in addition to that they put an excess-profits tax on it. I want to know whether that procedure is approved by the Treasury Department or by the administration. I am asking it as a guiding post for the consideration of the committee.

Mr. MORGENTHAU. May I confer for a minute, please?

The CHAIRMAN. Yes.

Senator KING. While the Secretary is conferring may I say, as much as we desire to go along in the footsteps indicated by the President, speaking for myself, and myself only, I intend to vote for or against this bill dependent upon my own judgment, after full consideration of all the facts. I will try, of course, to keep before me the recommendations of the President. He has the right to make recommendations, but it is the duty that rests upon Congress to determine for itself what kind of legislation is necessary, whether it be fiscal legislation, revenue legislation, or any other kind of legislation.

The CHAIRMAN. I agree with you thoroughly on that proposition, but I think in view of the President's message, we have a right to know whether or not the administration has changed its views with reference to this item, and with reference to other items. If they have changed, I am willing to go along with the changes but I do not want to get caught coming and going on this proposition.

Senator BARKLEY. Mr. Chairman, it seems to me it is easy for anybody to read the President's message and read the bill and make up his own mind whether or not it conforms with the President's message. I understand the Ways and Means Committee went outside of the scope delineated by the message of the President to put in



some schedules that were not mentioned. Whether the Ways and Means Committee obtained information from the Treasury experts upon which it has based its judgment I do not know, but it is entirely possible that the Ways and Means Committee acted on its own volition in making some changes in the bill as suggested by the President. We can either go along with the Ways and Means Committee or we can change it as we see fit, or we can adapt from the President's suggestion something that is wise or good. I do not understand that any committee necessarily is bound by the technical terminology of any message as to the writing of the revenue bill.

The CHAIRMAN. I agree with you.

Senator BARKLEY. I do not know whether we ought to require the Treasury Department, which has furnished the Ways and Means Committee any information it desired, to categorically say whether it approves or disapproves any departure on the part of the committee from the recommendations of the President. That is the way I feel about it.

The CHAIRMAN. Of course the committee has got a right to make any rates they want to as a general proposition, but I think the committee is entitled to get the views of the Treasury on this change.

Now, will you answer the question, Mr. Secretary?

Mr. MORGENTHAU. Mr. Chairman, I will try to answer it. The President's message I think is very clean cut. It is a simple statement that I think anybody can understand. Now where the bill pending before the House varies from that it is very simple to tell. I have people here, just as you have, Mr. Parker, who can tell you in technical language where the House bill varies from the President's message.

As to the reference in the President's message as to the information gained from the Treasury on which his message is based, Mr. Jackson is here and is ready, and would like to, and I hope you will give him the opportunity, to present the information which the Treasury has on which the President's message was based.

The CHAIRMAN. We will give Mr. Jackson that opportunity. Do you approve, as the Secretary of the Treasury, the changes which are made in the House bill from the recommendation of the President?

Mr. MORGENTHAU. Senator, I do not feel it is up to me, as an appointed executive officer, to approve or disapprove any action of Congress.

Senator KING. I think you are right.

The CHAIRMAN. I think you could certainly give to this committee your views as the Secretary of the Treasury.

Mr. MORGENTHAU. As secretary of the Treasury my views are those which are contained in the President's message.

The CHAIRMAN. Well, the House bill does not have the views then contained in the President's message.

Mr. MORGENTHAU. If the House differs from the President's message, where they differ they have used their prerogative to form a law, as to what they think a tax measure should be.

The CHAIRMAN. Is it your opinion, as Secretary of the Treasury, that we would get more revenue out of the rates fixed for 10.75 percent on a graduated scale up to 16.75, without the excess profits tax, or according to the policy laid down in the House bill arranging the graduated tax from 13.25 to 14.25 percent, with the excess profits tax?

Mr. MORGENTHAU. If you will, I will let Mr. Jackson answer that. The CHAIRMAN. You have no views on that?

Mr. MORGENTHAU. I consider that an absolutely technical question. My training is such that I could not answer a technical question like that. I mean, we have got people who can talk for me.

The CHAIRMAN. We will ask Mr. Jackson. Now, as to the inheritance tax, and as to the exemption, does the exemption down to \$50,000 meet the administration's viewpoint?

Mr. MORGENTHAU. I cannot answer that.

The CHAIRMAN. Well, do you think that it carries out the suggestion in the President's message?

Mr. MORGENTHAU. Well, Senator, that gets right back to the question of my approving or disapproving what the House is proposing to do.

The CHAIRMAN. Let us get to the income tax. The surtax in the higher incomes, the President's message gives, for illustration, a million dollars; where we stop at a million dollars he desired to go up further and increase it to 75 percent in the higher brackets above the million dollars. The Ways and Means Committee began at a much less figure and has increased it below \$1,000,000 incomes, from 14 percent increase down. Does that meet the views of the Treasury Department, according to the message of the President?

Mr. MORGENTHAU. The Treasury has not, and as long as I am Secretary, is not going to have any views on how to write an income-tax bill. That, as I see it, is not my job.

The CHAIRMAN. I do not know of any Secretary of the Treasury that has not given to the Committee on Finance and the Committee on Ways and Means the views with reference to certain policies.

Mr. MORGENTHAU. Well, maybe I differ in many ways from previous Secretaries of the Treasury.

Senator KING. Mr. Secretary, you recognize the fallibility of your staff and the Treasury Department as well as the fallibility of the Congress. You conferred with the President, or made some suggestion to him, or at least your experts did. Whether Congress follows your recommendations made to the President, and his recommendations to the Congress, is quite immaterial to you, as I understand, because you think the responsibility rests upon Congress, after all, to determine the kind of revenue bill which will be enacted.

Mr. MORGENTHAU. That is what I think.

The CHAIRMAN. And it is your opinion that the administration would be satisfied with whatever kind of bill the Congress did enact?

Mr. MORGENTHAU. It would have to be satisfied.

The CHAIRMAN. It would have to be satisfied. But you are unwilling, as Secretary of the Treasury, to give to the committee your idea as to what the administration would best desire?

Mr. MORGENTHAU. Yes, sir.

The CHAIRMAN. In your letter to the Chairman of the Finance Committee on April 24, 1935, you suggested a certain procedure and a certain method with reference to inheritance taxes.

Mr. MORGENTHAU. I do not just happen to have the letter before me, sir.

The CHAIRMAN. Here is a copy of the letter.

Mr. MORGENTHAU. Thank you.

The CHAIRMAN. Now, will you give to the committee an explanation of just what you intended in that letter with reference to inheritance taxes?

Mr. MORGENTHAU. Well, Mr. Chairman, I appeared before this committee in connection with the bonus, and at that time I made the statement as to possible sources of revenue, and if I remember correctly, Senator Le Follette asked that I be instructed to send up this letter, and I think it was the result of that request that this letter was written. May I read this letter?

The CHAIRMAN. Yes.

Mr. MORGENTHAU (reading):

DEAR SENATORS: In accordance with the committee's request during yesterday's hearing, I am glad to outline below a revenue measure which would provide funds for the payment of the soldier's bonus.

1. From the standpoint of immediate feasibility no less than that of our fundamental objectives, the best source of additional revenue at this juncture would be a system of taxes on the receipt of inheritances and gifts.

Such a system, supplementing our present estate and gift taxes, would fit in well with the rest of our Federal tax structure; would add to its balance and strength; and would not materially interfere with the present estate and gift taxes.

2. The program that is here suggested would be relatively simple to formulate and to administer; yet it would be effective. In brief, it is, with certain qualifications, to subject all inheritances and gifts to a system of rates similar to that of the Federal income-tax law.

3. The result of this proposal would be that gifts and inheritances would be taxed at progressive rates, and, under it, the Congress could provide for the effective rates to vary with the tax-paying capacity of the recipients of bequests and gifts. On very large bequests or gifts during a single year—\$1,000,000 or more—if the existing income-tax rates are applied, the total tax would approximate 60 percent.

4. To prevent the necessity for hasty liquidation of large properties in order to pay the tax, it might be provided that inheritance taxes be payable in a convenient number of installments.

5. The preliminary estimate is that such a tax would yield in 1936 approximately \$300,000,000 and might range upward to 600 millions annually. Our present estate tax is estimated to yield some \$190,000,000 in 1936. It may be observed that, from estate and inheritance taxes, England, with a population of approximately one-third that of the United States, and a smaller per capita wealth and income, collected more than \$400,000,000 in death duties in the fiscal year ended March 31, 1935.

The CHAIRMAN. Do you still make that suggestion to the committee?

Mr. MORGENTHAU. Mr. Chairman, that suggestion was made in connection with the bonus, and my opinion has not changed since that time.

Senator BARKLEY. In other words, you were asked to suggest to the committee the sources of revenue with which to pay the bonus?

Mr. MORGENTHAU. Yes, sir.

Senator BARKLEY. That question is not before us now.

Mr. MORGENTHAU. I think not.

Senator BARKLEY. I suppose, though, the same sort of rates, however, for general purposes would raise the same amount as it would for a bonus?

Mr. MORGENTHAU. This was a method of raising money to pay the bonus. The method still holds good.

Senator BARKLEY. I understand you did not suggest enough methods to raise the 2 billion dollars that would be required to pay the bonus.

Mr. MORGENTHAU. No, sir.

The CHAIRMAN. Now, I wanted to ask you with reference to that letter, Mr. Morgenthau. Will you explain to the committee the details of just how you would apply that inheritance tax to the rates on the present income tax?

Mr. MORGENTHAU. May I ask one of the Treasury experts to do that? I am not a tax expert.

The CHAIRMAN. Well, as I judge from this letter, what you intended to say was that the inheritance tax could begin to apply at \$2,000?

Mr. MORGENTHAU. May I have a minute, please?

Senator KING. Mr. Chairman, as I understand the Secretary, as I understand the letter, we asked for certain information and certain data, which was submitted. I do not understand that the Secretary, or his staff, inflexibly and irrevocably committed themselves to the levy of taxes and rates as indicated in that letter. I respect the views of the Secretary that he is not expected to tell us what kind of a tax bill to write.

The CHAIRMAN. But the Secretary did tell us how we could raise between \$300,000,000 and \$600,000,000, by levying a supplementary inheritance tax on the present income-tax rates.

Mr. MORGENTHAU. That is right.

The CHAIRMAN. We start the income tax rates, I think, on single persons at \$1,500.

Mr. PARKER. \$1,000.

The CHAIRMAN. \$1,000. So we would begin the inheritance tax on \$1,000, and carry it up according to the rates that are now in the present law, and in some instances the inheritance tax would increase the rate some 6,000 percent.

Senator KING. I assume the Secretary, in obtaining this information, relied upon the data which was submitted to him by the experts.

Senator BARKLEY. In other words, if such rates were adopted they would raise such an amount. The letter did not recommend that any such levy be made, because I understand the Treasury was not in favor of the payment of the bonus. These suggestions were based on the hypothesis that the bonus would be passed and every possible source of revenue would be required to be tapped in order to raise the money. I do not understand that that would have bound the committee to have adopted the rates if the bonus was passed and we would have been required to raise 2½ billion dollars.

Senator KING. I assume, Mr. Secretary, that neither you nor your experts are called upon to give your views as to the wisdom of any rates that would make it confiscatory of the estates or confiscatory of the property of the individual.

The CHAIRMAN. Would you not figure, if the bonus were up, or if we had to raise a sufficient amount of revenue, that this procedure outlined in your letter of imposing an inheritance tax should be according to the rates now fixed in the present law?

Mr. MORGENTHAU. Mr. Chairman, when I appeared before you gentlemen before, I said there were ways of raising the money. I was asked the question, "Will you suggest a method", and we suggested a method. Then I was asked, I think the following day, or shortly after that, to put it in a letter, and I wrote that letter in response to instructions from this committee to amplify what I had said. When I came here I simply said money could be raised, and I was asked the specific question how it could be raised, and I suggested this as a method.

The CHAIRMAN. In the imposition of an inheritance tax do you think the exemption ought to go down to \$1,000?

Mr. MORGENTHAU. That gets down to the question of statistics and rates, and we have our experts here who have made a life-long study of that and they can answer any statistical or rate question, I hope, that you ask them. I cannot answer.

The CHAIRMAN. Well, you have no views then with reference to where the inheritance or estate tax should begin.

We first had a \$100,000 exemption, then we reduced it down to \$50,000, and I think it is \$40,000 now.

Mr. PARKER. It is \$50,000 now.

The CHAIRMAN. In this letter you lower it to \$1,000; is that right?

Mr. MORGENTHAU. No, no. Do I say that in that letter?

The CHAIRMAN. Yes.

Mr. MORGENTHAU. To lower it to \$1,000?

The CHAIRMAN. No; but the present income-tax rates, Mr. Secretary, start on individuals that are not married at \$1,000. You propose in this letter to put in an inheritance tax on that \$1,000, in addition to the income tax rates now fixed by law. You increased it according to the graduated scale of the income-tax rate as it is now in the law.

Mr. MORGENTHAU. I do not understand, from this letter—I may be wrong—that I suggested where we start or stop.

The CHAIRMAN. Now, what did you intend to do in that letter, then?

Mr. MORGENTHAU. Just what I said, sir; no more and no less.

Senator GORE. Read the paragraph you have in mind, Mr. Chairman.

Senator BARKLEY. I understand the letter was intended to state how much money could be raised from certain taxes. Whether the Secretary then or now would state that he was in favor of lowering the exemption to \$1,000 is not very material, because if every expert in the Treasury recommended it I would not vote for it.

The CHAIRMAN. Well, I would not, either.

Senator BARKLEY. But I do not think we ought to require them to take the position as to what our policy should be as to what rates should be levied, or where we should begin or leave off.

The CHAIRMAN (reading):

The result of this proposal would be that gifts and inheritance would be taxed at progressive rates and, under it, the Congress could provide for the effective rates to vary with the tax-paying capacity of the recipients of bequests and gifts. On the very large bequests or gifts during a single year—\$1,000,000 or more—if the existing income tax rates are applied, the total tax would approximate 60 percent.

To prevent the necessity for hasty liquidation of large properties in order to pay the tax, it might be provided that inheritance taxes be payable in a convenient number of installments.

Then you give the preliminary estimates of \$300,000,000 and \$600,000,000. Was it a fair construction to put upon this proposition that you intended to start and supplement the present income-tax rates by imposing an inheritance tax on all of this?

Mr. MORGENTHAU. Mr. Senator, the very fact we make an allowance from \$300,000,000 to \$600,000,000 I would say indicates clearly that we leave it up to Congress to say where the thing should start

and stop. If we work it out as to a definite exemption and definite rates, we would give you an exact figure, but we gave you an upper and lower limit, feeling Congress should say what the upper and lower limit should be.

The CHAIRMAN. Let us apply it on a \$50,000 exemption. What would be the estimate then, according to the suggestion made in this letter, if we were to raise any revenue?

Mr. MORGENTHAU. Can one of the experts answer that?

The CHAIRMAN. Yes.

Mr. MORGENTHAU. Mr. Haas.

Mr. HAAS. The Ways and Means Committee submitted to the Treasury various schedules which embodied this principle as outlined in the Secretary's letter to the Chairman of the Finance Committee, and asked the Treasury to submit estimates on the schedules. I might read the statement which was submitted by the Treasury to the Ways and Means Committee.

D. Tables 11 and 12 embody the proposal of taxing the combined inheritance or gift and statutory net income at present income-tax rates, with a deduction of the tax paid on the statutory net income. Thus, in effect, all inheritances and gifts received by an individual in any year would be treated as ordinary income and subjected to the individual income-tax rates. The effective rate of the inheritance or gift tax would therefore vary directly with the accumulated wealth and earning power of the recipient, as measured by his income.

The average income of several years, rather than the income of a single year, may be used.

(a) If no exemptions are provided for, such a tax is estimated to yield \$678,000,000 in additional revenues.

(b) If a tax credit of \$9,700 be allowed for each recipient, thereby freeing all inheritances and gifts of \$50,000 or less from any tax, and likewise reducing the tax on all larger amounts by \$9,700, this proposal is estimated to yield \$472,000,000 in revenue.

(c) If a tax credit of \$9,700 be allowed each recipient of inheritance or gift of \$100,000 or less, thereby freeing all inheritances and gifts of \$50,000 or less from any tax, but not allowing this tax credit in connection with amounts larger than \$100,000 the estimated revenue is \$503,000,000.

The CHAIRMAN. Mr. Secretary, in the House bill they have about 10 years in which to pay this inheritance tax. It is 10 years, isn't it?

Mr. PARKER. Ten years.

The CHAIRMAN. And the rate of interest is 3 percent for a certain number of years.

Mr. PARKER. The first 3 years.

The CHAIRMAN. The first 3 years 3 percent, and then after that 6 percent. Do you think that is a long enough time to wait on the proposition?

Mr. MORGENTHAU. May I have a minute, please? I am informed in Mr. Jackson's statement he covers that particular field in great detail. Now, if you would like him to read from that particular part now he would be glad to do so, whatever you wish.

The CHAIRMAN. It is your belief that in these large inheritances, where a large rate is imposed upon the estates, and then a still larger rate imposed upon the inheritance, that there ought to be liberality manifested by the Treasury in permitting these estates that have their investments, in large part, in going concerns, so that they can refinance themselves through banks or otherwise, but that a lien be imposed upon them?

Mr. MORGENTHAU. May I have a minute, please? I would say that the Treasury's position is that we favor a liberal policy. As to

the details, why we would be glad to tell you what policy we have and are now following in regard to this matter.

The CHAIRMAN. What is the policy that you are now following?

Mr. MORGENTHAU. Mr. Jackson will answer that.

Mr. JACKSON. Well, I have the detailed statistics as to just the number of extensions that are applied for, the number of extensions that are granted.

The CHAIRMAN. That is on the present estate tax?

Mr. JACKSON. That is on the present estate tax, but it is some measure, of course, of the difficulty that is now experienced. All of that appears in the statement which I will make to you later, unless you prefer to go into it by sections. Just as you prefer, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, may I ask you, if there were a lien—of course, the lien is imposed now on the estate tax until it is paid. That is right, isn't it?

Mr. MORGENTHAU. Yes.

The CHAIRMAN. If a lien is imposed upon this inheritance tax, this large amount that we seek to impose here, do you see any difficulties in a person who inherits a large amount, who has his money invested in a going concern, whether it is an automobile plant or whatnot, in refinancing his organization or getting money from banks if the Government is going to put a lien upon his property?

Mr. MORGENTHAU. Just a moment, please. Mr. Chairman, that would depend upon the composition of the estates, and Mr. Jackson here has an analysis of cases which we have handled and which are now pending before the Bureau, and he can either go into it now or he can go into it when he reaches it in the statement.

The CHAIRMAN. Were all of these details discussed before the message came to Congress?

Mr. MORGENTHAU. No.

The CHAIRMAN. What is that?

Mr. MORGENTHAU. No.

The CHAIRMAN. There was no consideration given by the Treasury to these details before the message came to Congress?

Mr. MORGENTHAU. I withdraw that answer. The Treasury is constantly making studies in relation to taxes, and there is not a day passes that we haven't got people that constantly study that subject. I hope that the Treasury's staff is able enough, that they have covered all possible features of taxation, and they are constantly doing it. That is what our job is.

Senator KING. Different questions arise, new factors are introduced in business and into the Treasury's calculations, and into our economic life every day.

Mr. MORGENTHAU. Last summer we sent some people, and you sent several to England for 2 or 3 months to bring ourselves up to date, and those kinds of research studies are constantly going on.

Senator GORE. Did they submit any report on their investigation?

Mr. MORGENTHAU. Yes, sir.

Senator GORE. Has that been submitted?

Mr. MORGENTHAU. Yes, sir.

Senator GORE. Printed in our hearings?

Senator KING. Printed in pamphlet form. I have two at my office.

Senator COSTIGAN. Were these continuing studies of the Treasury available to the President at the time of the message?

Mr. MORGENTHAU. Anything that the Treasury has is always available to the President.

Senator BARKLEY. Now, as I understand it, talking about the lien, there is a lien at present on the estate that is taxed for the collection of the tax, and they have at this time 5 years to pay—or what is it?

Senator KING. Eight years.

Senator BARKLEY. Eight years, in which to pay. It is proposed here, in this legislation, to give 15 years, I believe.

The CHAIRMAN. Ten.

Senator BARKLEY. Our suggestion was 12 when we were talking about it before. This House bill proposes 10?

The CHAIRMAN. Ten.

Senator BARKLEY. I suppose that is subject to change also by the Senate, but is there anybody, whether he is the Secretary of the Treasury, or tax expert, or Senator, able to tell whether any particular estate would have difficulty in borrowing money from a bank, giving a mortgage on the property on which the Government has a lien?

Mr. MORGENTHAU. All I can say, Senator, is that we have this analysis, and I would be very glad to have Mr. Jackson give it to you now. That touches right on that point.

Senator BARKLEY. Does anybody propose that the Government retain no lien on these estates, or the inheritances, outside of that proposed to collect this tax?

Mr. MORGENTHAU. Are you asking me that question?

Senator BARKLEY. Yes.

Mr. MORGENTHAU. Mr. Chairman, may Mr. Jackson answer?

The CHAIRMAN. Yes.

Senator BARKLEY. I say there is no lien in the sense that the city has a lien on a piece of property for street improvements, so it is recorded at the courthouse and gives notice to all the public that there is such a lien for any unpaid assessments, but in a general sense the Government has a prior claim of a general nature against estates for the collection of this tax?

Mr. JACKSON. That is right, Senator Barkley.

Senator BARKLEY. It would naturally be carried along on any inheritance tax, the same sort of obligation.

Mr. JACKSON. But it can be made a lien.

Senator BARKLEY. It can be made a lien by taking certain steps?

Mr. JACKSON. On specific estates.

Senator BARKLEY. On particular property. So it would be a matter of public record?

Mr. JACKSON. That is right.

Senator BARKLEY. Anybody who bought that property or accepted a mortgage on it would have notice that the lien would attach to that particular property. But in the absence of that procedure it is just in the nature of a general claim against the estate by the Government for the collection of tax.

Mr. JACKSON. The executor is free to liquidate according to his own wishes.

Senator BARKLEY. Yes.

Senator KING. It seems to me very clear that it would be almost impossible for any bank, or any number of banks, to give credit, make a loan of several millions of dollars to aid the person who was the beneficiary of a decedent's gift of an estate to liquidate the indebted-

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REVENUE ACT OF 1935

...where the property consists of stocks, bonds, and real estate...  
...to liquidate the business...  
...The business has not to exercise some prudence. They  
...to guard and protect the interests of their depositors, and the  
...to pay out by way of interest to our two or three million dollars on a  
...for the purpose of meeting the tax, others the estate consists of  
...of stocks and bonds and property, and so on, scattered  
...in half a dozen States.

Mr. JACKSON. It depends entirely on the composition of the individual estates.

Senator BYRD. Absolutely. So there ought to be a liberal policy provided to meet those conditions, because if you force liquidation, then the payment of the tax, you are going to destroy the estate, and you are going to confiscate the property that is supposed to be inherited by the heirs of the deceased.

Senator HARRIS. You cannot lay down any ironclad rule by which all estates or all administrations of estates can be governed in the collection of these taxes. That is our problem that confronts us.

Mr. JACKSON. We make a great many extensions, a great many compromises. Both the extension power and compromise power are exercised in connection with estates that have difficulties in liquidation. Some estates could not liquidate if they did not have a modicum of tax to pay because of the involvements of debt. Other estates have tax-exempt securities far and away above the tax, and they have no difficulty at all. Now, our study shows 55 percent of the average estate is in securities, and debts are 18 percent of the gross assets. So that the general run of estates, if you legislate for the generally instead of the particularity of the estates, are not particularly embarrassed.

Senator CORTOGAN. What is the average percentage in real estate?

Mr. JACKSON. The average percentage in real estate is 19.1 percent; in securities, 53 percent; in mortgages, cash, and insurance, 22 percent; miscellaneous, 5 percent; and the debts average a ratio of 14 percent in 1932 and 17 percent in 1933. Those are the latest figures we have.

Senator BYRD. How about the tax-exempt securities? Have you got them separately?

Mr. JACKSON. No; it is not segregated, Senator Byrd. The average number of extensions granted has ranged from 1 percent and 0.22 in 1929 to 2.16 in 1935.

Senator GORE. What item was that?

Mr. JACKSON. That is the number of extensions by the Commissioner to enable delay in liquidation, and it runs from 1 percent to 2.16 percent.

Senator GERRY. Under this bill, where you combine the estate and inheritance tax at the end of 5 years, the interest running against the estate would be 12 percent, would it not, annually?

Mr. JACKSON. I think that is the provision of the present House bill.

Senator GERRY. That is the provision of the present House bill, as I understand it.

Senator LONERGAN. Mr. Chairman, may I ask a question?

The CHAIRMAN. Go ahead.

Senator LONERGAN. Mr. Secretary, let us take the case of an individual manufacturer who has established a large business, and who owns the business, and we will say that the business is worth \$500,000. This estate is represented by factory buildings, by machinery, by the unfinished product, by the finished products, and certain cash in the bank. He dies and he has an heir. How would the Government proceed to collect the inheritance tax in a case like that?

Mr. MORGENTHAU. May Mr. Jackson answer that?

The CHAIRMAN. Yes.

Mr. JACKSON. I do not think the case cited gives adequate information to determine the question. If that business, worth \$500,000, is not involved in debt, it then becomes a comparatively simple matter to raise money on it, provided it has earnings. All of those elements which go into the determination of a banker's risk enter into the question of how easily that tax could be paid.

If, on the other hand, you assume that it has involvements in debt, that it owes a bond issue of one-third of its assets to one-half of its assets, and that it has a floating debt as much as the banks would permit, then you have a real problem on hand and you would have to sit down with the executors and work on the question of extension, and you might even work to compromise, as we do every day in connection with the estates which are involved.

It is absolutely impossible to lay down any rule, Senator, for the liquidation of estates until you know the ratio of debts to quick assets, and if your quick assets are all involved in one business then you have got to look to the balance sheet of the business.

Senator LONERGAN. I think I have made myself clear. I have cited a case. I know a great many now with the tax running against the estate, the inheritance tax and the estate tax, where the tax would be, under the House bill, \$440,000,000. I want to know how the \$440,000,000 could be raised without destroying that industry.

Mr. JACKSON. Of course there are many ways that the executors would presumably work it out.

Senator LONERGAN. Tell me one way, will you?

Mr. JACKSON. Yes. You have assumed that he owns the entire business?

Senator LONERGAN. Yes, sir, free of debt.

Mr. JACKSON. Free of debt. Then I assume the first logical step would be to raise money on the business by way of a bond issue.

Senator LONERGAN. Tell me how it could be done.

Mr. JACKSON. If I had to do it I would go to a good banker and take his suggestion. I think there would be plenty of people glad to underwrite the bond issue on the example you have in mind, Senator.

Senator LONERGAN. You mean he would underwrite the \$440,000,000 on an estate of \$500,000,000?

Senator GORE. An individual or corporate estate?

Senator LONERGAN. Yes, sir; an individual estate.

Mr. JACKSON. You do not ordinarily find that all of the assets of persons in those situations are involved in that business. There are a lot of other assets to which resort can be had.

Senator LONERGAN. I am assuming that there are not any other assets, that the entire estate is represented by the business. How can the Government proceed without destroying the business?

ness where the property consists of stocks, bonds, and real-estate properties in a half dozen States; it is impossible to go to the bank and get sufficient funds to liquidate the tax. It seems to me that that is obvious. The bankers have got to exercise some prudence. They have got to guard and protect the interests of their depositors, and the bank would be very foolish to loan two or three million dollars on an estate for the purpose of meeting the tax, where the estate consists of various kinds of stocks and bonds and property, and so on, scattered around in half a dozen States.

Mr. JACKSON. It depends entirely on the composition of the individual estates.

Senator KING. Absolutely. So there ought to be a liberal policy provided to meet those situations, because if you force liquidation, force the payment of the tax, you are going to destroy the estates, and you are going to confiscate the property that is supposed to be inherited by the heirs of the deceased.

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Senator LONERGAN. I am assuming that there are not any other assets, that the entire estate is represented by the business. How can the Government proceed without destroying the business?

Mr. JACKSON. I think if we are dealing with the same example that in 10 years' earnings you would pretty well take care of it, Senator. We could give a 10-year extension under the bill, as I understand it, and we would not be under the necessity of closing out that business.

Senator LONERGAN. Yes; but death has removed the genius of the business, the directing hand of the business. What is your answer to that?

Mr. JACKSON. If that is true, then the business is not worth that amount of money, if it depends on the genius of one man who passes out.

Senator LONERGAN. Isn't it true that it would result in the destruction of that business?

Mr. JACKSON. Not at all. I do not see any reason for it at all.

Senator LONERGAN. Give me a reason why it would not.

Mr. JACKSON. Because I think business that is established as well as that business is, built up as quickly as that has, there are a considerable number of interests in the United States that would be glad to purchase it and go on with it, and to supply genius.

Senator LONERGAN. Now you are a lawyer of experience. Is not this true: Have you ever seen a business that was put on the market through a forced sale that ever sold for more than 10 or 20 cents on the dollar?

Mr. JACKSON. Oh, yes. It would not go into such low percentages. It depends on the force you had to use. If you had to liquidate it within 6 months or a year, that is one thing. If you had 10 years, that is quite a different thing. Of course we have seen estates wiped out, we have seen estates report a very nice net estate and have seen them wiped out before the executors could liquidate them in 1929, but that is not a normal condition and you cannot shape legislation to take care of such abnormalities.

Senator LONERGAN. I think in the case I have cited it would result in the destruction of the business. The genius would be removed, the business would be offered and it would be sold to the high bidder, and a large number of persons would lose their employment.

The CHAIRMAN. Are there any other questions of Secretary Morgenthau? The reason I am asking, Mr. Newton D. Baker is here and I want to take him on this morning so he can get away. We will finish with Mr. Morgenthau, the Secretary.

Senator GORE. I would like to ask Mr. Jackson one question. He said the earnings of the concern would pay the taxes. As I understood him a moment ago, he said at the end of 5 years the interest would be 12 percent. That would absorb a good deal of the earnings, wouldn't it?

Mr. JACKSON. I do not want to say the earnings would pay the taxes, I do want to say the earnings on that particular business, if the past is any indication, would wipe out the tax problem.

Senator GORE. If you take \$460,000,000, paying 12 percent on that would be a good deal.

Mr. JACKSON. I have never been committed to the view that we ought to have a 12 percent interest on any indebtedness which arises involuntarily.

Senator GORE. Yes. I am glad to get that in the record.

Senator BARKLEY. The Senate passed a bill the other day reducing the interest on inheritances to 6 percent.

Mr. JACKSON. Twelve-percent interest is a pretty high rate of interest.

Senator LA FOLLETTE. Mr. Chairman, may I suggest that we have a much more orderly procedure, and then Mr. Jackson can answer the questions more intelligently, otherwise we will have to go over this again and again.

The CHAIRMAN. I wanted to finish with the Secretary himself. We will take Mr. Jackson on later.

Senator LONERGAN. Mr. Chairman, may I ask the Secretary one question?

The CHAIRMAN. Yes.

Senator LONERGAN. Mr. Secretary, what is the policy of the Treasury Department in reference to tax-exempt securities?

Mr. MORGENTHAU. Last year, I think it was before this committee, I am not sure, I appeared before Congress anyway, and recommended a constitutional amendment making it possible to do away with that exemption.

Senator LONERGAN. Is that the policy of the Treasury Department now? Would you like to have Congress proceed along that line?

Mr. MORGENTHAU. I haven't changed my opinion since last year.

Senator LONERGAN. And that is true of the administration?

Mr. MORGENTHAU. I think so; yes.

The CHAIRMAN. Are there any other questions?

Senator BARKLEY. This matter on which the Treasury Department has a policy, everybody has his own individual views about that. The Secretary of the Treasury has expressed his in the President's message, in the President's recommendation.

Senator GORE. I want to ask the Secretary a question or two. I want to get the Secretary to elaborate his suggestion that the revenues derived under this bill could be applied to the payment of the deficit, or to taking care of the debt. I am impressed with that suggestion. I would like to have you elaborate that point just a moment, as to the mechanics of it, as to what should be included in this bill in order to carry out your suggestion.

Senator KING. Senator, you do not believe, do you, that \$270,000,000, or even \$300,000,000 is going to go a very long way in meeting the deficit and paying the deficit which now is practically \$30,000,000,000?

Senator GORE. As a matter of mathematics, I do not. I would like to see the vast expenditures curtailed so we can get closer to bringing that about, but the Secretary volunteered the suggestion and I would like to have him elaborate it.

Senator BARKLEY. I presume the Secretary did not want to volunteer the suggestion that \$300,000,000 would be applied on this deficit. I understood, as far as it goes, it could be applied either to the reduction of outstanding debts or it could be applied toward the current expenditures.

Senator GORE. I drew some inference of that sort myself, but if the Senators do not object I would like to have the Secretary elaborate on it.

Mr. MORGENTHAU. Senator, I am not quite sure that I have your question clear.

Senator GORE. You say that the revenue derived on this bill is supposed to be applied to the deficits and not used in the general revenues of the Government?

The CHAIRMAN. He said, Senator Gore, it was to be applied first to reduce the deficit and later to reduce the public debt.

Senator GORE. Yes.

The CHAIRMAN. What part would you apply to reducing the debt and what part to reducing the deficit?

Senator GORE. Understand, I am in accord with your suggestion, but I want to get the details.

Mr. MORGENTHAU. As to the mechanics, if this bill is passed by Congress and it provides millions of dollars additional revenue, the mechanics of it would be, first, we would have to borrow that much less money.

Senator GORE. Yes.

Mr. MORGENTHAU. And then as we approach a balanced budget why, we could gradually apply that to the sinking fund, reducing our national debt.

Senator BYRD. What do you estimate the deficit for the current fiscal year, Mr. Morgenthau?

Mr. MORGENTHAU. Senator Byrd, the President, in his message to Congress, has estimated 4 billion dollars.

Senator BYRD. This would derive revenue for about 7 percent of the deficit?

Mr. MORGENTHAU. You are referring to the House bill?

Senator BYRD. Yes.

Mr. MORGENTHAU. Yes, sir.

Senator BYRD. The bill before the committee.

Senator GORE. Then for the present, Mr. Secretary, you just let the revenues come in to the general fund and they are to be applied to the extraordinary expenses and the ordinary expenses?

Mr. MORGENTHAU. It would just mean, Senator, we would have to borrow that much less.

Senator GORE. That is the only point you have in mind?

Mr. MORGENTHAU. That is the only point I have in mind.

Senator BARKLEY. These revenues go into the general fund, they are appropriated by Congress, like other funds?

Mr. MORGENTHAU. Yes, sir.

The CHAIRMAN. Would you go beyond applying the inheritance and gift taxes to the reduction of the national debt?

Mr. MORGENTHAU. In my suggestion that I made, I think, before the Ways and Means Committee, I suggested that would be used for that purpose.

The CHAIRMAN. The reason why I am asking, the President, in his message, suggested that only the inheritance and the gift taxes be applied to the reduction of the national debt. I was wondering if you were in accord with that, or whether you thought it ought to be broadened to apply all of the taxes that we raised under this bill?

Mr. MORGENTHAU. May I refer to a sentence which I read before the Ways and Means Committee? I said this. This is very short, it is a paragraph, if I may read it. I think it covers what Senator Gore has in mind.

The Treasury's first concern is with the adequacy of the national revenue. There are times of emergency where the Treasury must finance expenditures in

excess of income by borrowings, which increase the public debt, but the national welfare demands when such emergency is passed sufficient income be raised both to meet current expenditures and to make substantial reductions in the debt. The time has come to move in that direction. It would, of course, be unwise to impose tax burdens which retard recovery, but it would be equally unwise not to call on sources of revenue which would reduce our borrowings and later reduce the national debt without recovery. It is my belief that the additional taxes which the President now recommends fall within this clause.

Senator KING. In other words, all the taxes that come under this bill reduce the borrowings, and to that extent they do not decrease the national debt, they simply prevent us from increasing the national debt.

Mr. MORGENTHAU. They do not decrease the national debt until the Budget is balanced, then it goes to the reduction of the national debt.

Senator BARKLEY. While the President's message indicated the deficit of \$4,000,000,000, I gather from the public press that it would actually be less. Is that a fair assumption or not?

Mr. MORGENTHAU. I would not want to make any forecast. It is too difficult, Senator. I cannot answer that, it is just too difficult.

Senator BARKLEY. I do not know whether these publications are accurate or not.

Mr. MORGENTHAU. We were fortunate last year in that our estimates for revenue were low and our estimates for expenditures were high, but whether that will be so this year, I do not know.

Senator GORE. Mr. Secretary, I would like to ask this question. This revenue is proposed to take care of the deficit to the extent of 7 percent only. Do you think that is sufficient? Should we not have more revenue than that?

Mr. MORGENTHAU. Senator, that would get back to the original question of my discussing the bill pending before the House.

Senator GORE. You think, as the Secretary of the Treasury, that from the standpoint of the Public Treasury, by taking care of the deficit to the extent of 7 percent, that is all that should be done?

Mr. MORGENTHAU. Well, it would be relieved just 7 percent.

Senator GORE. There is one other question. I notice in the morning paper the President said there was a great deal of tax avoidance and evasion, and mentioned one estate where some 90-odd trusts have been established under which there was tax evasion. If you care to discuss that point I would like to hear it. I would like to have you submit some specific recommendations as to how that thing can be stopped.

Mr. MORGENTHAU. Senator Gore, that is gone into in considerable detail by Mr. Jackson in his statement.

Senator GORE. Very well.

The CHAIRMAN. Are there any other questions? Thank you, Mr. Secretary. Secretary Baker.

#### STATEMENT OF NEWTON D. BAKER, CLEVELAND, OHIO, REPRESENTING 10 ORGANIZATIONS, NATIONAL AND REGIONAL

Mr. BAKER. Senator Harrison, I am here at the request of 10 organizations, national and regional, to say a word in behalf of the proposed exemption of gifts by corporations to charitable undertakings from income taxes. I have a list of the organizations in whose behalf I am here.



1935 Mobilization for Human Needs; Gerard Swops, chairman. (Union of 35 leading national welfare organizations to reinforce local fund-raising effort administered by)—

Community Chests and Councils, Inc.; Frederick R. Kellogg, president (New York City).

National Conference of Catholic Charities; Magr. R. Marcellus Wagner, president (Cincinnati).

National Council of Young Men's Christian Associations; Frederick W. Smith, president (Newark, N. J.).

National Council of Jewish Federations; William J. Shroder, president (Cincinnati).

American Hospital Association; Mr. Robert Jolly, president (Houston, Tex.). (Most local branches of these national organizations are supported by local community chests.)

United Hospital Fund of New York; D. H. McA. Pyle, president.

Federation for the Support of Jewish Philanthropists of New York City; S. D. Leidersdorf, president.

Citizens' Family Welfare Committee of New York; James G. Blaine, chairman.

Catholic Charities of the Archdiocese of New York; Patrick Cardinal Hayes, president.

I do not want to take an unnecessary moment of the committee's time, Mr. Chairman, and for that reason perhaps it would be wiser for me to make a very brief preliminary statement and then subject myself to any questions that there are and let the committee dispose of me quickly.

The CHAIRMAN. Very well.

Mr. BAKER. The problem is, of course, a national problem. My contact with it is pretty nearly lifelong. I have been a trustee or other responsible but unpaid executive of hospitals and educational institutions, and charitable undertakings all my life. When the war came we found the necessity for united drives for the support of social services for the Army.

I hope the committee will permit me to say, because I like to say it, that American Army in the World War was the first Army in the history of the world ever to be provided with the social services of its home while it was campaigning in the field. We followed the American soldier into battle with his home influences, and the consequence was that expert opinion pronounced the American Army in France sanest, soberest, and most moral body of men of like number ever assembled on the planet. That came from the fact that recreational opportunities, entertainment facilities were supplied to these men away from home, and the usual indulgences which the soldier's idle time are resorted to were unnecessary in that instance. In order that the Young Men's Christian Association, the Catholic group, the Jewish group, the Salvation Army and those organized by the Army itself in its recreational activities could thus follow the soldiers it was necessary that there should be an appeal to the private philanthropy of the American people.

That led to what we called united drives, in which the first \$100,000,000 was secured, and later \$200,000,000 to supply these facilities. When the war was over a very great man, the greatest philanthropist with possibly one exception that Cleveland has ever had, Mr. Samuel Mather—I knew him for 30 years and I never knew his philanthropies to be less than a million dollars a year during my lifetime, and he died practically solvent—suggested that the experience of the Nation in thus unifying the support of its charitable and philanthropic undertakings certainly ought to be followed in Cleveland as a city.

August 1, 1935

At the staff meeting this morning, Miss Roche reported that a committee from the American Federation of Government employees had called on her urging her assistance in securing an Executive Order setting up an organization to take care of emergency employees dropped from the rolls. She was of the opinion it was a matter for the Civil Service Commission to handle, but they do not want to take responsibility for the employees since they have only temporary status and are not Civil Service. Mr. MacReynolds agreed with her and stated that anything which involves any Departmental contact with Government personnel should be done in the Commission rather than set up a separate agency.

Mr. Grimm reported that in accordance with the President's letter of July 30, copy attached, his staff was organized to begin work on Monday, August 5, in Newark, N. J., where his office would operate for two or more days to get the basic facts about housing and mortgage activities in that State. He plans, first, to call in the various Federal administrators in the State and then to make personal visits on civic leaders, real estate dealers, bankers and lending institutions. From information gained from this two-day meeting he intended to write a primer that will set forth very clearly, in question and answer form, what the Federal Government is attempting to do in the field of housing in the State of New Jersey and what facilities are available for all classes and conditions of people in that State.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Thursday, August 1, 1935.

Press Service  
No. 5-45

Secretary of the Treasury Morgenthau today announced the result of the offering by the Treasury on Monday of \$100,000,000, or thereabouts, of 2-7/8 percent Treasury Bonds of 1955-60, tenders for which were received at the Federal Reserve banks up to 12 o'clock noon, on Wednesday, July 31.

Tenders for \$320,981,000 face amount of bonds were received, of which \$106,483,000 was accepted at prices ranging from 101-24/32 down to 101-17/32, and accrued interest from March 15, 1935, to August 5, 1935. Only part of the amount bid for at the latter price was accepted, tenders for amounts up to and including \$10,000 being accepted in full, and 25 percent of tenders for larger amounts being accepted, but not less than \$10,000 on any such tender. The average price of the bonds to be issued is about 101-18/32, and a total premium of \$1,663,838.14 will be received. Based on the average price at which the bonds are to be issued on August 5, 1935, the yield is about 2.771 percent to the earliest call date, March 15, 1955, and about 2.787 percent to maturity, March 15, 1960.

oo9oo

August 5, 1935.

I spoke to the President, at luncheon today, and told him that Judge Barrett, of Atlanta, had been suggested as the judge to try the New Orleans tax cases starting October 7. The President said he knew nothing about Barrett and that the Attorney General had spoken to him about it last night. I asked him if it was O.K. and he said it was. At 2:30 this afternoon Irey called and I told him that the President was satisfied to have Judge Barrett.

I suggested to the President that he give a certificate to everyone who built a new home under FHA. He thought it was a grand idea.

I told the President of the possibility that next year, through Government financing, 100,000 new homes would be constructed; that it might sound wild, but I thought it was possible. He then told me a long story about a real estate dealer in Kansas who had come to see him and explained how he had developed a series of projects, developing raw land into home sites, and building homes. The President thought the Government might go into the actual building of homes. I questioned the necessity of this.

I reminded him that a week ago today I had suggested the transfer, under an Executive Order, of the supervision by Hopkins of the spending of all the money under the 4-billion-8 to the Central Statistical Board. I told him I had changed my mind; first, because Grimm was too valuable in the housing game to spare him to make him the head of the Central Statistical Board, and, second, by the time he learned what it was all about it would be too late. I, therefore, now suggested that these supervisory functions of Hopkins be transferred to Frank Walker. He seemed to think well of the idea.

I went out of my way to tell the President that some of the complaints made by Hopkins and Gill, to the effect that the Bureau of the Budget was holding up the Works Progress, were unfounded and that I had

asked them to put all of their complaints in writing and had also asked Mr. McReynolds to follow them through to see if we are subject to criticism.

I then laid two proposed Executive Orders on the President's desk which I had prepared. Order No. 1 (Exhibit "A") would have put all of the Independent Offices, as far as administrative expenses go, under the Director of the Budget. Order No. 2 (Exhibit "B") would have put the following agencies under the Budget:

Federal Home Loan Bank Board  
Home Owners' Loan Corporation  
Federal Savings and Loan System  
Federal Savings and Loan Insurance Corporation  
Federal Housing Administration  
Farm Credit Administration  
Federal Farm Mortgage Corporation

Lew Douglas tried to get the various independent agencies under the Budget a couple of years ago. As a matter of fact, the President signed the Douglas order and then Ickes raised such hell about it, it was cancelled.

I put it up to the President, as follows: I said to him, Here is a list of independent agencies whose administrative expenses last year were \$150,000,000 and they loaned approximately \$1,800,000,000. This year they forecast they will spend approximately \$280,000,000 and loan \$1,850,000,000. In other words, they will loan less money, but administrative expenses are up about 80 percent. I told the President that if anybody got the blame for this "it will be you and nobody else." He said, "Oh, no, Henry. You are wrong. These agencies come under the Budget." I said, "Oh, no, Mr. President. You are wrong. And I am sure that you are going to be blamed for this and you will have to take it." I said, "Looking forward, the way I always do for you, I suggest that you put these agencies under the Budget." I said, "We made a review of FDIC for you and that organization now has one of the lowest overheads of any of the independent agencies."

After I had made the preliminary speech, I had Bell come in. I then explained the difference between

the two orders. Unhesitatingly, as I thought he would, the President took the order which confined itself to the agencies listed above, his excuse being that if he tried to grab off all the agencies at once, we would be criticised because we could not do the work fast enough. Of course, the real reason why he took the limited number of agencies is that this will postpone his getting into a row with Harold Ickes. What I hope is that we will do all of the Independent Offices first and then come to the agencies under Ickes last, and Ickes will be unable to stand the pressure of permitting his organization to go under the Budget.

I consider this one of the most important forward steps that I have been able to make with the President in a long time. I hope it sticks.

When the President talked to me about the budget, which must be two or three weeks ago, his idea at that time was that he would need about \$2,500,000,000 for relief beginning with the fiscal year, July 1, 1936. I imagine my diary will show this. The President today, he said, in discussing the budget with Harry Hopkins told Harry that not only only would he want to go into July 1 with 1-billion-2 left over from the 4-billion-8, but that he would only ask for 1 billion for relief for the year beginning July 1, 1936. (Last week he told me he had made the same statement to Frank Walker.) In other words, the President has dropped his figure in two weeks from 2-billion-5 to 1 billion.

In discussing this with Bell, he is of the opinion that the President eventually will have to cut out even asking for the 1 billion and will have to get along with what he can save out of the 4-billion-8. Personally, I would be tickled pink if we could get along with 1-billion new money.

The President told me he was anxious to get the figures, twice a month, on progress being made in individual projects. I had Bell explain to him that we were getting this information for him on the q.t. He wanted to know if we were not overlapping Frank Walker and I said we were not, because we were given authority, a long time ago, to get the necessary information on which to base the monthly financing. He said, "Fine!" and seemed very much pleased that we were getting it. I guaranteed him that no other agency could or would get it if we could not.

August 6, 1935

My dear Mr. President:

For your information, I am sending herewith a statement of allocations for certain projects under the \$4,000,000,000 relief appropriation. I would like to point out the following facts:

- (1) Total allocations for these projects amount to \$1,220,000,000;
- (2) To complete these projects it will take an additional \$671,000,000;
- (3) Out of the total sum allocated, it has been estimated by the Treasury that \$655,000,000 will be spent in the fiscal year 1936 and \$565,000,000 will be spent after June 30, 1936.

Faithfully yours,

HMjR;nmc

Agency and Projects	Location	Estimated	Allocation	Additional	Est. Transf. from Allocation	
		Cost As Complete		Funds Required	1955	Beyond 1955
<b>ARMY Corps</b>						
Public Works - Mainway	All States	500.0	500.0	-	250.0	250.0
Other	All States	59.8	59.8	-	29.9	29.9
<b>Total</b>		559.8	559.8		279.9	279.9

CONFIDENTIAL

<b>Interior</b>						
<b>Reclamation</b>						
<b>(Continuation of Projects)</b>						
Des	Grand Coulee, Wash.	25.0	25.0	25.0	-	-
Des	Hoover-Dam Project	15.0	10.0	3.0	-	-
Ball River Project	Arizona	6.8	4.5	2.3	-	-
All-American Canal	California	29.5	15.0	14.5	-	-
Klamath-Pule Lake	California-Oregon	.6	.1	.7	-	-
Grand Valley Project	Colorado	.2	.2	-	-	-
Colorado River Survey	"	.2	.2	-	-	-
Hoist Drainage Project	Idaho	4.9	1.0	3.9	-	-
Hoist-Drainage Div.	"	.6	.6	-	-	-
Hoist-Drainage Des	Montana	.4	.2	.2	-	-
Hoist-Des Project	"	.7	.7	-	-	-
Don River Project	"	2.5	1.5	1.0	-	-
Carlsbad Project	New Mexico	.3	.3	-	-	-
Tule Project	Oregon	1.5	1.5	-	-	-
Ogden Project	"	.1	.1	-	-	-
Hoist-Drainage Project	North Dakota	1.3	1.3	5.4	-	-
Salt Lake-Provo River	Utah	7.7	1.3	.5	-	-
Ogden River Project	"	.5	.5	-	-	-
Summary Investigations	"	.5	.5	-	-	-
Toklan Project	Washington	4.2	1.0	3.2	-	-
Hoist-Des Project	Wyoming	5.5	1.5	5.0	-	-
<b>Total Continuation of Projects</b>		127.0	64.2	62.8	11.7	36.5

<b>(New Projects)</b>						
Des	Frenchtown, Mont.	.1	.1	-	-	-
Des	Giffon, Texas	5.0	5.0	16.4	-	-
Gila Project	Arizona	20.4	2.0	15.0	-	-
Central Valley Project	California	170.0	20.0	150.0	-	-
Buffalo Rapids	Montana	4.0	1.0	3.0	-	-
Caballo Dam	New Mexico	.9	.9	-	-	-
Desert River Project	Nevada	.5	.5	-	-	-
Hoist-Des Project	"	1.0	1.0	4.6	-	-
Yukone-Reno Division	Washington	11.6	5.0	6.6	-	-
Colombia Basin Project	"	200.3	.3	200.0	-	-
<b>Total New Projects</b>		413.8	35.8	378.0	6.4	27.3
<b>Total Reclamation</b>		540.8	100.0	440.8	18.1	63.8

<b>NAVY</b>						
Yards and Harbors - Miscellaneous	19 States	15.8	15.8	-	12.0	3.8

<b>TREASURY</b>						
Bank of America - Deposits and State	24 States	2.0	2.0	-	2.0	-
Shore Facilities	"	3.3	3.3	-	3.3	-
<b>Total</b>		5.3	5.3		5.3	

<b>WAR</b>						
<b>Corps of Engineers</b>						
<b>(Continuation of Projects)</b>						
Debris Basins	LaCrescenta, Calif.	1.5	1.5	-	.7	.8
Jetties	Los Angeles, Calif.	2.8	2.8	-	1.0	1.8
Costuming Breakwater Constr.	"	3.3	100	2.3	.6	.4
Flood Control Work	Florida	2.7	2.7	-	1.5	1.2
Harbor Improvements	Tampa, Florida	1.5	1.5	.4	1.0	.5
dredging Cape Cod Canal	Massachusetts	26.0	5.0	21.0	3.0	2.0
Construction of Dams	Upper Mississippi River	25.1	25.0	21.1	12.0	13.0
Mississippi River Protection	Missouri & Illinois	11.5	1.0	10.3	.7	.3
Missouri	Empire Clip, Missouri	4.7	1.7	3.0	1.2	.5
Stabilizing Missouri R. Chan.	4 States	10.0	10.0	24.0	5.0	5.0
dredging Delaware River	New York & New Jersey	27.0	2.0	25.0	1.2	.8
Reservoir and Dam Constr.	Pennsylvania & New Jer.	2.9	2.9	-	2.0	.9
Lock and Dam Construction	Tigert River, N. Va.	5.7	2.0	3.7	.7	1.3
Lock and Dam Construction	Kanawha River, W. Va.	7.4	2.5	1.9	2.5	3.0
Miscellaneous	All States	8.5	8.5	-	4.2	3.3
Reservoir Construction	Fort Peck, Montana	16.0	16.0	11.0	10.0	5.0
<b>Total Continuation of Projects</b>		201.8	221.1	173.7	64.3	59.6

<b>(New Projects)</b>						
Concrete Flood Levees	Los Angeles, Calif.	1.6	1.6	-	.7	.9
Concrete Conduits	"	1.6	1.6	-	.8	1.0
Flood Control & Water Conserv.	"	1.5	1.5	-	.7	.8
dredging Channel	San Diego	1.8	1.8	-	1.2	.6
Debris Basins	Palmdale	1.2	1.2	-	.6	.6
dredging & Prot. Ship Canal	Delaware & Maryland	15.0	5.1	7.9	2.5	2.6
Pennamaddy Project	East Port, Maine	10.3	10.0	26.3	5.0	5.0
dredging Black Rock Channel	New York	1.8	1.8	-	1.0	.8
dredging State Barge Channel	"	27.0	5.0	22.0	2.5	2.5
Lock and Dam Construction	Allegheny River, Pa.	2.8	2.8	-	1.5	1.3
Lock and Dam Construction	Pittsburgh, Pa.	6.0	1.2	.8	.6	.6
<b>Total New Projects</b>		92.8	33.8	59.0	17.1	16.1
<b>Total Corps of Engineers</b>		294.6	254.9	232.7	81.4	75.7

<b>Quartermaster Corps</b>						
Camp and Country Improvements	40 States	10.0	10.0	-	8.0	2.0
<b>Total</b>		304.6	264.9	232.7	89.4	77.7



Agency and Projects	Location	Estimated Cost to Complete	Allotment	Additional Funds Required	Est. Expend. from Allotments	
					1935	1936
<b>F. W. A.-Housing Division</b>						
Alabama	- 1 Project	2.5	2.5	-	-	-
Calif.	- 1 "	5.0	5.0	-	-	-
Calif.	- 1 "	1.5	1.5	-	-	-
D. C.	- 2 "	4.6	4.6	-	-	-
Fla.	- 3 "	3.5	3.5	-	-	-
Georgia	- 1 "	.7	.7	-	-	-
Illinois	- 3 "	28.7	28.7	-	-	-
Indiana	- 1 "	1.0	1.0	-	-	-
Ky.	- 2 "	3.3	3.3	-	-	-
La.	- 2 "	5.0	5.0	-	-	-
Maryland	- 1 "	3.0	3.0	-	-	-
Mass.	- 1 "	5.5	5.5	-	-	-
Minn.	- 2 "	10.0	10.0	-	-	-
Mo.	- 1 "	7.0	7.0	-	-	-
Nebr.	- 2 "	4.0	4.0	-	-	-
N. J.	- 3 "	7.3	7.3	-	-	-
N. Y.	- 4 "	34.5	34.5	-	-	-
N. C.	- 1 "	1.0	1.0	-	-	-
Ohio	- 7 "	25.1	25.1	-	-	-
Okl.	- 3 "	4.4	4.4	-	-	-
Pa.	- 5 "	20.0	20.0	-	-	-
S. C.	- 2 "	1.9	1.9	-	-	-
Tenn.	- 5 "	7.9	7.9	-	-	-
Texas	- 3 "	5.5	5.5	-	-	-
Wisc.	- 1 "	2.2	2.2	-	-	-
P. R.	- 1 "	2.0	2.0	-	-	-
Virgin I.	- 1 "	.5	.5	-	-	-
<b>Total</b>		<b>201.6</b>	<b>201.6</b>		<b>50.0</b>	<b>151.6</b>
<b>Loans and Grants</b>						
High School Building	New York City	1.1	1.1	-	.5	.6
Sewage Disposal Plant	"	11.4	11.4	-	4.0	7.4
High School Building	"	1.6	1.6	-	.5	1.1
Brooklyn College Buildings	"	2.5	2.5	-	1.0	1.5
Kings County Nurses Home	"	1.0	1.0	-	.4	.6
Flood Control, Irrigation, Power	Houston, Texas	15.0	15.0	-	3.0	12.0
Miscellaneous (120) Projects	35 States	10.2	10.2	-	5.9	4.3
<b>Total</b>		<b>42.8</b>	<b>42.8</b>		<b>15.3</b>	<b>27.5</b>
<b>Rural Electrification Administration</b>						
		1.3	1.3	-	1.3	-
<b>Works Progress Administration - Miscellaneous Small Projects</b>						
	15 States	147.1	147.1	-	147.1	-
<b>Other</b>						
		20.0	20.0	-	16.1	3.9
<b>GRAND TOTAL</b>		<b>1,893.1</b>	<b>1,820.6</b>	<b>571.5</b>	<b>595.4</b>	<b>565.2</b>

See Treasury Statement 1-27-35  
 Loans and Grants 42.8  
 Highway 500.0  
 Rivers and Harbors 121.9  
 Rural Electrification 1.3  
 Works Progress Adm. 147.1  
 Housing 201.6  
 Other 205.9  
 Total 1,220.6

August 7, 1935

The following message was delivered to me at 5.p.  
today:

"Shanghai  
August 7, 1935

TO: Secretary of the Treasury  
FROM: Nicholson, Treasury Attache at Shanghai

During information conversation yesterday T. V. Soong, Chairman Economics Commission requested me to forward you following message:

'I trust that the United States of America Treasury will find it possible to accept the British suggestion and Chinese Government invitation to send its financial expert to China. British and French experts due to arrive here early September. Despatch expert does not commit United States of America Treasury to any line of action on the other hand American expert may be able to influence events so that United States of America and China currency policies may not be at variance. Chinese Government would be loathe to find that in absence of United States of America representations of policy are worked out which may prove injurious to American interests.'

My number one August 7."

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Tuesday, August 6, 1935.

Press Service  
No. 5-49

Secretary of the Treasury Morgenthau today announced that final reports from the Federal Reserve banks show that \$1,610,886,550 of the First Liberty Loan Bonds have been exchanged for 2-7/8 percent Treasury Bonds of 1955-60 or for 1-5/8 percent Treasury Notes of Series A-1940. About \$1,933,000,000 First Liberty Loan Bonds were outstanding when the exchange offering was announced last April.

Allotments for each issue were divided among the several Federal Reserve districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Bonds Allotted</u>	<u>Notes Allotted</u>	<u>Total Allotted</u>
Boston	\$ 69,655,500	\$ 66,661,450	\$ 136,316,950
New York	274,134,900	515,001,850	789,136,750
Philadelphia	50,215,850	23,311,900	73,527,750
Cleveland	74,224,950	63,206,150	137,431,100
Richmond	32,521,350	29,967,750	62,489,100
Atlanta	9,629,950	3,077,500	12,707,450
Chicago	91,959,200	98,077,400	190,036,600
St. Louis	28,099,700	12,661,050	40,760,750
Minneapolis	10,031,050	5,223,800	15,254,850
Kansas City	21,799,400	7,194,200	28,993,600
Dallas	23,710,850	6,405,900	30,116,550
San Francisco	38,711,700	25,108,450	63,820,150
Treasury	<u>21,712,350</u>	<u>8,582,600</u>	<u>30,294,950</u>
<b>Total</b>	<b>\$746,406,550</b>	<b>\$864,480,000</b>	<b>\$1,610,886,550</b>

ooOoo

August 8, 1955

Last evening, at the dinner in honor of Ambassador Straus, given by Commissioner Payne of the Federal Communications Commission, the Chinese Ambassador rushed over to me, in a very friendly manner but obviously eager to talk to me.

He said he was very, very anxious that our Government send a financial adviser to China, but understood I was opposed to it. I told him that was perfectly true. He said that was a great mistake and that I should send one. I said, "No. If I were to send a representative over there, your people would just crucify him and jump all over him for our silver policy. There is an Ambassador for your people to see and you know, as well as I do, that the program is laid out for me and there is nothing I can do." I repeated that I would not send someone over there to be crucified and, furthermore, I had no one to send. He said, "I will guarantee they won't do anything like that." I said, "But you can't guarantee anything like that." He replied, "Oh, yes! I can."

I told the Ambassador that Mr. Soong should have come over here last February and the chances are fifty-fifty that we would have gotten together and that I still think the only way to do it is from here and not in China. Ambassador Sze said, "Suppose Mr. Soong went to Europe?" I replied, "Well, I am going to Europe on the 15th of September." The Ambassador's face lighted up and he said, "That would be wonderful! I will get off a cable tonight." I reminded Mr. Sze that I had not discussed this with the President, but, I said, "I can tell you that there will be 75 chances to one that the President will agree to this."

(As a matter of fact, I did discuss this very suggestion with the President, about two weeks ago, and he approved the idea at that time.)

Mr. Sze asked me details as to my plans and how Mr. Soong and I could meet. I told him I would arrive in Portugal on the 22nd of September and it would be easy enough to arrange a meeting place after we get over there.

I told the President, over the telephone this morning, what had happened and he said, "Fine!" and approved the idea.

August 8, 1935

At the group meeting this morning Mr. Grimm told of the discussions his office and Mr. Opper have been having with the firm of Quincy & Co., large distributors of Federal securities.

This firm is very anxious to get into the distribution of low-cost housing bonds, but no machinery for that has been set up. The very terms of the debenture have not been defined or even written. That function specifically is this: the individual who has a plot of ground or can buy a plot of land suitable for low-cost housing in an urban community talks to FHA. They whip it into shape and agree under certain terms to insure the mortgage. The next step is to have a bank agree to act as trustee and service the issue and that is where a firm such as Quincy & Co. comes into the picture, by underwriting and disposing of the bonds to the public. At first, Mr. Grimm, thought this was not possible since the Treasury Department could not encourage relations with one house to the exclusion of all others, but this procedure would be quite different since as a matter of fact the Government is doing nothing there except as a third party, insuring. The money comes from outside the Government.

Mr. Coolidge could see no objection, in view of the fact that the Government had no hand in the distribution, and was not giving preference to one person. Mr. Morgenthau raised no objection.

August 8, 1935.

17

A group made up of representatives of Federal agencies interested in housing met in the office of the Secretary of the Treasury at 11 A.M., Thursday, August 8th. Those present were:

Henry Morgenthau, Jr., Secretary of the Treasury  
T. Jefferson Coolidge, Under Secretary of the Treasury  
Peter Grimm, Assistant to the Secretary of the Treasury  
Josephine Roche, Assistant Secretary of the Treasury  
J.F.T. O'Connor, Comptroller of the Currency  
C. V. Opper, Assistant General Counsel, Treasury Department  
W. I. Myers, Governor, Farm Credit Administration  
Arthur Walsh, for the National Emergency Council  
E. B. Schwulst, President, RFC Mortgage Company  
Marriner S. Eccles, Governor, Federal Reserve Board  
Stewart McDonald, Assistant Administrator, FHA  
Jacob Baker, Assistant Administrator WPA  
T. D. Webb, Member, Home Loan Bank Board  
Ormond E. Loomis, Executive Assistant to the Chairman, HOLC  
B. M. Pettit, Chief, Branch No. 1, Housing Division, PWA  
H.A. Berman, Chief Counsel and Assistant Director, Housing Division, PWA  
C. B. Upham, Secretary, Interdepartment Loan Committee

Mr. Morgenthau referred to the fact that most of the agencies represented at the meeting were included in the membership of the Interdepartmental Loan Committee, of which he is Chairman, and that the activities of the lending committee in the field of housing were initiated at the suggestion of the President.

Mr. Morgenthau referred to the fact that Peter Grimm had held a meeting in Newark on Monday, August 5th, which was attended by the New Jersey representatives of the Federal agencies interested in housing.

Mr. Grimm made a short report on the meeting in Newark stating that there were 34 persons present representing 11 agencies, that information was sought as to the local objective of each of the agencies represented, the degree of accomplishment, and methods in which the agencies could be mutually helpful. He reported that the meeting had been a success in that there had been an exchange of ideas and a comprehension by each representative of the field and function of the others. He mentioned the fact that there had been agreement among those present that the activity of those agencies operating in the field of distress relief were declining while the activities of those agencies which were inducing private business pickup were increasing.

Mr. Grimm reported that on Tuesday he had met a number of real estate men and bankers for a discussion of their business and of Government activity. He reported the volume of their business as growing, vacancies disappearing, prices no better to some better, but with expectation that better prices were ahead. They re-

ported that business is in good shape and that they had been able to iron out any difficulties that they might have had with the FHA with respect to such things as commissions and appraisers' charges.

Mr. Grimm thought that for the first time the support of local real estate men is being secured and the business of the FHA increasing. At noon on Tuesday, Mr. Grimm had lunch with 6 or 7 bankers to discuss their attitude toward Government agencies. They were enthusiastic about the activities of the FHA and also favorably disposed toward the HOLC. They were somewhat disturbed about the growth of the bonded indebtedness of the City of Newark and were inclined to resent activity of the PWA in urging projects upon the City which they felt were not needed.

Mr. Grimm also met with representatives of the Building and Loan Associations who were pleased with the work of the Home Loan Banks but were of the opinion that sometimes they were not consulted by the Home Loan Bank Board on important matters. The Building and Loan Associations are eager to get back into the lending business in a big way and report that they are in good shape with no clouds on the horizon.

Mr. Morgenthau suggested the desirability of issuing a pamphlet telling in a simple manner where the man who wants to build or buy a home can go to get help.

It was suggested that Miss Root of the U.S. Employment Service had such a pamphlet. It was also suggested the the U.S. Government Manual had information of this character. The representatives of the Federal Home Loan Bank Board indicated that they had a housing service with offices in a number of cities. The representatives of the FHA said that they were doing the same thing.

It was suggested that the Delano Committee is coordinating housing agencies.

Mr. Morgenthau said that the President had no knowledge of the Delano Committee.

Mr. McDonald said that it had been appointed by the President to coordinate housing agencies and that it had issued three reports so far.

At present there is discussion of the creation of a permanent committee with a permanent secretary and they are trying to find \$150,000 for their annual budget.

It was reported that the Delano Committee started last April, that it has had several meetings and that it has made a report to the President.

Mr. McDonald said it was studying where each agency infringes

on another and mentioned by way of illustration the possibility of the PWA trying to acquire a site for low cost housing and the FHA trying to induce private capital to go into a low cost housing project a block away.

Mr. Morgenthau said that he and Mr. Grimm would see the President at 2 o'clock and decide whether the Grimm Committee should go ahead or quit or combine with the Delano Committee.

Objectives:

- 1. Peak expenditures should be January, February, March.
- 2. Have 1-billion-0 left over July 1, 1936.
- 3. Cut out every expenditure that will not be completed by July 1, 1936.
- 4. Unexpended funds of 3-billion-0 should flow through same channels as 2-billion-0.
- 5. A date and yardstick on which to cut off PWA activities
  - a. 49-55
  - b. Loans and grants for housing.

START THIS PROGRAM BY AUGUST 19.

Copy for:

- Secretary Morgenthau
- Mr. Bell
- Mr. Brown
- Mr. Clegg
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Carson
- Mr. Egan
- Mr. Gurnea
- Mr. Harbo
- Mr. Hendon
- Mr. Pennington
- Mr. Quinn
- Mr. Nease
- Mr. Gandy



*MA*

VERY CONFIDENTIAL

August 8, 1935

**Objectives:**

1. Peak expenditures should be January, February, March.
2. Have 1-billion-2 left over July 1, 1936.
3. Cut out every expenditure that will not be completed by July 1, 1936.
4. Unexpended funds of 3-billion-3 should flow through same channels as 4-billion-8.
5. A date and yardstick on which to cut off PWA allotments
  - a. 45-55
  - b. Loans and grants for housing.

**WANT THIS PROGRAM BY AUGUST 19.**

**Copy for:**

- Secretary Morgenthau
- Mr. Bell
- Mr. Grimm
- Mr. McReynolds
- Admiral Peoples
- Colonel Sawyer

That expenditures  
should be Jan - Feb <sup>March</sup>  
Have 1.2 billion  
left over July 1, 1936

cut every expenditure  
out that will not  
be completed ~~this year~~  
by July 1, 1936.

Unexpended funds  
of 3.3, ~~and available~~  
should flow thru same  
channels as 4.8.

5. a date and yard  
stick in which to  
cut off P.W.A. allotments.

a. 45-55

B. Loans & grants for  
housing.

---

Want this program  
by Aug 19<sup>th</sup> —

*To the White House*  
*Aug. 13.* 21

CHART NO. 1

A graph showing each month through June 1936 how much money out of the four-billion-eight will be spent by months and how many people will be given work.

CHART NO. 2

A chart showing money given to projects that will not be completed by June 1936 and how much it will take to complete them by months and years.

CHART NO. 3

A master chart that will show moneys to be spent by months out of the four-billion-eight and all other lending agencies and the resulting employment per month.

It seems to me that in the original set-up of four-billion-eight the duties that were delegated to Mr. Hopkins, at that time, were assigned without the knowledge that he would become the biggest spending agency. Therefore, it seems only practical that the agency which is going to spend the big bulk of the money should not be the agency that will be checking up not only on itself, but the other agencies spending four-billion-eight money.

I, therefore, suggest the transfer of certain duties from Mr. Hopkins to the Department of Justice and the Central Statistical Board and am submitting the attached proposed Executive Order to carry this out. The reason for my recommendation is that while the Central Statistical Board is not necessarily the ideal agency, still in my opinion it is the only agency available which can act as outside auditors for you in a disinterested manner and it seems to me that that is of the greatest importance to you and the Treasury if we ever expect to balance the budget.

VERY CONFIDENTIAL

August 8, 1935

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2. Have 1-billion-2 left over July 1, 1936.
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  - b. Loans and grants for housing.

WANT THIS PROGRAM BY AUGUST 19.

## Copy for:

Secretary Morgenthau  
Mr. Bell  
Mr. Grimm  
Mr. McReynolds  
Admiral Peoples  
Colonel Sawyer

*Aske [Signature]*

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August 9, 1935

At the group meeting held at 9:30 this morning, Mr. Coolidge reported on a meeting with Senator Smith and other departments on Friday to discuss the Senator's export insurance plan. Senator Smith mentioned the old War Risk Insurance and thought something might be done along those lines for his agricultural export insurance. All Departments feel that it ought not to be done except possibly in the most minor way and, if done at all, should be hitched on to the Export-Import Banks.

It is my opinion that we have come to the point in this Administration where we must call a stop. We have to realize that we have 6 million bales of cotton hanging on the market unless they dump it in the ocean. The fact you give them five years to buy it won't help. I am opposed to it and have told them so point blank.

I recalled the fact that in July 1933 I sold 9 million bales of cotton to Henry Wallace for 9 cents and since then he has been buying cotton ever since. They have a serious situation and won't face it.

I told the group something which I think is of paramount importance and that is to get together an Executive Order for the President which would delegate to his lending committee the authority that all terms on lending money, length, and interest rate must be passed on by the Chairman of this lending Committee who is the Secretary of the Treasury. It should also include authority to review all terms on lending Federal or near-Federal money. By the latter I mean Land Bank and PWA. I instructed Cy Upham, as Secretary of the Committee, to work on this together with Coolidge, Bell, Oliphant, McReynolds and Grimm.

In connection with this draft, I told the group I wanted a half dozen glaring examples of conflicts. Grimm would have some in FHA or HOLC. Ickes has let everybody believe he pays the Treasury interest (he does not); but he charges other people 4 percent. On the other hand, Jesse Jones pays us interest on everything, even the money he gives away, which is very unfair. I intend to press this.

-2-

Mr. Grimm told of difficulties surrounding the largest single proposition for low-cost housing, the so-called Joseph P. Day 5½ million dollar loan taken by New York Life, which was announced four or five months ago with headlines and was to create 2 or 3 thousand jobs. They telephoned him that unless they could get this thing out of the Department within the next ten days or two weeks they would withdraw entirely for the reason that necessary construction could not be completed in time for fall occupancy. Grimm said he took the responsibility of asking them to meet with him and FHA men and they are now meeting in an attempt to iron out difficulties. I told him it had to be settled by four o'clock today.

Mr. Oliphant commented on the fact that the Senate had passed the gold clause bill allowing six months in which to start suits. He is of the opinion that this is very much worse than any legislation at all and would like to send a strong argument to the House conferees. I suggested that he do it through Stanley Reed and take it over to Mr. McIntyre to get the President's approval.



August 12, 1935.

26

A group met in the office of the Under Secretary of the Treasury to discuss the framing of an Executive Order to subject the terms of loans made by Federal agencies to the approval of the Chairman of the Interdepartmental Loan Committee.

Those present were:

Mr. Coolidge,  
Mr. McReynolds,  
Mr. Grimm,  
Mr. Opper,  
Mr. Upham.

Mr. Coolidge raised the question as to whether rates and terms on all loans made by Federal agencies or only on competitive loans should be reviewed by the Interdepartmental Loan Committee. He suggested that the real conflict seemed to be between the Rural Resettlement Administration and the Farm Credit Administration.

Mr. Coolidge and Mr. Grimm agreed that the housing agencies were being taken care of now so that overlapping there would be eliminated.

Mr. Coolidge suggested that the PWA and the TVA might be in competition with private lending agencies and raised the query as to whether such competitive loans should be included. He advanced the suggestion that the Interdepartmental Loan Committee might be constituted a sort of board of complaint or clearing house for differences between the various agencies.

It was suggested that the statutes might be looked into for possible limitations on the authority of the President to require review of rates and terms.

Mr. Coolidge was of the opinion that the Secretary, as Chairman of the Interdepartmental Loan Committee, already has authority to require the submission of lending agreements to him for approval. He was inclined to the view that less friction would develop if a clash between two of the agencies were made use of as an excuse for exercising the authority of the Interdepartmental Loan Committee rather than issuance of a general order.

There was some discussion of collecting information on the situation as it exists with respect to loans outstanding and rates charged so there could be some estimate of overlapping and conflict.

Mr. Coolidge was of the opinion that the operations of the RFC and the FCA do and should come to him rather than to the Secretary of the Committee and that the operations of the housing agencies do and should go to Mr. Grimm instead of to the Secretary of the Committee and that a simple solution of the whole matter might be to add the TVA and RRA to the membership of the Interdepartmental Loan Committee and exercise the authority already possessed by that committee rather than issuing an Executive Order.

It was suggested that the Secretary of the Committee prepare tentative drafts of letters adding the Rural Resettlement Administrator and the Chairman of the Tennessee Valley Authority to the Interdepartmental Loan Committee.

August 13, 1935

I spoke to the President and told him we had bought over 16,000,000 ounces of silver up to 10:45 this morning at 87 cents. I wanted to drop the price to 66½ cents and he said O.K.

The President told me Pat Harrison had called up, very much excited about the difference between the Senate and House tax measure. Harrison wants to go ahead with the estate tax and raise the money that way instead of through the inheritance tax because Parker advises on the Hill that the estate tax is that much easier to administer than the inheritance. The President says he must have from us, in a very few minutes, what we advise and what we think, so he in turn can talk to Senator Harrison.

After discussing it with Oliphant, Jackson and Haas, we decided on the following:

"To abandon the inheritance tax entirely and increase estate tax rates for revenue and collateral reasons would not be consistent with the President's message.

The suggestion has been made that the estate tax rates be increased on smaller estates for revenue purposes, and that inheritance taxes be applied only to very large bequests, say in excess of \$300,000. This latter plan is not necessarily inconsistent with the message and has important administrative advantages roughly summarized as follows:

(a) It avoids a large number of additional and complicated returns by taxpayers

(b) It reduces the number of cases requiring evaluation of future and contingent

(c) It avoids other administrative problems that are difficult for smaller estates often poorly advised.

The disadvantage of merely increasing the estate tax is that that would be a less extensive application of the principle of "ability to pay" because it would apply equally to an estate distributed to five heirs as to an estate distributed to a smaller number.

If there were added to the increased estate tax

-2-

an inheritance tax applied to very large bequests, the smaller estates would be spared the difficulties of administration which large estates are well equipped to bear.

This latter plan of combining increased estate tax rates on middle-sized estates with inheritance taxes applicable only to very large bequests, might be a fairly acceptable compromise in conference or otherwise, and the inheritance tax on very large bequests would be consistent with the President's message."

August 13, 1935.  
Tuesday.

30A

Senator  
Smith: Hello.

H.M.Jr: Morgenthau talking.

S: Someone said you were calling me - This is Senator Smith.

H.M.Jr: Yes. Well, Senator, the President gave me a note on this question of shipping cotton abroad - Insurance Corporation.

S: Yes.

H.M.Jr: And he asked -

S: Not only cotton, but all of the exports from America.

H.M.Jr: Yes, and he asked me to give you a ring. Now, I don't know - evidently you've been in touch with him, I gather.

S: Yes, he was talking to me this morning about it.

H.M.Jr: And he asked me to call you up. I don't know what the next move is.

S: Well, I think the suggestion that he made - I'd like to get to talk to you about that - I think the suggestion that he made to me was a practical one. That we just revise - just - have a joint resolution revising the War Risk Insurance and stating that it was on account of the unrest and the demoralized condition of the exchange of surplus that the President is hereby authorized to use the terms of the War Risk Insurance and the principles of it as was used heretofore, in such manner and such conditions as he thought best and to report to Congress get that through quicker and that there would not be so great opposition to it and make an appropriation sufficient to carry it out.

H.M.Jr: Well, the President must have been misinformed because he was under the impression that I was for this and - I don't know who told him that.

S: Well, I don't know either because I

H.M.Jr: No, and I -

S: He said he was going to tell you -

H.M.Jr: Yes.

S: - I don't know when.

H.M.Jr: And then I told him that as far as I understood it that I

was against it, and then he said, well you call up Senator Smith and talk to him and see if you can't see him.

S: Yes.

H.M.Jr: See?

S: Yes.

H.M.Jr: So that's why I called you.

S: Yes.

H.M.Jr: Now, I'm available any time that you want.

S: Yes. Well, I think that both \_\_\_\_\_ and some of the others had a misapprehension as to the practical working of it because I was one of those that don't the War Risk Insurance and I know the principles involved in it.

H.M.Jr: Well, Senator, if you'd call a meeting either today or Thurs - tomorrow or Thursday morning, I'll be glad to come to it.

S: Yes, well, I'm just tied up here in all these conferences  
Are you going off over the week-end?

H.M.Jr: Well, what I do is, in order to stay like a human being, I leave Thursday night -

S: Yes.

H.M.Jr: And I get back here Sunday night. That's the only way I can keep alive.

S: I'm just about dead myself.

H.M.Jr: So, any time that you say, I'll adapt myself to suit you.

S: All right. Then, I'll call you so I'll not interfere with your week-end because I may take advantage of it myself.

H.M.Jr: Good. Well, any time that suits you, <sup>and</sup> you give me reasonable notice, I'll adapt myself to your convenience.

S: All right. I'll do that.

H.M.Jr: Thank you.

August 13, 1935

Subsequent to my talk with the President this morning when he requested that the Treasury send him a statement on estate taxes to send to Pat Harrison, Bob La Follette telephoned Robert Jackson and said the Senate conferees would allow an inheritance tax to go in the tax measure if the House conferees would insist upon it. I instructed that a copy of the memorandum prepared for the President and which he in turn gave to Senator Harrison and Senator Robinson be given to Charlie West to hand to Congressman Doughton and this was done.

August 14, 1935

At the group meeting held at 9:30 today, George Haas stated he had reached the stage in his study of conflicting taxation, in connection with State tax collections, etc., where he would like to contact each of the States to check the tabulation and also to fill in blanks, and I told him I had no objection.

Mr. Grimm stated he considered the most important thing to be done by his office now is to keep banging away at gaining liquidity for FHA mortgages. That means bringing private funds into the construction and mortgage field. He told of a talk he had had in New York City with Mr. Rogers of the Prudential Life Insurance Company in which the latter made it clear why they could not enter this field and also mentioned a letter which indicates that the Metropolitan Life is thinking in the same terms. He cleared this matter with FHA which will result in FHA not giving up anything but which simply means it will give the same rights to the approved mortgagee as the assignee. Grimm feels that if we can thaw out the hundred millions in the insurance field we will do a great thing.

I told Grimm there is nothing more important than what he is doing, viz: find a wide distribution for the mortgages. If we can make it possible for private people to come in, it will be the important thing and the controlling factor is what is the interest rate the fellow who wants to build has to pay. The more you go into it you will find the high interest rates are in towns of 25,000 and under.

I instructed Haas and McReynolds to prepare the same style yardstick we used in Farm Credit Administration, to be applied to Federal Housing, to show the status of applications. Grimm is to arrange for a meeting with MacDonald of FHA and the work is to be done through their Statistical Department, but we will have to show him how to set it up.



August 14, 1935

I am stating publicly today that we bought more silver today than the total annual domestic production of silver in 1934 which is estimated at twenty-five and one-half million ounces. I am breaking my usual rule about giving out information of this nature, but there have been so many inquiries today I thought it better to talk. The price paid was 65 cents in London and 66 cents in New York. Most of the silver was from India and China.

I have called a press conference for six o'clock.

August 14, 1935.  
Wednesday.

32 A

H.M.Jr: Hello.

Senator  
Robinson: Hello.

H.M.Jr: Joe?

R: Yes, Henry.

H.M.Jr: How are you?

R: Fine.

H.M.Jr: Joe, I've been reading in the papers - on the news tickers about Thomas and talking about silver, resolutions, investigations and all that. Hello?

R: Yes.

H.M.Jr: And I talked to both Key Pittman and to McNary because - then Key said he'd go and talk to you. I should have called you first, which is my mistake.

R: That's all right.

H.M.Jr: But, they've both been interested in silver. Now, the point is this, I bought today more silver than the total annual production of silver in the United States last year. I'm just buying it - well, I mean, I don't mind telling you - we bought twenty-seven million ounces today, which is more than the whole production last year in the United States. I think it was twenty-two million. Now, this thing is awfully big - it's an international battle between Great Britain, Japan and ourselves and China is the bone in the middle, see?

R: Yes.

H.M.Jr: And, if they make investigation, all we'll show is this vast amount of silver and I don't want to tip my hand -

R: I see.

H.M.Jr: Now, McNary's perfectly satisfied, see?

R: Yes.

H.M.Jr: Now, I've been - they have in the paper I bought two million ounces, well, that's the joke, but I've kept my hand to my vest not to let these fellows know, and when we get through I think we're going to trim the pants off of them, see?

R: Yes.

H.M.Jr: Now, I - Pittman called me back after I talked to him and said he was going to talk to you.

R: Yes, he told me, just finished.

H.M.Jr: And he said that if anybody's going to introduce a resolution, he would. Well, that wouldn't help me either. Now, I have a way of reaching Thomas and I think I can call Thomas off tonight, see?

R: Yes.

H.M.Jr: I know the fellow - I don't mind telling you, I can reach this fellow LeBlanc, see, who tells Thomas pretty much what to do, and I think I can call Thomas off.

R: But, can you call McCarran off?

H.M.Jr: Well, of course, McCarran has threatened three or four times and all he's talking about is to take this silver tax off. Well, that doesn't bother me; that's unimportant, see?

R: Yes.

H.M.Jr: But, just at this time, I don't want to tell the world how much silver I've been buying because if they know -

R: Well, I'd better contact Key again then, because he was thinking that he'd better control the situation by -

H.M.Jr: Well, I can get a call in to LeBlanc; I think I can reach him and if I can reach him, I'll call you right away, see?

R: Yes.

H.M.Jr: It may take me a little while, but - how long will you be on the Hill?

R: Oh, I don't know, half an hour, I guess.

H.M.Jr: Well, I ought to be able to reach him within a half an hour, and if I can't I'll call you, see?

R: Yes.

H.M.Jr: One way or the other.

R: Do you want me to contact Key again or -

H.M.Jr: I wish you would and I wish you'd tell him to hold off.

R: All right.

H.M.Jr: Because an investigation at this time would just tip my hand and -

R: He doesn't want any investigation -

H.M.Jr: No, no, Key said -

R: satisfied, but of course, if they make the move make the move, why he'd go on the committee -

H.M.Jr: That's right. Key's been fine and no one could have been more friendly than he's been in the last couple of months.

R: Of course, if he introduces the resolution, you see, they'll control it.

H.M.Jr: I understand. I'm going to bend every effort to get a hold of LeBlanc.

R: All right.

H.M.Jr: And if I get him, I'll call you right away.

R: All right.

H.M.Jr: Thank you.

R: Goodbye.

August 14, 1935.  
Wednesday.

H.M.Jr: Hello.

Senator  
McNary: Yes.

H.M.Jr: Senator McNary?

McN: Yes, Mr. Secretary.

H.M.Jr: How are you?

McN: Fine, how are you?

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

McN: That's good.

H.M.Jr: Senator, I want to tell you this - I've always been able to talk to you in confidence -

McN: Yes, indeed.

H.M.Jr: - and - this thing about this silver. I just want to tell you this, that I bought more silver today -

McN: Yes.

H.M.Jr: - than the total annual production in the United States last year.

McN: Yes.

H.M.Jr: Hello.

McN: Hello.

H.M.Jr: See?

McN: Yes.

H.M.Jr: So, this talk of Thomas - I don't know what his purpose is -

McN: Yes.

H.M.Jr: - it's just the bunk.

McN: The bunk - I see.

H.M.Jr: Now -

McN: He's going to offer some amendment.

H.M.Jr: Hello.

McN: He's going - is he going to offer some amendment to it, do you

think?

H.M.Jr: Evidently.

McN: You're opposed to it?

H.M.Jr: Well, I mean this thing - for instance, on this question of fifty percent tax -

McN: Yes.

H.M.Jr: Well, take for example, if we bought five million ounces of silver in London today, the brokerage on that would be less than five thousand dollars -

McN: Yes.

H.M.Jr: - but the steamships who bring it over exclusive of the insurance would get twenty-seven thousand dollars. Now, prior to time that we were buying in London where we used to buy it here, the London brokers would always specify the British bottoms.

McN: Yes.

H.M.Jr: So, the American steamships never got any of that business.

McN: Yes.

H.M.Jr: Well, let's say that they used to get - the American Steamships got a quarter of the business, which they didn't - they'd still - we'd still be twenty thousand dollars to the good, I mean, as far as money going in the pockets of the American business men.

McN: Yes.

H.M.Jr: And by eliminating the brokers in New York, we just eliminate another speculative element,

McN: Yes, that's right.

H.M.Jr: - that don't serve any economic purposes. The American Mining Companies and the American Smelting Companies - they're all entirely satisfied with what we've done and there's about a dozen fellows in the silver brokerage business who simply were in it for one purpose and that was speculation. Now, they didn't save anything and as a matter of fact, through buying in London they're able to designate American bottoms and every ounce of silver we buy, which has to come from London, because that's where it is, comes over under the American flag. So, we're way ahead of the game. I'd like very much, if you had a chance, I'd like to tell you in confidence what we're doing because it is a very critical situation and if they'll leave me alone for another week or two,

I think we'll know where we're at.

McN: I see.

H.M.Jr: But, this Far Eastern thing right now is very very critical. And - I'm just telling you that there's no politics in this, otherwise, I wouldn't call you up, because, as a matter of fact, it's the Democratic Senators who are making the trouble for me. Now, Key Pittman understand what it's all about and he's satisfied.

McN: I'll confer with him.

H.M.Jr: But, I can't satisfy Thomas. I don't think anybody else can.

McN: Oh, no, some things are impossible.

H.M.Jr: But, I wanted to tell you - tell you that -

McN: I'm very glad you did.

H.M.Jr: And this thing - this thing of doing away with the tax, it just would give about a dozen people some business and simply make it more difficult and more costly to the United States Government to carry out their policy.

McN: That's right.

H.M.Jr: And as far as buying, well, I'll tell you what we did today that answers any criticism. I haven't told that to Thomas and I'm not going to because he's too unreasonable, but Pittman knows about what we're doing. And I wanted to tell you because you've been so fair with me.

McN: Well, I'll confer with Key; I think we can help you.

H.M.Jr: Thank you very much.

McN: All right, Mr. Secretary.

H.M.Jr: Thank you.

THE WHITE HOUSE  
WASHINGTON

August 14, 1935.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Pursuing further your memorandum to me relating to projects requiring additional funds (Army Engineers in Reclamation Service), I enclose copy of the breakdown given me by the Chief of Engineers.

1. Breakwater construction, Los Angeles, \$2,300,000 additional funds. There is, I think, no necessity to spend this in fiscal year 1937.
2. Harbor improvement, Tampa, \$400,000 additional funds. (Same comment)
3. Dredging Cape Cod Canal - \$21,000,000. This can go ahead, over a period of years, as slowly as desired.
4. Construction of dams - Upper Mississippi - \$61,100,000. At a guess I should say they should have \$25,000,000 more next year.
5. Mississippi River Protection - \$10,300,000. \$1,000,000 should be enough next year.
6. Missouri River Protection - \$3,000,000. \$1,000,000 should be enough next year.
7. Stabilizing Missouri - \$24,000,000. \$10,000,000 should be enough next year.
8. Dredging - \$25,000,000. \$2,000,000 should be enough next year.
9. Tygart River - \$3,700,000. \$1,500,000 should be enough next year.



-2-

10. Kanawha River - \$1,900,000. Perhaps \$750,000 is enough.
11. Fort Peck - \$21,000,000. This I think must be all, or nearly all, including next year.
12. Dredging and protecting ship canal, Delaware and Maryland - \$7,900,000. Probably \$2,500,000 is enough next year.
13. Passemoquoddy project - \$26,300,000. My guess is that from \$5,000,000 to \$7,000,000 will be enough next year.
14. Enlarging State Barge Canal, New York - \$22,000,000. \$5,000,000 should be enough next year.

These, of course, are rule of thumb guesses on my part but they ought to cheer your heart, as the totals required next year are infinitely smaller than the total of \$230,700,000, which the War Department speaks of.

F. D. R.



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Acting Director,  
Bureau of the Budget.

August 9, 1936.

STATEMENT SHOWING ESTIMATED EXPENDITURES AND AMOUNTS REMAINING TO COMPLETE CERTAIN PROJECTS FOR WHICH FUNDS HAVE BEEN ALLOTTED FROM THE APPROPRIATION PROVIDED IN THE EMERGENCY RELIEF APPROPRIATION ACT OF 1935.

PROJECT	LOCATION	ESTIMATED COST TO COMPLETE	ALLOCATION	ADDITIONAL FUNDS REQUIRED	ESTIMATED EXPENDITURE TO OCTOBER 1, 1936.	ESTIMATED AMOUNT UNEXPENDED OCTOBER 1, 1936.
Debris Basins . . . . .	LaCrosse, Calif.	\$1,500,000	\$1,500,000	\$ --	\$1,500,000	\$ --
Jetties . . . . .	Los Angeles, Calif.	2,800,000	2,800,000	--	2,800,000	--
Breakwater construction . . . . .	"	3,500,000	1,000,000	2,500,000	1,000,000	--
Flood control work . . . . .	Florida	2,700,000	2,700,000	--	2,350,000	350,000
Harbor improvement . . . . .	Tampa, Florida	1,900,000	1,500,000	400,000	1,500,000	--
Dredging Cape Cod Canal . . . . .	Mass.	26,000,000	5,000,000	21,000,000	4,600,000	400,000
Construction of dams . . . . .	Upper Mississippi River	86,100,000	25,000,000	61,100,000	22,150,000	2,800,000
Mississippi River Protection . . . . .	Missouri and Illinois	11,300,000	1,000,000	10,300,000	1,000,000	--
Missouri River protection . . . . .	Kansas City, Mo.	4,700,000	1,700,000	3,000,000	1,700,000	--
Stabilizing Missouri River Channel . . . . .	Four States	34,000,000	10,000,000	24,000,000	10,000,000	--
Dredging . . . . .	New York & New Jersey	27,000,000	2,000,000	25,000,000	2,000,000	--
Dredging Delaware River . . . . .	Pa. and N. J.	2,900,000	2,900,000	--	2,900,000	--
Reservoir and dam construction . . . . .	Tygart River, W. Va.	5,700,000	2,000,000	3,700,000	2,000,000	--
Lock and dam construction . . . . .	Roanoke River, W. Va.	7,400,000	3,500,000	1,900,000	3,585,000	1,915,000
Miscellaneous . . . . .	All states	8,500,000	8,500,000	--	8,500,000	--
Reservoir construction . . . . .	Fort Peck, Mont.	36,000,000	15,000,000	21,000,000	15,000,000	--
<b>Total . . . . .</b>		<b>261,800,000</b>	<b>88,100,000</b>	<b>173,700,000</b>	<b>82,585,000</b>	<b>5,812,000</b>
Concrete lined levees . . . . .	Los Angeles, Calif.	1,600,000	1,600,000	--	1,600,000	--
Concrete conduit . . . . .	Los Angeles, Calif.	1,800,000	1,800,000	--	1,800,000	--
Flood control and water conservation . . . . .	Los Angeles, Calif.	1,500,000	1,500,000	--	1,500,000	--
Dredging channel . . . . .	San Diego, Calif.	1,800,000	1,800,000	--	1,800,000	--
Debris basin . . . . .	Pasadena, Calif.	1,200,000	1,200,000	--	1,200,000	--
Dredging and protecting ship canal . . . . .	Del. and Md.	15,000,000	5,100,000	7,900,000	5,100,000	700,000
Pasamaquoddy project . . . . .	Kastport, Maine	36,300,000	10,000,000	26,300,000	9,300,000	430,000
Dredging Black Rock Channel . . . . .	New York	1,800,000	1,800,000	--	1,570,000	1,582,000
Enlarging State Barge Canal . . . . .	New York	27,000,000	5,000,000	22,000,000	3,478,000	378,000
Lock and dam construction . . . . .	Allegheny River, Pa.	2,800,000	2,800,000	--	2,425,000	--
Raising and dam construction . . . . .	Pittsburgh, Pa.	2,000,000	2,200,000	600,000	1,200,000	--
<b>Total . . . . .</b>		<b>90,600,000</b>	<b>33,800,000</b>	<b>57,000,000</b>	<b>30,773,000</b>	<b>3,027,000</b>
<b>Total, Corps of Engineers . . . . .</b>		<b>352,400,000</b>	<b>121,900,000</b>	<b>230,700,000</b>	<b>113,358,000</b>	<b>8,839,000</b>

August 14, 1935

I telephoned to Secretary Hull today and told him I would like an informal visit with the Chinese Ambassador and that if I had to have someone from the State Department present I would prefer to have only Under Secretary Phillips and that I had absolutely no objection to his being present. Cordell said it was all right. My thought was I did not want to have Hornbeck or Feis or anyone else here.

Mr. Phillips and Ambassador Sze called. I soon learned Mr. Sze did not want to talk. I asked him if he had had any word from his Government and he said he had just received a cable but it was only partly decoded. I promptly decided I would not talk. So nothing was accomplished.

Indications are that the three interested parties will proceed interfering with each other.

I then read two cables I had received, one through the State Department dated August 10th and the other a cable from Hong Kong as follows:

"A telegram dated August 8, 1935, from the office in charge of the Legation of the Japanese Legation, Tokyo, transmitted as follows:

"Last evening Mr. N. H. Tang, Minister of Finance and former Chairman of the Executive Yuan, after requesting that I call on his office, inquired about a financial expert who would be sent to China by the American Government. He expressed hope that such an expert would arrive in China as soon as possible with the reports which are being sent by the British and French Governments. He then requested that I transmit his inquiry to the Department by telephone, stating what information he required as regards the names of the available specialists and the date of his arrival in China would be appreciated by the Chinese Government. He also stated that Tang had told him that the Government, if advisable, of a Japanese expert could be sent after the arrival of the other reports as mentioned in Japan's reply to the Chinese. The Department's consideration is given to the reply which I should make to Tang's inquiry would be appreciated.

I took occasion to mention reports to the effect that announcements in regard to the loss of a British loan to China had

August 14th

I held a conference in my office to-day on the silver situation and discussed it with Haas, Oliphant and Lochhead. I announced that we had bought 45 million ounces of silver in the last three days and that a week-end cable said that there was not much more than 50 or 55 million ounces of spot silver in the London market. Indications are that Hong Kong considered the possibility of going off silver and, in any event, they have about 130 million ounces more than they need for currency backing.

Lochhead reported that he had information from a New York Bank that it was rumored a pool had been formed by the Hong Kong Bank, the Chartered and also the National Bank of India. Foreign circles figure that the National Bank of India's contribution to the pool originally was 15 million ounces and that of the Chartered Bank 25 million and of the Hong Kong Bank about 130 million.

Indications are that the three interested parties sold without interfering with each other.

I then read two cables I had received, one through the State Department dated August 10th and the second a cable from Buck as follows:

1. "A telegram dated August 9, 1935, from the officer in charge of the Nanking office of the American Legation, reads substantially as follows:

Last evening Dr. H. H. Kung, Minister of Finance and Acting Chairman of the Executive Yuan, after requesting that I call at his office, inquired when a financial expert would be sent to China by the American Government. He expressed hope that such an expert would arrive in China in time to consult with the experts which are being sent by the British and French Governments. Dr. Kung requested that I transmit his inquiry to the Department by telegram, stating that information in regard to the name of the American appointee and the date of his arrival in China would be appreciated by the Chinese Government. He also stated that Suma had told him that the appointment, if advisable, of a Japanese expert could be made after the arrival of the other experts as geographically Japan lies so near to China. The Department's instructions in regard to the reply which I should make to Kung's inquiry would be appreciated.

I took occasion to mention reports to the effect that arrangements in regard to some kind of a British loan to China had

been already practically effected. The report was not denied by Kung who said that any such loan would involve British and Chinese banks only and not the two Governments and that it would be a measure for temporary relief only. Kung stated that he did not know whether any objections to such a loan would be raised by the Japanese. (That this loan, if made, will be used as an equalization fund in connection with currency inflation is persistently rumored)."

2. CABLE RECEIVED FROM PROFESSOR BUCK

Shanghai,  
August 13, 1935.

"Economic conditions Kwantung and Hong Kong similar in severity to other parts China. Bankers and business men especially desirous of a definite currency policy on part of Chinese Government but there is distrust of ability and integrity of Nanking to handle a managed currency. According to statements highest officials of Kwantung Government, which has a small coin silver currency, and of Hong Kong, any reasonable currency change by China probably would be accepted by them. Hong Kong must first obtain approval of its home Government. This could be done expeditiously.

Young of the British Treasury has been in Hong Kong for a month for the purpose advising on Hong Kong currency matters in connection with Leith-Ross visit of Young assumes United States of America is being represented in discussion with China by foreign financial experts. British opinion in Hong Kong is that the United States of America could within the terms of Silver Purchase Act greatly reduce the world price of silver at same time confining the high price to domestic silver even at \$1.29 thereby enabling China maintain silver standard at least long enough to adopt some other standard."

It was pointed out that it is practically admitted that China has had a loan from Great Britain and if that is true then they will probably sell their silver in order to stabilize. Chinese currency has dropped amazingly. Indications are that they are going off silver or at least great fears that they are. The Hong Kong dollar is the only silver currency on the silver basis that has been holding.

I am of the opinion, and it was so decided, that in order to have better control of the silver market and restrict speculation that our purchases be confined to spot silver only and no further purchases of forward silver would be made. The question came up that in view of the large stock of silver which we at present held in London that it might be a good idea to ship a large amount, say 50 million ounces but it was decided that it was not necessary to make an abnormal shipment at this time. I told the group that I

would like to talk to the Chinese Ambassador and in the meantime  
would like to have them give to-day's silver situation serious  
thought.

August 14, 1935.  
Wednesday.

39A

Senator Key Pittman

H.M.Jr: George LeBlanc just called me and he had a long talk with Thomas and Thomas asked him to take the midnight train and come down and he said he'd see LeBlanc - LeBlanc would see Thomas in the morning then come down and see me.

Sen.Key  
Pittman:Yes.

H.M.Jr: And he said he was quite sure that Thomas would not do anything and he also - he said it was Thomas who was egging McCarran on.

P: Is that so?

H.M.Jr: Yes. And he said, well, Thomas said he's not interested in how much silver we buy, but he's interested in the price.

P: Yes.

H.M.Jr: See?

P: Yes.

H.M.Jr: So, LeBlanc said he'd see him and he'd see me before the Senate convened tomorrow.

P: Well, the whole proposition is, I think, that Thomas, then ought to see McCarran, because there's two there that you'll always be afraid of.

H.M.Jr: Yes.

P: If Thomas gives his word, he'll stick with it. Now, with the other fellow - the other fellow, you've got to have him tied down pretty damn tight because he acts more for the sake of publicity than anything else.

H.M.Jr: Well, LeBlanc said - and LeBlanc never lied to me - he played very square with me - and he said, it's Thomas who's egging McCarran on.

P: Yes.

H.M.Jr: See?

P: Well, if that's the case - maybe

H.M.Jr: But, he said before the Senate convened tomorrow, he'd be down to see me and he'd let me know what was what.

P: Of course, as I've said before, if it's got to take place, why, as I talked to Joe about it a while ago, he thoroughly agreed with me - what I would do, I would prepare one, put it in and let it lie on the table, and then unless somebody was raring make us take it up and act on it. Or if somebody introduced one them-



selves, well mine would be first.

H.M.Jr: I see.

P: And we'll let it hang that way.

H.M.Jr: Well, that sounds smart.

P: And then we'd still have a chance to having a scrap on the thing and having it referred to the Committee on Banking and Currency.

H.M.Jr: I see.

P: So - we just don't want somebody to put one in because if they do and it's carried, why, he'd be chairman of it.

H.M.Jr: Yes, I get you.

P: about all these committees.

H.M.Jr: Key -

P: Yes.

H.M.Jr: There's another thing which I could do, but I wouldn't do without talking to the President - I could say something - I have a press conference tomorrow morning - I could say something about, drop a hint about how much silver we've been buying, but I hate to do that.

P: Yes.

H.M.Jr: See?

P: Well, that would all depend on how it comes out, but I would certainly have LeBlanc see that Thomas saw McCarran.

H.M.Jr: Right, that's what he's going to do.

P: Because unless both of those fellows agree to hold off - then if I still think it would be better for me to slip one in -

H.M.Jr: Yes, and then let it lay there.

P: Because - yes, let it lay there - and I'd be first on the table and if they insisted on introducing one and called it up it'd be mine.

H.M.Jr: I get you.

- P: And if they made a fight to send any of them to the committee, well, mine would go to the committee first.
- H.M.Jr: Well, LeBlanc said before the Senate convenes - that's twelve, o'clock tomorrow, isn't it?
- P: Yes.
- H.M.Jr: - that he'd come down and see me.
- P: I'll have the thing ready -
- H.M.Jr: O.k.
- P: - if anything happens. Now, as far as making a speech is concerned, on the matter, of course, that's a matter that you've got to think over yourself.
- H.M.Jr: Well, I'm seeing the President at nine tomorrow morning and I thought I'd talk to him about it. By that time, we can see what the papers look like.
- P: Well, I had the Wall Street Journal reporter come to me just now. He's the fellow that I gave that interview to about a week or ten days ago.
- H.M.Jr: Yes, that was a good interview.
- P: - in which I told him everything was all right, been carried out according to schedule. Now, he's been haunting me around here today with a whole bunch of others who knows. He said - he told me - he said there's an impression around that you are deliberately letting the price fall with an understanding probably with Mexico and Canada and China so he could let it get down around fifty cents and then let it stay there. Now, he said that was impertinent and wanted to know what I thought about it. Well, I said, I don't think there's anything to it; I don't care to discuss the silver question today.
- H.M.Jr: Well, I think I'll call up the President and ask him what he thinks about my saying something that we bought more silver today than we bought since the silver at Paris.
- P: I think you've got to anyway, I mean, there's so damn much stir over it. When you get the Wall Street Journal, you understand, phoning down and saying we want a statement from these Senators there to what they think the cause of this is and whether or not you believe that Morgenthau can arrange to let the price drop down to fifty or forty cents, or something like that, I think maybe a very carefully prepared statement on your part might be a damn sight better than whole lot of ransom reckless statements.
- H.M.Jr: Well, I'll call him up right away and I'll tell him what you said.

P: That's the way it seems to me. I don't see how we can get out of having some statements.

H.M.Jr: O.k.

P: All right.

H.M.Jr: Thank you very very much.

August 14, 1935.  
Wednesday.

39E

LeBlanc: Hello.

H.M.Jr: Yes.

LeB: Well, I called - I finally got the Senator.

H.M.Jr: Yes.

LeB: He's going to hold up the resolution until tomorrow.

H.M.Jr: Yes.

LeB: He wants me to go down immediately tonight and we're going to hold it out - so he'll have a talk with you, you see, before he puts it through. I made him promise that.

H.M.Jr: I see.

LeB: So, I think - I explained the matter with him and I said why that was done because I kept saying that to them, but on the other hand, they feel that they want complete confidence to put up the fight on confidence, rather than get the silver.

H.M.Jr: Yes.

LeB: But, I told him that the speculators of the world were working on that and that they kept jacking up the price on you. So, I'm taking the twelve-thirty to see him tomorrow morning and the resolution won't be put through until he has a talk with you.

H.M.Jr: Are you coming down on the midnight?

LeB: On the midnight, yes.

H.M.Jr: Good.

LeB: So -

H.M.Jr: Well, now what about -

LeB: So, that'll be arranged, but I think I get for your information, of course, the world price will have to be stabilized really in order to hold it up, but we'll talkit over tomorrow morning and I'll try to arrange things along your lines.

H.M.Jr: Good. What about McCarren?

LeB: Well now, he can hold back. He can - I think if he had your word for it, he'd be satisfied.

H.M.Jr: Who, McCarren?

LeB: Well, he can take care of McCarren. He practically - when I was down, he's not very well liked on the floor.

H.M.Jr: Who, McCarren?

LeB: Yes. And Senator Thomas, <sup>is the one</sup> /you see, that they got to ask to take it up.

H.M.Jr: Oh, yes.

LeB: And I think something can be done.

H.M.Jr: Good.

LeB: So, I'm going down there tomorrow morning. He wants me to have a long talk with him.

H.M.Jr: Good.

LeB: And then he'll follow what I tell him.

H.M.Jr: And then you give me a call.

LeB: O.k.

H.M.Jr: Thank you.

LeB: All right, fine.

H.M.Jr: Thank you, goodbye.

August 14, 1935.  
Wednesday.

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H.M.Jr: Now, what I want to tell you is this, Senator Thomas today has been talking all day about introducing a resolution to investigate what we've been doing in silver, see?

George  
LeBlanc: Yes.

H.M.Jr: Now, all it would accomplish would be to tip the hands of Great Britain and Japan to what we've been doing. Now, I don't mind telling you, we bought more silver than anybody's ever bought in the world and we're buying it on a falling market and you know as a trader better than I, that's the only way you can buy it.

LeB: That's right.

H.M.Jr: And one of these days, not too far off, they're going to wake up and find there is no more silver floating. Now, if they - if Thomas puts through this resolution, why, he's simply going to tip my hand and I've got an excellent chance of trimming the pants off of both Great Britain and Japan, if they'll leave me alone.

LeB: Yes.

H.M.Jr: Now, I'm putting ten million ounces on the boat this Friday and you take my word for it, we bought more silver than ever's been bought within the last two weeks, and they don't know when they keep saying, you're not buying - that's the bunk and you know that I'm a truthful person.

LeB: That's right.

H.M.Jr: Now, there's nothing to be accomplished - if Thomas wants to come down and see me, I'll tell him just what we've been doing, but the only thing he would accomplish at this time would be to let Great Britain and Japan know what I've been doing.

LeB: Yes, well, now I'll tell you, Mr. Morgenthau -

H.M.Jr: Yes.

LeB: They don't know that, you know -

H.M.Jr: No.

LeB: And they - although Thomas realize that, but they don't understand that -

H.M.Jr: No.

LeB: You know/I told them every time you bid first to keep jacking the price up and you don't get it.

H.M.Jr: That's right.

LeB: So, I said, now look here, let us be business-like. You know, they've got their aim and I tell you who starts a lot of trouble is that fellow Frank

H.M.Jr: I know.

LeB: Now, they've been discussing that thing and they come out that way. I'll tell you what I think the best way for me to do. They're down there and on the other end - you know, they want to round up the Senators to start a lot of trouble and I'm pretty sure if I can tell that to Thomas, I can tell him quietly, that they would stop the thing.

H.M.Jr: Well, if you could call him now, because what they're afraid of is that he's going to introduce a resolution tonight, yet.

LeB: Well, then I'm going to call him immediately.

H.M.Jr: And - let me tell you one other thing. I have no control over McCarran and I don't know whether Thomas has, but let me just give you this, see?

LeB: Yes.

H.M.Jr: On five million ounces of silver, the commission is a little bit less than five ~~million~~ thousand dollars. When we used to buy it through New York brokers - if we bought five million ounces, the commission would have been a little bit less than - I mean, in London today, it's a little bit less than five thousand dollars. When we used to buy it through New York brokers, they had to buy it through London brokers and the London brokers always specified British bottoms. Five million ounces where we buy it in London you'd put it on American bottoms and exclusive of the insurance, the freight is twenty-seven thousand dollars. Now, it's just nonsense to say that the American business man is suffering because every ounce we put on board is under the American flag, and it costs twenty-seven thousand dollars freight, plus the insurance, whatever it is, as against a little less than five thousand dollars brokerage, and McCarran keeps talking all the time about the American business man losing business. Well, he isn't, see?

LeB: Yes.

H.M.Jr: And -

LeB: You wouldn't pay more money - you buy it the cheapest, where the cheapest market is.

H.M.Jr: Well, sure.

LeB: You can bring it in the American bottom if you choose, then,

H.M.Jr: And when I buy it in foreign port, I always specify American bottoms. But, when I bought it in New York, they covered it in London and then the London brokers specified British bottoms.

LeB: Yes.

H.M.Jr: Do you see?

LeB: That's right.

H.M.Jr: And by eliminating this thing we've given American shipping all the business, but I wish you'd tell that to Thomas.

LeB: I'm going to call him right away.

H.M.Jr: And then call me back.

LeB: And then I'll call you back. At your office?

H.M.Jr: Yes. District 2626.

LeB: District 2626.

H.M.Jr: Yes, you call me collect; you reverse the charges.

LeB: That's o.k.

H.M.Jr: But up there, I'm afraid in the next half an hour they may do something.

LeB: All right, then I'll get busy on -

H.M.Jr: And you - that's the first time we've had a chance to trim Japan and Great Britain.

LeB: Yes.

H.M.Jr: Yes.

LeB: All right. Well, I'll tell you, the whole thing is - to tell you the truth, they think you're working against them. Now, when I tell them that, that'll be a different story.

H.M.Jr: Listen, you can tell them for me that I bought more silver today than the entire United States production last year.

LeB: Yes, all right then.

H.M.Jr: Now, just get that. I bought more silver today than the entire United States production last year.

LeB: Yes.

H.M.Jr: But, now that's in confidence.

LeB: Yes, that's right.

H.M.Jr: You get me?



LeB: Yes. All right -

H.M.Jr: Now, nobody can do any more than that.

LeB: I'm going to try to get them. They're on the floor -

H.M.Jr: You can get them.

LeB: Yes. I'll get them.

H.M.Jr: Fine.

LeB: All right, thank you very much.

H.M.Jr: Goodbye.



## UNITED STATES SAVINGS BONDS

*Direct Obligations of the United States Government*

**ADD ONE-THIRD TO YOUR INVESTMENT IN TEN YEARS**

\$18.75	increases in ten years to	\$25.00
\$37.50	increases in ten years to	\$50.00
\$75.00	increases in ten years to	\$100.00
\$375.00	increases in ten years to	\$500.00
\$750.00	increases in ten years to	\$1,000.00

REDEEMABLE, AT ANY TIME, AFTER 60 DAYS FROM DATE OF PURCHASE

**ON SALE AT YOUR POST OFFICE**

**UNITED STATES**  
**SAVINGS BONDS**

*are issued in denominations of*

*\$25  
\$50  
\$100  
\$500  
\$1,000*

*These are their maturity values. They  
mature in ten years. The prices at which  
you can buy them today are*

*\$18.75 for the \$25 bond  
\$37.50 for the \$50 bond  
\$75.00 for the \$100 bond  
\$375.00 for the \$500 bond  
\$750.00 for the \$1,000 bond*

AUGUST 15, 1935

**T**HE UNITED STATES TREASURY has issued during the last several months approximately six hundred thousand United States Savings Bonds. These have been distributed to

PAGE ONE

many thousands of purchasers throughout the country.

★ Total sales to date are \$162,305,500.00 maturity value—an average sale in excess of one million dollars for each business day since these securities were first made available on March 1, 1935.

★ United States Savings Bonds differ from coupon bonds and other Government securities which pay interest at stated intervals. These bonds do not pay immediate interest, but constantly increase in guaranteed value from the first year until they mature at the end of ten years. They are not subject to fluctuation in value and are ordinarily free from taxation.

★ The essential differences between this system of savings and the usual Government securities, together with some of the important features which have been combined in these savings bonds, are presented on the following pages.

**UNITED STATES SAVINGS BONDS**

★ These bonds are issued by and are direct obligations of the United States Government. They provide that if you invest in these bonds you will receive, at the end of 10 years, what you have invested, plus an accumulation of interest, totaling  $33\frac{1}{3}$  percent more than you originally paid for the bonds.

PAGE TWO

★ They are designed to provide an investment of unquestioned soundness and fair return for those who wish at the present time to put some of their funds away for future use, whether for themselves or as a gift to others.

#### **WITHIN REACH OF THE SMALL INVESTOR**

★ United States Savings Bonds are issued in denominations of:

TWENTY-FIVE DOLLARS  
FIFTY DOLLARS  
ONE HUNDRED DOLLARS  
FIVE HUNDRED DOLLARS  
AND ONE THOUSAND DOLLARS

★ Those are their maturity values. They mature in 10 years. The prices at which you can buy them until further notice are:

\$18.75 for the \$25 bond,  
\$37.50 for the \$50 bond,  
\$75 for the \$100 bond,  
\$375 for the \$500 bond,  
and \$750 for the \$1,000 bond.

PAGE THREE

#### **\$10,000 MAXIMUM**

★ It is unlawful for any individual, joint interest, firm, corporation, organization, or other single identity to own in excess of \$10,000 maturity value of United States Savings Bonds purchased in any one calendar year.

#### **PURCHASE AT YOUR POST OFFICE**

★ Your post office is the sales agency for these bonds. There, you may immediately secure the actual bonds you purchase with the same ease that you buy a postal money order. Should you prefer, you may order these bonds direct by mail from the Treasurer of the United States at Washington, D. C.

#### **REDEMPTION VALUE**

★ The United States Treasury will, at any time, after 60 days from date of purchase, take up your bonds for exactly what you paid for them, or for a greater amount as shown in the table on Page 9, provided the bond has been held for more than one year.

#### **PAYMENT AFTER DEATH**

★ A bond owner may name a beneficiary to whom the bond will be payable in the event of the death of the owner. Should no beneficiary be named, the Government

PAGE FOUR

will pay the then value of the bond on demand to the administrator or executor of the estate, or if there be no administrator or executor appointed, to one of the persons entitled upon the agreement of all.

#### **JOINT OWNERSHIP BY TWO PERSONS**

★ In order to avoid delay in redemption of bonds owned by a deceased person and for other reasons, many are buying these bonds jointly. Such bonds can be redeemed at any time by either person named as a joint owner, just in the same manner as checks may be cashed from a joint bank account.

#### **TAX EXEMPTION**

★ As more specifically stated in Department Circular No. 529, copies of which may be obtained at your post office, the bonds will be exempt, both as to principal and interest, from all Federal and local taxation except estate, inheritance, gift taxes and Federal surtaxes, excess-profits, and war-profits taxes.

#### **THE INTEREST YIELD**

★ You buy United States Savings Bonds on a discount basis. After the first year these bonds increase in value every 6 months until the end of 10 years, when you will receive their full maturity or face value.

PAGE FIVE

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to you a demand receipt. If a thief should steal your bond he would be wasting his time, for United States Savings Bonds are not transferable.

PAGE SIX

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every 6 months until the end of 10 years, when you will  
receive their full maturity or face value.

TREASURY BUILDING

WASHINGTON, D. C.

THE TREASURER OF THE UNITED STATES

PLACE  
3/ STAMP  
HERE

PAGE FIVE

★ The difference between the amounts you pay and the amounts you receive at the end of 10 years represents annual interest accruing to you at the rate of 2.9 percent compounded semiannually.

★ Instead of sending you interest accumulations annually or semiannually, the Government retains them and gives you interest on interest so that at the end of 10 years your original investment has grown one-third greater. Hence when you own United States Savings Bonds you know exactly what they will earn for you. You do not have to remember to clip coupons, because there are no coupons. You do not have to reinvest the interest, because it is already reinvested at compound interest.

**PROTECTION AGAINST LOSS**

★ All United States Savings Bonds are registered by the Government in the respective names of the owners at the time of issue. Should your bond be lost, burned, or otherwise destroyed, a duplicate will be issued upon proof of claim and proper indemnity. Should you so desire, the Treasury Department or any Federal Reserve Bank will hold your bonds for safe-keeping and issue to you a demand receipt. If a thief should steal your bond he would be wasting his time, for United States Savings Bonds are not transferable.

PAGE SIX

★ United States Savings Bonds have fixed values, from the day they are issued until they mature. A table of redemption values is included in all descriptive literature, and is printed on all United States Savings Bonds.

#### **MONEY FOR THE FUTURE**

★ Many investors have written the Treasury Department stating that they are regularly purchasing United States Savings Bonds in sufficient amounts to provide, among other things, funds which may be used in the future:

- (1) to educate children,
- (2) to provide a retirement fund,
- (3) to take care of dependents,
- (4) to create a cash estate,
- (5) to accumulate funds for travel and recreation.

#### **FOR CORPORATIONS**

★ Registration of United States Savings Bonds in the name of a corporation, and payment upon request of an officer of the corporation, affords an attractive means of saving for specific obligations such as pensions, workmen's compensation, and similar purposes.

★ Likewise, some churches, societies, lodges, and other associations are investing their surplus funds in United

PAGE SEVEN

States Savings Bonds to the lawful annual maximum of \$10,000 maturity value.

#### **REASONS FOR ISSUE**

★ To give an opportunity to as many as desire to invest their funds in Government obligations returning, not annual interest, but the amounts they have invested plus compounded interest due when the bonds are redeemed.

★ To stimulate among the people greater interest in Government financing, debt, taxes, and expenditures.

★ Primarily, United States Savings Bonds are designed for the small investor — that he may be encouraged to save for the future and receive a fair return on his money.

#### **DIRECT BY MAIL ORDERS**

★ Increasingly large numbers of persons are buying United States Savings Bonds regularly. In order to simplify their purchase, the Treasury Department has devised the enclosed direct-by-mail order form. Additional copies of this form will be furnished upon request.

★ Upon receipt by the United States Treasury of these orders with remittances, and following their clearance, the bonds thus purchased will be mailed to you or to the owner for whom you are purchasing the bonds as you may instruct on the enclosed application.

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**TABLE OF REDEMPTION VALUES  
OF UNITED STATES SAVINGS BONDS**

ISSUE PRICE..	\$18.75	\$37.50	\$75.00	\$375.00	\$750.00
Redemption values after the issue date:					
First year . . . . .	\$18.75	\$37.50	\$75.00	\$375.00	\$750.00
1 to 1½ years . . . . .	19.00	38.00	76.00	380.00	760.00
1½ to 2 years . . . . .	19.25	38.50	77.00	385.00	770.00
2 to 2½ years . . . . .	19.50	39.00	78.00	390.00	780.00
2½ to 3 years . . . . .	19.75	39.50	79.00	395.00	790.00
3 to 3½ years . . . . .	20.00	40.00	80.00	400.00	800.00
3½ to 4 years . . . . .	20.25	40.50	81.00	405.00	810.00
4 to 4½ years . . . . .	20.50	41.00	82.00	410.00	820.00
4½ to 5 years . . . . .	20.75	41.50	83.00	415.00	830.00
5 to 5½ years . . . . .	21.00	42.00	84.00	420.00	840.00
5½ to 6 years . . . . .	21.25	42.50	85.00	425.00	850.00
6 to 6½ years . . . . .	21.50	43.00	86.00	430.00	860.00
6½ to 7 years . . . . .	21.75	43.50	87.00	435.00	870.00
7 to 7½ years . . . . .	22.00	44.00	88.00	440.00	880.00
7½ to 8 years . . . . .	22.50	45.00	90.00	450.00	900.00
8 to 8½ years . . . . .	23.00	46.00	92.00	460.00	920.00
8½ to 9 years . . . . .	23.50	47.00	94.00	470.00	940.00
9 to 9½ years . . . . .	24.00	48.00	96.00	480.00	960.00
9½ to 10 years . . . . .	24.50	49.00	98.00	490.00	980.00
Maturity value . . . . .	25.00	50.00	100.00	500.00	1,000.00

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**TREASURY DEPARTMENT  
WASHINGTON**

**A MESSAGE AND A REQUEST TO THE HOLDERS OF  
UNITED STATES SAVINGS BONDS**

The strength of any government's credit rests in its ability to borrow from its citizens through the sale of securities. The owner of a government security shares in the public debt. The public debt is the means by which his government, instead of relying upon immediate taxation for all of its revenue, distributes over succeeding years the burden of emergencies.

The greater the number owning government securities outstanding, the greater is the national interest in the affairs of the government and the more secure its credit.

The Treasury Department welcomes the interest you have shown by the purchase of United States Savings Bonds, however small the amount. It seeks to extend the ownership and broaden the usefulness of this form of savings and security. To do this most successfully it cordially invites the cooperation of savings bonds investors. It welcomes your assistance in explaining to others the advantages of this government savings system.

Are you buying United States Savings Bonds as a safe and profitable investment of funds on hand; to build an assured income from your savings; for business assets; for college education and help toward careers of minor children; old age endowment; immediate cash estate, or what purpose?

What interests you will interest others. The Treasury Department desires to perfect these securities that they may best serve their owners and will highly appreciate a letter from you stating your reasons for purchase and making such suggestions as you may desire.

UNITED STATES TREASURY DEPARTMENT,  
Henry Morgenthau, Jr.,  
Secretary of the Treasury.





August 15th



TREASURY DEPARTMENT

WASHINGTON

August 17, 1935.

TO THE PRESIDENT:

Continuing my talks with you concerning the financial outlook of the United States Government for the next four years, I submit the following:

There is a definite swing upward in the business curve, ~~and from all indications at the present time this will continue. There is a strong demand for all kinds of goods, and I believe that with a little encouragement from the Administration, business will go forward more rapidly.~~ I feel that the strongest encouragement that

*you*  
*we* could contribute at this time <sup>to accelerate recovery</sup> would be to definitely indicate ~~a much~~ improved budgetary and fiscal position for 1937 and 1938. *It* would seem, therefore, that the time has come <sup>for you</sup> for ~~us~~ to take an inventory of the various emergency agencies <sup>this would indicate</sup> ~~to see~~ which ones can begin to liquidate and turn over to the Treasury the proceeds <sup>of such liquidation</sup> ~~which can be used so far as possible to retire our public debt.~~ *you should have* ~~should also review~~ the allocations of funds previously made from all emergency appropriations to see if large savings can not be made from this source.

*the Treasury has had*  
In making this study, ~~I~~ <sup>have</sup> had five objectives in mind, viz.,

- (1) that peak expenditures this year should be reached in January, February and March, 1936, when winter unemployment will exist; <sup>be at its seasonal high,</sup> (2) eliminate

2.

every project which will not be entirely completed by July 1, 1936, except such projects as are now actually under contract; (3) that the unallocated balances of all emergency funds, including the \$3,300,000,000 appropriation, should flow through the same channels as the \$4,880,000,000 fund; (4) a date and yardstick on which to stop allotments for public works projects, including loans and grants and housing; and (5) endeavor to have an unallocated balance of \$1,200,000,000 of the \$4,880,000,000 appropriation left on July 1, 1936.

*allotment committee*

*To carry out your suggestion and*

The following shows the total funds which were available under the Emergency Relief Appropriation Act of 1935 appropriating \$4,880,000,000, and the unallocated balance as of the close of business August 16, 1935:

Unobligated balances available for transfer (impounded) . . . . .		\$ 925,000,000
Appropriated by the Act . . . . .		4,000,000,000
		<u>\$4,925,000,000</u>
Appropriated for high-ways . . . . .	\$100,000,000	
Appropriated for crop loans . . . . .	60,000,000	
Allotted for direct relief prior to passage of Act . . . . .	292,000,000	
Impounded funds released . . . . .	9,600,000	461,600,000
		<u>461,600,000</u>
Funds available for allocation:		\$4,463,400,000

*by Congress*

*by Congress*

Allocations approved by the President . . . . .	\$2,610,900,000
	<hr/>
	\$1,852,500,000
Allocations recommended but not yet approved by the President . . . . .	277,900,000
	<hr/>
Balance available for further allocation, including \$500M of R. F. C. funds . . . . .	\$1,574,600,000
	<hr/>

It will be noted that you have approved allocations aggregating \$2,610,900,000, and that allocations aggregating \$277,900,000 have passed the Allotment Committee and are now being prepared for your approval. This will leave an unallocated balance of \$1,574,600,000. The best estimates that we can get at this time indicate that an additional \$150,000,000 minimum will be required <sup>to carry on</sup> for direct relief <sup>until now</sup> \$150,000,000 for Civilian Conservation Corps, \$150,000,000 for Rural Electrification Administration and National Youth Administration, and \$1,510,800,000 for the program outlined by the Works Progress Administration, or a total of \$2,008,600,000, leaving a deficit of about \$434,000,000.

During one of our recent conferences you indicated that you intended saving \$1,200,000,000 of this appropriation. From the proposed programs indicated above, <sup>you will readily see</sup> it is quite obvious that this can not be done. If the amount of \$1,200,000,000 is to be saved, it would seem necessary not only to confine all future allocations to the <sup>Direct Relief, C. C. C., R. E. F. and W. P. A.</sup> Works Progress Administration, but to review and cancel a large amount of previous allocations. Any study to be made of previous allocations

4.

for the purpose of ascertaining those which may be cancelled should include all allocations made under emergency funds appropriated prior to the \$4,880,000,000 Act.

There are attached statements marked Exhibits A and B. The statement marked Exhibit A shows the estimates of expenditures submitted by the various departments and agencies concerned, to be made from all emergency funds for each of the fiscal years 1936, 1937, 1938 and 1939. A glance at this statement will indicate those agencies which contemplate obligating future budgets rather heavily. The statement marked Exhibit B shows with respect to the appropriation of \$4,880,000,000 the amount of the allocations approved by you or the amounts in process of approval; estimated additional requirements on programs in contemplation, together with the estimated expenditures for the fiscal year 1936 and for the period following 1936, and ~~suggested savings in allocations and contemplated programs to accomplish the reserve of \$1,200,000,000.~~

The following comments and suggestions are made with respect to the principal projects to be financed during the fiscal years 1936-1939, both inclusive, out of all emergency funds made available to the organizations concerned and such additional funds as they have indicated will be required to complete.

I. Interior-Reclamation Projects

The Bureau of Reclamation has estimated that it will spend in

Average 1928-1931

1936 . . . . .	\$93,000,000
1937 . . . . .	78,000,000
1938 . . . . .	30,000,000
1939 . . . . .	11,000,000
	<u>\$212,000,000</u>

The Treasury feels that the estimate for 1936 is too high and estimates for subsequent years too low. In other words, a much heavier burden than that shown will be thrown upon the budgets following the fiscal year 1936. Expenditures for all reclamation projects for the next few years should be confined to an amount equal to an average annual expenditure made for this purpose for a <sup>5</sup> five-year period ended June 30, 1929, which amounted to \$ —

## II. Treasury - Public Buildings

The Treasury estimates an expenditure on this account of \$35,000,000 for 1936 and \$20,000,000 for 1937, which completes the program started under the National Industrial Recovery Act. ~~It is possible that as much as \$10,000,000 will go over to 1938.~~

The Treasury is prepared to adopt with respect to its emergency public building program the same policy approved by you for other emergency public works.

## III. (a) Public Works Administration - Loans, Grants, etc.

The public works program calls for an estimated expenditure in

1936 -	\$370,000,000
1937 -	\$ 68,000,000
1938 -	\$ 7,000,000

→ Put in 34 + 35

6.

Our investigation of 423 allocations for projects averaging about \$106,000 each, shows that it requires an average of about five months from the time the allocation is made to the date of the contract for construction, and about an average of six months from the date of the contract to completion, or a total of eleven months.

If it is <sup>your</sup> ~~our~~ intention to have all approved projects completed within the fiscal year 1936, then it will be <sup>absolutely</sup> necessary to radically curtail ~~future~~ allocations for this purpose.

The Public Works Administration now holds <sup>State, Municipal & R. R. securities</sup> ~~obligations~~ amounting to \$238,000,000, and if permitted to continue will no doubt acquire an additional substantial amount before its program is completed. Under the National Industrial Recovery Act, the President is authorized, through the Administrator of the Public Works Administration, to sell any security acquired or any property constructed or acquired or to lease any such property, provided that all moneys received from any such sale or lease or the repayment of any loan shall be used to retire public debt obligations issued for the purpose of providing funds to the Public Works Administration. Under the Emergency Appropriation Act approved June 19, 1934, the Reconstruction Finance Corporation is authorized to purchase marketable securities from the Public Works Administration, and any sums paid to the P. W. A. for such securities are available to it for making further loans. The amount which the R. F. C. can hold at one time is \$250,000,000. In other words, if



7.

the P. W. A. sells its securities in the market or receives repayments of principal, the proceeds come into the Treasury for debt retirement; whereas if its securities are sold to the R. F. C., the proceeds go back to P. W. A. for further loans. *In my opinion, no further funds should be allocated to P. W. A. for loans and grants to States, etc. We should review all of the allocations previously made and advise the organization to which allocated that if a construction contract is not in force by <sup>Dec 1</sup> October 1, 1935, then the allocation is forthwith cancelled. P. W. A. should then be directed to liquidate its activity, *except for administration of contracts in force.**

III. (b) Housing

The Housing Division of P. W. A. estimates that it will spend in

1936 - \$50,000,000

1937 - \$104,000,000

1938 - \$ 47,000,000

→ '34+'35

If \$50,000,000 can not be spent in 1936, it will throw a larger amount on future budgets. When the Housing Division was established, residential construction in the United States was at its lowest level for many years and seemed to be stagnant for some time to come. Residential construction today, however, presents a hopeful picture as is indicated by the attached table. *etc.* In a word, this display in contracts awarded shows an increase of 70 per cent in residential construction during the first seven months of 1935, in comparison with 1934. Building permits during the six months comparable period indicate an increase of 140 per cent. ~~Under these conditions, there is not the~~

same necessity from an economic standpoint for the investment of Federal funds to revive residential construction as there was two years ago.

In addition to the Housing Division, other Federal agencies such as the Home Loan System, Federal Housing Administration, and others to a lesser degree, are playing an important role in stimulating private construction. Hence, under these conditions, the same <sup>emergency</sup> necessity does not exist as two years ago for the type of investments conducted by the Housing Division.

It seems to me that our housing policy should be concentrated under the Federal Housing Administration, where efforts are being <sup>successfully</sup> made to get private capital to carry the burden. I believe that <sup>the</sup> this Division <sup>of P.W.H.</sup> should be limited to the projects now actually under construction and that it should be directed to liquidate.

<sup>because the emergency does not exist today as it did two years ago when this division was created,</sup>  
IV. Reconstruction Finance Corporation

The Reconstruction Finance Corporation estimates that it will make a net expenditure of \$730,000,000 in 1936, \$525,000,000 in 1937, and \$434,000,000 in 1938; and only in 1939 does the Treasury begin to receive the benefit of repayments. In my opinion, the R. F. C. should be instructed to begin liquidation of its organization and that no new commitments should be made without your prior authorization. If the expenditures of the R. F. C. could be stopped at the present time, our best estimate indicates that we would get \$500,000,000 in receipts in 1936, \$300,000,000 in 1937, \$250,000,000 in 1938, and \$150,000,000 in 1939, or a total of \$1,200,000,000 over this period of four years instead of a contemplated net expenditure of \$1,563,000,000.

This alone would represent a material factor in our debt program.

V. War Department - Corps of Engineers

This organization estimates that it will spend \$212,000,000 in the fiscal year 1936, \$185,000,000 in 1937, \$42,000,000 in 1938, and \$16,000,000 in 1939. It seems to me that this program might be

*on those* ~~substantially reduced and confined to projects previously authorized by Congress. If this is to be accomplished some of the projects now for which funds have been allocated under consideration should be curtailed and some allocations cancelled.~~ *under construction*

VI. Agriculture - Good Roads

This Bureau estimates that the sum of \$355,000,000 will be spent in 1936, and \$145,000,000 in 1937. The Treasury feels that the estimate for 1936 is too high by \$100,000,000, and that the estimate for 1937 too low by that amount. To be consistent with other recommendations herein, the approval of definite projects should be limited to those which can be entirely completed by July 1, 1936, and that thereafter the total amount of the approved projects should not exceed the annual amount made available for the regular Federal aid highway program.

VII. Home Owners Loan Corporation  
Federal Farm Mortgage Corporation

These two corporations have not operated on Government funds in the sense that they affect the Budget. They have, however, sold and issued bonds aggregating about \$4,000,000,000 which carry the guarantee of the United States Government. Any losses sustained on any of these obligations will, therefore, have to come from the General Fund of the

Treasury, and to that extent will be a charge upon future budgets. These organizations will soon complete the program for which they were created. I feel that they should be directed to liquidate their activities as far as possible, and that the organizations remaining should only be sufficient to collect the amounts due to the corporations on the mortgages that they hold and to service the bonds outstanding. It may be necessary later on to give consideration to the matter of consolidating these agencies into one organization for the purpose of collecting unpaid obligations or transferring their collection functions to the Treasury Department, which would certainly mean a substantial reduction in administrative expenses.

*subject*

VIII. Recommendations

I am of the opinion that an announcement at this time by you to the country to the effect that you intend to save \$1,200,000,000 out of the \$4,880,000,000, and that the total <sup>deficit</sup> expenditures for the fiscal year 1937 will be, <sup>not exceed \$1,000</sup> ~~say~~, \$3,500,000,000 <sup>as indicated by your plan</sup> lower than in 1936, and that in 1938, barring major disasters, the budget will be balanced with a ~~considerable margin left over for debt retirement~~, would have a tremendously beneficial effect on recovery. ~~I believe that such a statement would give immediate reassurance to business generally.~~

*last conference on this subject*

I make the following specific recommendations:

- (1) That no further funds from any source be allocated for work relief projects except through the Works Progress Administration;
- (2) That all previous allocations of funds from all emergency appropriations be reviewed; that wherever the funds cannot be spent during the fiscal year 1936 the allocation be cancelled if practicable and the

11.

funds returned to the main appropriation account;

(3) That the Reconstruction Finance Corporation, Public Works Administration including the Housing Division and any other organization that will complete its program within the fiscal year, be directed upon completion to begin liquidation of its activities and that any funds derived through such liquidation be covered into the Treasury for retirement of the public debt.

EXHIBIT "C"

## Volume of Contracts Awarded and Building Permits.

Dodge Contracts Awarded - Residential  
(37 Eastern States)Building Permits - Residential  
Bureau of Labor Statistics.

	<u>1934</u>	<u>1935</u>	<u>Increase</u>	<u>1934</u>	<u>1935</u>	<u>Increase</u>
Jan.	\$15,110,400	\$22,405,200	\$7,294,800	\$4,380,956	\$9,108,975	\$4,728,019
Feb.	14,520,300	16,616,800	2,096,500	4,974,151	9,900,077	4,925,926
Mar.	28,076,100	32,207,400	4,131,300	8,854,322	20,350,706	11,496,384
Apr.	22,770,000	42,280,800	19,510,800	10,328,745	23,402,225	13,073,480
May	24,847,200	44,916,500	20,069,300	11,451,559	25,418,766	13,967,207
June	26,580,200	49,832,600	23,252,400	8,682,068	28,949,365	20,267,297
July	19,879,100	48,371,800	28,492,700			
	\$151,789,300	\$256,631,100	\$104,847,800 70%	\$48,671,801	\$117,130,114	\$68,458,313 140%
Jul.				8,679,693		
Aug.	18,641,000			8,926,540		
Sep.	17,871,600			9,660,143		
Oct.	26,299,800			11,636,823		
Nov.	19,924,700			9,930,353		
Dec.	14,550,500			7,134,837		
Total	\$249,070,900			\$104,640,190		

~~CONFIDENTIAL~~

August 17, 1935.

TO THE PRESIDENT:

Continuing my talks with you concerning the financial outlook of the United States Government for the next four years, I submit the following:

There is a definite swing upward in the business curve. I feel that the strongest encouragement that you could contribute at this time to continue the acceleration of recovery would be to definitely indicate a much improved budgetary position for the fiscal year 1937 and a balanced budget by 1938.

It would seem, therefore, that the time has come for you to take an inventory of the various emergency agencies. This would indicate which ones can begin to liquidate and turn over to the Treasury the proceeds of such liquidation to retire our public debt. I further suggest that you should have reviewed the allocations of funds previously made of all emergency appropriations to see if large savings cannot be made.

In making this study, the Treasury has had five objectives in mind, viz., (1) that the peak of unemployment expenditures this year should be reached in January, February and March, 1936, when winter unemployment will be at its seasonal high; (2) eliminate every project which will not be entirely completed by July 1, 1936, except such

~~CONFIDENTIAL~~

2.

projects as are now actually under contract; (3) that the unallocated balances of all emergency funds, including the \$3,300,000,000 appropriation, should flow through the Allotment Committee, the same as the \$4,880,000,000 fund; (4) a date and yardstick on which to stop allotments for public works projects, including loans and grants and housing; and (5) to carry out your suggestion and to have an unallocated balance of \$1,200,000,000 of the \$4,880,000,000 appropriation left on July 1, 1936.

The following shows the total funds which were available under the Emergency Relief Appropriation Act of 1935 appropriating \$4,880,000,000, and the unallocated balance as of the close of business August 16, 1935:

Unobligated balances available for transfer (impounded) . . . . .	\$ 925,000,000	
Appropriated by the Act . . . . .	4,000,000,000	
	<u>44,925,000,000</u>	
Appropriated by Congress for highways . . . . .	\$100,000,000	
Appropriated by Congress for crop loans . . . . .	60,000,000	
Allotted for direct relief prior to passage of Act . . . . .	292,000,000	
Impounded funds re- leased . . . . .	<u>9,600,000</u>	<u>461,600,000</u>
Total funds available for allocation:		<u>\$4,465,400,000</u>

CONFIDENTIAL



3.

	(\$4,463,400,000
Allocations approved by the President . . . . .	\$3,610,900,000
Allocations recommended but not yet approved by the President . . . . .	<u>277,900,000</u>
	<u>\$3,888,800,000</u>
Balance available for further allocation, including \$300M of R. F. C. funds:	<u>\$1,574,600,000</u>

It will be noted that you have approved allocations aggregating \$3,610,900,000, and that allocations aggregating \$277,900,000 have passed the Allotment Committee and are now being prepared for your approval. This will leave an unallocated balance of \$1,574,600,000. The best estimates that we can get at this time indicate that an additional \$150,000,000 minimum will be required to carry on direct relief until November 1, \$150,000,000 for Civilian Conservation Corps, \$147,800,000 for Rural Electrification Administration and National Youth Administration, \$1,510,200,000 for the program outlined by the Works Progress Administration, and \$50,000,000 reserve for contingencies, or a total of \$3,008,000,000, leaving a deficit of about \$454,000,000.

During one of our recent conferences you indicated that you intended saving \$1,200,000,000 of this appropriation. From the proposed programs indicated above, you will readily see it is quite obvious that this can not be done. If the amount of \$1,200,000,000 is to be saved, it would seem necessary not only to confine all future allocations to the Works Progress Administration, direct relief, Civilian Conservation Corps, Rural Electrification

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Regraded Unclassified

4.

Administration and the National Youth Administration, but to review and cancel a large amount of previous allocations. Any study to be made of previous allocations for the purpose of ascertaining those which may be cancelled should include all allocations made under emergency funds appropriated prior to the \$4,880,000,000 Act.

There are attached statements marked Exhibits A and B. The statement marked Exhibit A shows the estimates of expenditures submitted by the various departments and agencies concerned, to be made from all emergency funds for each of the fiscal years 1936, 1937, 1938 and 1939. A glance at this statement will indicate those agencies which contemplate obligating future budgets heavily. The statement marked Exhibit B shows with respect to the appropriation of \$4,880,000,000 the amount of the allocations approved by you or the amounts in process of approval; estimated additional requirements on progress in contemplation, together with the estimated expenditures for the fiscal year 1936 and for the period following 1936.

The following comments and suggestions are made with respect to the principal projects to be financed during the fiscal years 1936-1939, both inclusive, out of all emergency funds made available to the organizations concerned and such additional funds as they have indicated will be required to complete.

#### I. Agriculture - Good Roads

This Bureau estimates that the sum of \$355,000,000 will be spent in 1936, and \$145,000,000 in 1937. The Treasury feels that the estimate for 1936 is too high by \$100,000,000, and that the estimate for 1937 is too low by that amount. To be consistent with other recom-

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Regraded Unclassified

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mentations herein, the approval of definite projects should be limited to those which can be entirely completed by July 1, 1936, and that thereafter the total amount of the approved projects should not exceed the annual amount made available for the regular Federal Aid highway program.

II. Interior - Reclamation Projects

The Bureau of Reclamation has estimated that it will spend in

1936	-	\$93,000,000
1937	-	78,000,000
1938	-	30,000,000
1939	-	11,000,000
		<hr/>
		\$212,000,000
		<hr/>

The Treasury feels that the estimate for 1936 is too high and estimates for subsequent years too low. In other words, a much heavier burden than that shown will be thrown upon the budgets following the fiscal year 1936. Expenditures for all reclamation projects for the next few years should be confined to an amount equal to an average annual expenditure made for this purpose for a ten-year period ended June 30, 1930, which amounted to \$ 71,000,000.

III. Treasury - Public Buildings

The Treasury estimates an expenditure on this account of \$35,000,000 for 1936 and \$20,000,000 for 1937, which completes the program started under the National Industrial Recovery Act.

~~CONFIDENTIAL~~

IV. (a) Public Works Administration-  
Loans, Grants, etc.

The public works program calls for an estimated expenditure in

1936 - \$370,000,000

1937 - 68,000,000

1938 - 7,000,000

There was expended on this account the sum of \$149,000,000 in 1934 and \$204,000,000 in 1935, of which \$71,000,000 was spent in 1934 and \$66,000,000 in 1935 for loans to railroads.

Our investigation of 422 allocations for projects averaging about \$108,000 each, shows that it requires an average of about five months from the time the allocation is made to the date of the contract for construction, and about an average of six months from the date of the contract to completion, or a total of eleven months. If it is your intention to have all approved projects completed within the fiscal year 1936, then it will be absolutely necessary to radically curtail allocations for this purpose.

The Public Works Administration now holds State, municipal, and other securities amounting to \$238,000,000, and if permitted to continue will no doubt require an additional substantial amount before its program is completed. Under the National Industrial Recovery Act, the President is authorized, through the Administrator of the Public Works Administration, to sell any security acquired or any property constructed or acquired or to lease any such property, provided that all moneys received from any such sale or lease or the repayment of any loan shall be used to retire public debt obligations issued for the purpose of provid-

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7.

ing funds to the Public Works Administration. Under the Emergency Appropriation Act approved June 19, 1934, the Reconstruction Finance Corporation is authorized to purchase marketable securities from the Public Works Administration, and any sums paid to the P. W. A. for such securities are available to it for making further loans. The amount which the R. F. C. can hold at one time is \$250,000,000. In other words, if the P. W. A. sells its securities in the market or receives repayments of principal, the proceeds come into the Treasury for debt retirement; whereas if its securities are sold to the R. F. C., the proceeds go back to P. W. A. for further loans.

In my opinion, no further funds should be allocated to P. W. A. for loans and grants to States, etc., until you have had an opportunity to review all of the allocations previously made and to advise the organization to which funds have been allocated that if a construction contract is not in force by December 1, 1935, the allocation is forthwith cancelled. P. W. A. should then be directed to liquidate its activity, except for administration of contracts in force.

#### IV. (V) Housing

The Housing Division of P. W. A. estimates that it will spend in

1935 - \$50,000,000

1936 - 100,000,000

1937 - 40,000,000

There was expended on this account about \$400,000 in 1934 and \$4,000,000 in 1935.

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H.

If \$60,000,000 can not be spent in 1936, it will throw a larger amount on future budgets. When the Housing Division was established, residential construction in the United States was at its lowest level for many years and seemed to be stagnant for some time to come. Residential construction today, however, presents a hopeful picture as is indicated by the attached table marked Exhibit C. In a word, this display in contracts awarded shows an increase of 70 per cent in residential construction during the first seven months of 1935, in comparison with 1934. Building permits during the six months comparable period indicate an increase of 140 per cent.

It seems to me that our housing policy should be concentrated under the Federal Housing Administration, where efforts are being made successfully to get private capital to carry the burden. I believe that the Housing Division of P. W. A. should be limited to the projects now actually under construction and this it should be directed to liquidate, because the same emergency does not exist today as it did two years ago when this Division was created.

V. War Department - Corps of Engineers

This organization estimates that it will spend \$212,000,000 in the fiscal year 1936, \$185,000,000 in 1937, \$42,000,000 in 1938, and \$16,000,000 in 1939. It seems to me that this program might be substantially reduced. It could be confined to projects previously author-

CONFIDENTIAL

ized by Congress including all projects now actually under construction or reduced so that it will not exceed an average annual amount over the ten-year period ending June 30, 1930, which amounted to \$71,000,000. Even in the depression years of 1920, 1921 and 1922 the Government spent considerably less than \$50,000,000 per annum on river and harbor projects.

#### VI. Reconstruction Finance Corporation

The Reconstruction Finance Corporation estimates that it will make a net expenditure of \$730,000,000 in 1936, \$525,000,000 in 1937, and \$484,000,000 in 1938; and only in 1939 does the Treasury begin to receive the benefit of repayments. In my opinion, the R. F. C. should be instructed to begin liquidation of its organization and that no new commitments should be made without your prior authorization. If the expenditures of the R. F. C. could be stopped at the present time, our best estimate indicates that we would get \$300,000,000 in receipts in 1936, \$300,000,000 in 1937, \$250,000,000 in 1938, and \$150,000,000 in 1939, or a total of \$1,000,000,000 over this period of four years instead of a contemplated net expenditure of \$1,563,000,000. This alone would represent a material factor in our debt program.

#### VII. Home Owners Loan Corporation Federal Farm Mortgage Corporation

These two corporations have not operated on Government funds in the sense that they affect the Budget. They have, how-

CONFIDENTIAL

ever, sold and issued bonds aggregating about \$4,000,000,000 which carry the guarantee of the United States Government. Any losses sustained on any of these obligations will, therefore, have to come from the General Fund of the Treasury, and to that extent will be a charge upon future budgets. These organizations will soon complete the program for which they were created. I feel that they should be directed to liquidate their activities as far as possible, and that the organizations remaining should only be sufficient to collect the amounts due to the corporations on the mortgages that they hold and to service the bonds outstanding. It may be necessary later on to give consideration to the matter of consolidating these agencies into one organization for the purpose of collecting unpaid obligations or transferring their collection functions to the Treasury Department, which would certainly mean a substantial reduction in administrative expenses.

#### VIII. Recommendations

I am of the opinion that an announcement at this time by you to the country to the effect that you intend to save \$1,200,000,000 out of the \$4,250,000,000 and that the total deficit for the fiscal year 1937 will not exceed \$1,000,000,000 as indicated by you at our last conference on this subject, and that in 1938, barring major disasters, the budget will be balanced, would have a tremendously beneficial effect on recovery.

I make the following specific recommendations:

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11.

(1) That no further funds from any source be allocated for work relief projects except through the Works Progress Administration, and for account of direct relief, Civilian Conservation Corps, Rural Electrification and National Youth Administration;

(2) That all previous allocations of funds from all emergency appropriations be reviewed; that wherever the funds cannot be spent during the fiscal year 1936 the allocation be cancelled if practicable and the funds returned to the main appropriation account;

(3) That the Reconstruction Finance Corporation, Public Works Administration including the Housing Division, and any other organization which will complete its program within the fiscal year, be directed to begin liquidation of its activities and that any funds derived through such liquidation be covered into the Treasury for retirement of the public debt.

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Department of Agriculture  
 (in thousands of dollars)  
 Budget of Agriculture for 1933

Exhibit A(2)

Department or establishment: Recreation

Function	Organization	Funds Available for 1933	Additional Funds Available for 1933	Total to be Available	Fiscal Year 1933												Total Available Appropriations			
					July	August	September	October	November	December	January	February	March	April	May	June	Fiscal Year 1933	Fiscal Year 1932	Fiscal Year 1931	Fiscal Year 1930
Agriculture		441,508	15,445	456,953	1,025	3,429	10,422	24,974	25,191	44,678	41,828	24,342	24,402	24,647	44,574	47,264	251,771	131,770		
Game and Fish		245	245	490			17	24	70	28	28	22	18	19	21	28	219	24		
Forest		29,840	17,369	47,209	75	98	764	2,748	3,459	5,376	5,615	4,074	4,275	5,212	4,770	7,278	42,449	14,088		
Justice		800	1,800	2,600		28	48	40	58	107	110	111	112	115	114	118	1,000	1,000		
Labor		8,000	8,000	16,000	400	480	1,000	1,000	700	840	840	840	840	840	840	840	9,000			
Land			8,091	8,091														2,891	2,800	
Land		15,374	321	15,695	84	98	1,530	1,915	1,067	1,887	1,747	1,442	1,374	1,343	988	744	10,851	264		
Treasury		2,072	6,714	8,786	161	1,241	2,389	2,894	2,924	3,249	3,034	2,034	2,710	1,748	1,607	2,538	20,372	14,319		
State			8,802	8,802			149	222	182	252	233	122	222	222	224	220	2,810	2,400	693	
War		107,627	55,849	163,476	1,478	8,813	10,188	15,179	17,800	11,020	9,440	8,943	10,263	11,802	12,778	17,777	119,421	140,021	20,241	12,914 (1)
Civil Service Commission		328		328	20	28	18	18	28	28	30	28	28	28	28	28	248			
Fed. War. Relief Admin.		87,000	98,000	185,000	20,000	100,000	95,000	10,000	20,000								800,800			
General Acct. Office		4,000		4,000	142	288	263	268	270	270	270	270	270	280	244	240	2,078	2,427		
Fed. War. Council		808	204	1,012	7	121	140	180	160	170	180	180	210	210	210	230	1,584			
Fed. Resources Comm.		78	904	982	80	80	80	80	80	80	80	80	87	83	85	88	975	1,000	1,000	1,000
Public Works Admin.		45,499		45,499	3,408	2,472	4,192	482	2,891	498	2,958	779	1,800	480	4,962	4,962	21,531	10,477	3,200	
Steel Plant, Admin.		28	1,244	1,272	20	98	7,212	7,018	3,874	1,779	728	958	1,058	10,007	10,017	15,077	75,204	24,776		
Steel Reserve Admin.		40	191,212	191,252	2,200	55,768	46,618	55,637	25,932	18,972	15,974						191,252			
Steel in U.S. Admin.		99,127	2,409	101,536	281	3,955	22,484	27,848	20,070	20,990	2,888	4,333	4,524	4,812	4,700	4,710	142,162			
Welfare Conservation Comm.		144,642	97,804	242,446	46,000	80,000	60,000	70,000	87,000	84,700	89,000	88,000	87,000	87,000	87,000	87,000	694,882	809,300		
Welfare			201,428	201,428		1,412	1,928	1,920	4,472	6,084	12,680	9,264	2,120	2,007	2,522	2,549	80,801	103,984	47,347	
<b>Total</b>		<b>984,187</b>	<b>712,291</b>	<b>1,696,478</b>	<b>2,182,266</b>	<b>75,608</b>	<b>250,745</b>	<b>264,212</b>	<b>260,260</b>	<b>199,412</b>	<b>184,026</b>	<b>158,314</b>	<b>129,956</b>	<b>114,811</b>	<b>136,112</b>	<b>148,639</b>	<b>1,072,006</b>	<b>978,144</b>	<b>95,320</b>	<b>14,914</b>

Note: (1) \$26,000,000 carried into fiscal year 1934

Summary:  
 From Emergency Relief Appropriation Act of 1932  
 From Other Emergency Funds  
 Total

Submitted: \_\_\_\_\_  
 Approved: \_\_\_\_\_  
 Administrative Officer



## ESTIMATED REQUIREMENTS FROM EMERGENCY OPERATIONS

Organization	Unexpended Balance July 1, 1938	Alloca- tions since July 1, 1938	Additional Funds re- quired to complete project	Total to be expended	Fiscal Year 1938	Fiscal Year 1937	Fiscal Year 1936	Fiscal Year 1935
Agriculture.....	\$ 230,842	\$ 10,842	\$ 16,061	\$ 548,145	\$ 414,292	\$ 121,280		
Commerce.....	84	287	-	371	368	28		
District of Columbia.....	370	-	-	370	370			
Interior.....	28,125	21,016	117,816	266,957	113,140	81,609	30,562	10,665
Justice.....	128	808	1,500	2,436	1,840	1,000		
Labor.....	740	2,040	6,000	8,780	6,780			
Architects of the Capitol.....	2,127	-	5,051	7,178	1,050	3,228	2,500	
NAVY.....	183,208	321	-	183,529	164,173	30,274		
Treasury.....	111,088	9,080	43,908	264,054	101,728	61,972	300	
WAS.....	843,207	23,290	230,751	1,097,248	230,672	188,697	42,813	16,016 (1)
State.....	2,227	-	6,802	9,029	3,417	3,680	992	
Commodity Credit Corporation....	93,408	-	89,563	182,971	182,970			
Export-Import Banks.....	9,078	23	50,000	59,099	59,099			
Federal Alcohol Control Adm. ...	28	63	114	205	223			
Federal Emergency Relief Adm. ..	59,487	90,000	126,500	316,987	310,967			
Federal Housing Adm. ....	19,000	-	-	19,000	19,000	4,000		
Federal Power Commission .....	37	128	-	165	162			
General Accounting Office.....	6,000	-	-	6,000	3,073	2,927		
National Adv. Com. Aeronautics..	196	-	-	196	196			
National Emergency Council .....	508	500	1,420	2,428	2,088			
National Recovery Administration	112	2,308	4,600	7,020	7,020			
National Resources Board.....	75	900	2,000	3,975	975	1,000	1,000	1,000
Civil Service Commission.....	328	-	-	328	328			
White House Administration.....	404,987	40,434	68	445,489	370,110	66,074	7,895	
Reconstruction Finance Corp. ...	1,147,800	416,000	-	1,563,800	730,300	526,000	434,300	-126,200
San Joaquin Valley Authority.....	27,220	-	-	27,220	27,220			
Seams' Administration.....	1,094	-	-	1,094	1,094			
Al Electrification Adm. ....	80	1,244	98,698	100,000	70,204	24,796		
Progress Administration... ..	40	191,212	-	191,252	191,252			
Vietnam Administration.....	123,277	2,400	87,688	213,365	213,362			
Wildlife Conservation .....	228,415	97,500	633,000	1,258,915	729,428	229,497		
WPA Administration.....	14,207	201,632	-	215,839	80,300	108,191	47,348	
Totals:								
Emergency Relief Act 1938	934,127	719,301	1,283,608	3,137,036	2,071,026	976,144	93,130	14,916
From Other Emergency Funds	2,282,842	416,489	303,943	3,003,274	1,929,480	724,613	474,472	-112,424
GRAND TOTAL.....	3,216,969	1,135,790	1,587,551	6,300,313	4,000,506	1,700,757	567,602	-97,508

(1) \$23,120 carried into fiscal year 1940

CONFIDENTIAL

EXHIBIT "C"

Volume of Contracts Awarded and Building Permits.

Dodge Contracts Awarded - Residential  
(37 Eastern States)

Building Permits - Residential  
Bureau of Labor Statistics.

	<u>1934</u>	<u>1935</u>	<u>Increase</u>	<u>1934</u>	<u>1935</u>	<u>Increase</u>
Jan.	\$15,110,400	\$22,405,200	\$7,294,800	\$4,380,956	\$9,103,975	\$4,723,019
Feb.	14,520,500	16,616,800	2,096,500	4,74,151	9,901,077	4,325,926
March	28,376,100	32,107,400	4,151,500	8,954,322	20,350,706	11,496,584
April	21,770,000	42,280,300	18,510,800	10,328,745	23,402,225	13,073,480
May	24,947,200	44,916,500	20,069,300	11,451,559	25,413,766	13,967,207
June	18,580,200	49,832,600	28,252,400	8,682,068	28,942,365	20,267,297
July	19,879,100	48,371,800	28,492,700			
	\$151,783,500	\$218,631,100	\$104,847,800 70%	\$48,671,801	\$117,150,114	\$68,488,313 140%
July				8,679,893		
Aug.	18,641,000			8,916,540		
Sept.	17,671,600			9,660,143		
Oct.	26,299,800			11,636,823		
Nov.	19,924,700			9,930,753		
Dec.	14,550,500			7,134,827		
Total	\$249,070,900			\$104,640,100		

CONFIDENTIAL

August 20, 1935

The Chinese Ambassador was here today and said he had another message from Kung clarifying the previous message in regard to the silver they owe us through the Chase. Kung had asked him what message I had for him. It seems that when the State Department arranged the appointment for him to come to see me last week, they told him, stupidly enough, that I had a message for the Chinese Government.

I told the Ambassador that due to the boiling silver market plus the fact that the Senate had just appointed a Committee to investigate silver, I wanted to sit back and wait before I made any further moves. I told him that I thought the appointment of the Pittman Committee would be helpful. He agreed with me.

I told him that a New York Times reporter had been in to inquire about Soong coming to meet me in Spain. I told him I thought it was most unfortunate there had been a leak. He seemed surprised, but I did not think very much so, that there was a leak. He immediately said, "It must have come out of China." I told him that if the world was going to know that Soong and I would meet in Spain, I questioned the advisability of our meeting.

He told me that Soong might go into the Cabinet and if he did, he undoubtedly would not leave China at this time. He said that if Soong went to Spain he would fly in a private plane to Singapore and then by plane from there to France. He evidently had it all worked out in his mind.

I can't make out whether the Chinese Ambassador is terribly smart or terribly stupid. I am inclined to think the latter.



August 20, 1935

Julius Martin came down from New York today to go over some of my personal affairs with me. He wanted to file claims for refund of taxes paid by Mrs. Morgenthau and myself on dividends of the Tri-Continental Corporation because of the following notice to preferred stockholders of that Corporation:

"March 7, 1935.

Our counsel advise that, in their opinion the dividends paid by this Corporation on its Preferred Stock during the years 1933 and 1934 constitute non-taxable distributions, which, therefore, should not be reported by the stockholder in Federal income tax returns as dividends, but should be applied against and reduce the cost or other basis of the stock to be used in computing profit or loss in the event of a sale of the stock. (See Section 115 of the Federal Revenue Acts of 1932 and 1934).

However, the Treasury Department has ruled, contrary to the contention of our counsel, that 54.465% of the July 1, 1933 distribution, and 24.864% of the January 1, 1934 distribution, are taxable as dividends for surtax purposes in accordance with the provisions of Section 115 (a) and (b) of the Revenue Acts of 1932 and 1934; the Department has agreed that the remaining distributions made during the two years in question are not taxable as dividends. We are advised that the theory on which our counsel's contention is based has been upheld by the United States Board of Tax Appeals in recent cases involving substantially a similar issue, but that the Treasury Department may appeal to the courts in at least one of these cases."

I told Martin I did not think we should file these claims. He disagreed with me decidedly. I told him I would call in Herman Oliphant to see what he thought but before doing so I wrote my own opinion to see how

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it would agree with Herman's.

Herman said he had had a similar experience since coming to the Treasury on a matter of interest to him. That was whether or not the money which Columbia University contributed to his retirement fund was taxable. He asked Jackson to decide the matter without letting it come to him at all and Jackson had decided that it was not taxable. However, since he is now a Treasury employee he did not wish to take advantage of this favorable decision from his office and would not make claim for refund.

I then exhibited to Herman the attached personal opinion, written in my own handwriting, to the effect that I did not think Elinor and I should make claim, to which he agreed. I could not convince Martin, however.

August 20, 1935.

TO THE PRESIDENT:

Section 32 of H. R. 8492 as agreed upon by the Senate and House conferees provides an appropriation for each fiscal year beginning with the fiscal year ending June 30, 1936 of an amount equal to 30% of the gross receipts from duties collected under the customs laws during the period January 1 to December 31, both inclusive, preceding the beginning of each fiscal year.

This section is highly objectionable for the following reasons:

(1) It appropriates directly instead of authorizing an appropriation, thus denying to the President the opportunity and right to inquire into the need for an appropriation and the submission of an estimate to the Congress as contemplated by the Budget and Accounting Act; likewise it deprives the Appropriations Committees of Congress of their right to consider and pass upon the need for an appropriation.

(2) It makes a permanent indefinite appropriation in direct opposition to the policy adopted by the enactment of the "Permanent Appropriation Repeal Act of 1934." The following excerpt from the report of the subcommittee of the Appropriations Committee which handled the Permanent Appropriation Repeal Act in the last Congress will be interesting in this connection:

"It is maintained that neither by ethics, logic, nor by Constitutional authority has any one Congress the right of binding the hands of posterity by the enactment of laws mandatorily calling for automatic withdrawals from the Federal Treasury without annual examination, approval and supervision by succeeding Congresses. It is the conclusion of the Committee after hearing numerous witnesses that permanent appropriations are a vicious usurpation and invasion of the rights of sitting Congresses; that they complicate bookkeeping in the office of the Treasurer and the Division of Bookkeeping and Warrants of the Treasury Department; make auditing in the Comptroller General's office difficult; conceal from Congress many avenues of receipts and expenditures (which in itself is an invitation to extravagance), and for lack of proper annual disclosure, make the work of the Appropriation Sub-committees conjectural and uncertain \*\*\*\*."

The Committee further points out that appropriations of this character have been availed of as a means of foreclosing the right of each Congress to pass upon the appropriation needs of any project or beneficiary of this favorite device, and that by the use of them the doors of the Treasury are left wide open to administrative authorities to expend such amounts as they may deem necessary without Congress upon recommendation of its duly constituted committees in any wise passing either upon the element of need or reviewing the policies or purposes of those charged with the administration and expenditure of Government moneys.

(3) It places annually at the disposal of a single individual

a sum ranging between approximately \$90,000,000 for the fiscal year 1936 and an undetermined sum in subsequent years which, if our customs receipts aggregate as much as they did in 1927, will amount to \$180,000,000, to be expended by him "at such time, in such manner and in such amounts" as he may determine. This is a delegation of power and authority with a vengeance; it denies the President any authority whatever over the expenditure of huge sums of money in the operation of an executive agency.

(4) It provides for the expenditure annually for an undetermined number of years of large sums of money without any provision whatever being made for raising the revenue with which to finance such expenditures. There is a total lack of coordination between the funds that are made available and the purposes for which they are required.

(5) It provides for expenditures not contemplated in the Budget estimates for the fiscal year 1936 and will materially increase the deficit for that year as well as materially add to the annual expenditures for each year thereafter.

(6) The three purposes for which the fund may be used represent a new agricultural aid policy of such significance as to justify exhaustive debate and consideration in relation to the prevailing policy.

For such an important policy to become law by the "back door" of conference committee agreement is to disregard the very fundamentals of legislative procedure.

Under the circumstances I believe the bill should be returned to the Congress without your approval to have this objectionable section removed.

1. This plan provides for a 12¢ loan to cotton growers - composed of two parts, a 9¢ loan and a 3¢ loan, but avoiding most of the disadvantages of the present 12¢ loan.

2. It will afford a free cotton market which will facilitate the movement of cotton both in export trade and into domestic consumption.

3. It will probably prevent further additions to the existing large cotton stocks now covered by Government loans.

4. It will maintain the same support for farm income in the South as furnished by the previous 12¢ cotton loan.

THE PRESIDENT'S ALTERNATIVE

COTTON LOAN PLAN

Make a 9¢ and a 3¢ loan on cotton produced during the 1935 season as follows:

1. The loans are to be limited to cotton classed as 13/16" as to staple and low middling as to grade in any location. They are to be further limited to growers who are cooperating in adjustment programs and to their allotments under the Bankhead Act.

2. The Commodity Credit Corporation will make a loan of 9¢ secured by cotton, without personal liability on producers if they sell their cotton within some fixed period from the date of the loan. It will make also a loan of 3¢ (similarly without personal liability) secured by the cotton and an assignment of the following indemnity agreement, which is to be made with such producers by the Secretary of Agriculture, under Section 32.

3. This indemnity agreement will provide that the producer is to be indemnified only if he sells his cotton within the fixed period, and if he sells it at less than 15¢. On a sale at less than 15¢, the Secretary will agree to indemnify him to the extent of half the difference between what he gets and 15¢, but not in excess of 3¢ per pound, such indemnity being applied in liquidation of the 3¢ loan. Both the foregoing loans and the indemnity agreement are to be incorporated in a single agreement with producers.

Under this plan the net to the farmer for his cotton would be as follows:

<u>If He Sells At:</u>	<u>What The Producer Receives:</u>
9	12
10	12½
11	13
12	13½
13	14
14	14½
15	15

4. Local bankers may make advances of 9¢ or 12¢ as may



be desired, such loans being guaranteed by an agreement of the Commodity Credit Corporation to take them over.

5. If the grower has not sold his cotton within the fixed period, then the Commodity Credit Corporation may foreclose, or take it over as if purchased.

August 21, 1935.

1. Guarantee farmers cooperating in 1935 program and agreeing to cooperate in 1936 program a return of 12 cents per pound (basis 10 spot market average) on the individual's production up to the Bankhead allotment.
2. Offer a 9-cent loan at the farm, without recourse, on 13/16 inch low middling cotton or better.
3. Announce immediately that the AAA will make payments equal to amount by which actual price middling 7/8 inch cotton at 10 spot markets averages less than 12 cents per pound for period September 1 to March 1.
4. If cotton sells at 11 cents the liability would be approximately \$50,000,000, which would be available from section 32 funds. If the price averages lower than 11 cents, additional funds from other sources would be required.

#### Advantages

1. Does not require that cotton be placed in loan to get benefits.
2. Most farmers would sell freely. Probably not over 1 to 2 million bales would come into the loan.
3. Chance of fraud would be eliminated.
4. The administrative machinery for making payments to cooperating producers, as well as the regular loan machinery, is already available.
5. Does not interfere with movement of this year's crop into markets, thus tending to relieve the abnormal price relationships that have existed for most of the past year.
6. This plan would guarantee farmers an income of around \$700,000,000 from their lint cotton in 1935 as compared with \$613,000,000 in 1934, \$634,000,000 in 1933, and \$424,000,000 in 1932.

## Disadvantage

1. The plan contemplates payments under clause (3) of H. R. 8492 and under the first proviso, will require a showing of expenditure of this amount under clauses (1) and (2) is not necessary to effectuate the purposes of this section.

ESTIMATE OF ADDITIONAL ADVANCES  
by  
COMMODITY CREDIT CORPORATION

IF EXISTING COMMITMENTS IN AMENDMENTS ARE COMPLIED WITH

1. 1934 Cotton Loans

Bales now pledged with Commodity Credit Corporation	4,450,000	
Loans from R. F. C.		\$240,425,000
Additional obligation		36,000,000
" funds required to finance to June 30, 1936		<u>40,000,000</u>
		<u>\$316,425,000</u>
 Additional funds		 \$ 76,000,000

2. 1935 Cotton Loans @ 12¢ per pound

Estimated crop (bales)	11,900,000	
Bales estimated that will come under this loan	<u>5,000,000</u>	
New funds required from R.F.C.		\$300,000,000
Additional funds, handling charges		<u>50,000,000</u>
		\$350,000,000

3. 1935 Wheat Loans @ 90¢ per bushel

Estimated crop	620,000,000	
Estimated bushels coming under this loan	210,000,000	
Funds required @ 90¢ per bushel		\$189,000,000

4. 1935 Corn Loan @ 60¢ per bushel

Estimated crop	2,250,000,000	
Estimated bushels coming under this loan	750,000,000	
Funds required at 60¢ per bushel		450,000,000

SUMMARY OF NEW FUNDS REQUIRED

1. Carry 1934 Cotton Loan to June, 1936.		\$ 76,000,000
2. 1935 Cotton Loan at 12¢ per pound.		350,000,000
3. 1935 Wheat Loan at 90¢ per bushel.		189,000,000
4. 1935 Corn Loan at 60¢ per bushel.		<u>450,000,000</u>
		\$ 1,065,000,000

REPORT OF ESTIMATES BY CHESTER DAVIS OVER  
TELEPHONE

Cotton: Taking the same percentage established by last years' experience, 5 million bales of cotton would be presented as a basis for loans involving a commitment of 300 million dollars.

RFC points out that you should have an additional 50 million dollars to cover warehousing charges. No estimate has been made of losses but 2 million bales would probably be added to Government stocks.

Wheat: Estimates 200 million bushels at an average of 80¢ per bushel, requiring commitment of 160 million dollars. Carry-over would probably be the poorer grades and estimates the loss would be one-half the amount.

Corn: Estimates that it would be necessary to loan 80¢ a bushel on 400 million bushels, making a commitment of 240 million dollars. RFC estimates 750 million bushels that might be taken in.

Davis estimates that a total of 700 million dollars would be required to take care of the program without allowing any warehousing charges, which would amount to another 100 million dollars.

Davis points out that he does not believe there is statutory basis for making loans at the rates proposed and that if the legal counsel for the banks should so

advise their clients, the entire outlay would fall on the Government.

## Cotton -

5 million bales at \$60 per bale . . . . . \$ 300,000,000

(Add 2 million bales to store)

## Wheat -

200 million bushels at 80¢ per bushel . . . 160,000,000

## Corn -

400 million bushels at 60¢ per bushel . . . 240,000,000

\$ 700,000,000

## RFC 750

Warehousing and carrying charges . . . . . 100,000,000

\$ 800,000,000

August 26, 1935

Outline of Cotton Adjustment Program to Date

## I.

To bring about curtailment of cotton production and nevertheless to bring a total return to growers larger than they have been receiving during the depression, the Government has employed the following four devices:

(a) Rental Payments

The AAA pays a rental of  $3\frac{1}{2}\%$  per pound on the calculated yield of acres taken out of production. This program took the form of a plow-up campaign in 1933. Since then the acreage has been held out of crop production. Rental payments are estimated at \$89.2 million for 1935.

(b) Benefit Payments -- Domestic Allotment

Since 40 percent of cotton production represents the proportion normally going into domestic rather than foreign consumption, a benefit payment of  $1\%$  per pound is paid on 40 percent of the producer's base production, in order to reduce the gap between price received by growers for their cotton and parity prices, under the domestic allotment program. The base period is defined as the average for the five years 1928-1932. Benefit payments for 1935 are estimated at  $\$37\frac{1}{2}$  million. Both rental and benefit payments are commonly considered in measuring the extent to which Government payments have accounted for the reduction in the difference between farm and parity prices for cotton.

(c) Loans

To put a lower limit upon the price of cotton, the Government in September 1933 offered to make loans of  $10\%$  per pound on cotton. Farmers could sell their cotton on the open market at any time and close out their loans. In September 1934, the loan was raised to  $12\%$  per pound, and producers who had not closed out the  $10\%$  loan on their 1933-1934 crop were permitted to convert their  $10\%$  loans into  $12\%$  loans, which most of them did. The  $12\%$  loan was designed primarily for the 1934-1935 crop.

(d) The Bankhead Act

In order to prevent more intensive cultivation of cotton acreage remaining in production, which could conceivably destroy



the effects of acreage curtailment, the Bankhead Act placed a prohibitive tax on all cotton ginned in excess of the amount allotted producers. The Act was continued for the 1935-1936 crop with a slight change in the total figure which could be ginned.

## II

As the result of production curtailment, the 1934-5 output was about 9.6 million bales as contrasted with 13 millions in 1932-3 and 17 millions in 1931-2. Export sales, however, fell off by nearly the full amount of the reduction in output, declining from 8.4 million bales in 1932-3 to 4.8 millions in 1934-5.

The accompanying improvement in the income of the cotton farmers was due in part to the higher prices received for the cotton actually sold at home and abroad; but a large part of the improvement in the cash income of cotton farmers must be attributed to the direct and indirect outlays of the Federal Government. Benefit and rental payments for 1935 are estimated at 127 millions, and the cotton held by the Government represents approximately \$300 millions in loans. In effect, it might be said, that the acquisition of unsold cotton by the Government has substituted to an important extent for cotton exports.



DEPARTMENT OF AGRICULTURE  
WASHINGTON, D.C.

Hon. Henry Morgenthau, Jr.,

Secretary of the Treasury.

Dear Mr. Secretary:

A brief resume of some of the principal factors which have affected cotton prices and marketings since March, 1933, may aid you in understanding our position on the Commodity Credit Corporation cotton loan.

Summary of government steps in past two years.

The world carry-over of American cotton on August 1, 1933, was 11,588,000 five hundred pound bales as compared to the normal carry-over of between 4,000,000 and 5,000,000 bales. The price per lint pound of cotton was around six cents as compared to an average of between 15 and 20 cents since the War and a high of 35.5 cents in 1919.

At the time the Agricultural Adjustment Act became effective, an unusually heavy crop was in prospect and an emergency step was taken in plowing under approximately 10,500,000 acres which would have yielded in the neighborhood of 4,500,000 bales of cotton.

Even so, a crop of 13,047,000 bales was harvested and the price of cotton in the early fall of 1933 was less than 9 cents per pound on the farm.

Producer dissatisfaction and the feeling on the part of government officials that a loan of 10 cents per pound was economically sound, principally because of production control, led to the 10 cent loan. This was applicable on the cotton produced in the calendar year, 1933.

The price of cotton rose steadily during 1933 and the major portion of 1934. In consequence, relatively little cotton accumulated

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as a result of the 10 cent loan, the loan being far enough below the market price to permit the free movement of the staple both here and abroad.

By August 1, 1934, the world carry-over of American cotton, as a result of the cotton adjustment program and other factors, had been reduced to 10,634,000 bales. The spot price of cotton was more than 13 cents and estimates were that the carry-over as of August 1, 1935, would be considerable less than 8,000,000 bales.

These factors led to an increase in the loan on cotton from 10 cents to 12 cents. The conditions extremely favorable to the producer were continued. The grower took no risk whatever and stood to gain by the amount that the price of cotton increased above the loan value.

It is true that up to this time, the 10 and 12 cent cotton loans have proved of value to American cotton producers. They were justifiable as emergency measures during the period before the economic revival had manifested itself in demand for cotton. In this period, the loans resulted in an increase in farm income which could not have been brought about in any other way. This statement, however, is concerned not with past justification but with the future consequences if the 12 cent loan policy is continued.

Unfavorable developments resulting from the 12 cent loan during the cotton year which ended August 1, 1935, have convinced officials of the Department of Agriculture, the Agricultural Adjustment Administration, the Commodity Credit Corporation and other agencies involved that an extension of the 12 cent loan to apply to the crop produced during the calendar year, 1935, would be extremely unwise both from an economic and a political standpoint.

On August 1, 1935, spot cotton covered by outstanding government loans exceeding market value amounted to 5,086,849 bales. Loans of 12 cents a pound on 5,086,849 bales of cotton represent more than \$300,000,000. If the loan had been held at 10 cents a year ago, the total of outstanding loans would be far smaller than it is.

Even with the loan, the price of spot cotton declined below 12 cents during the cotton season which ended August 1. It has fluctuated recently at a price between  $10\frac{1}{2}$  and  $11\frac{1}{2}$  cents.

In view of present conditions and crop prospects, all indications are that an extension of the loan would result in the continued increase in the amount of cotton covered by federal loans. Any forecast as to

the amount of eventual accumulation would be in the nature of a guess but it is not unlikely that the government might begin the next cotton year with loans exceeding market value outstanding on 8,000,000 bales of cotton.

Economic disadvantages of 12 cent loan.

Heavy additions to stocks of loan cotton in the 1934-1935 cotton year is only one of the ramifications of the loan policy that has caused apprehension. Among other effects of the 12-cent loan are:

1. It doubtless contributed to some extent to the decline of American cotton exports which totaled only 4,800,000 bales in the 1934-1935 cotton year as compared to normal exports of approximately 8,000,000 bales. The loan increased the normal price disparity between American and foreign growths. A statistical analysis indicates that about 1,000,000 bales of the decrease in exports may be attributed to the effects of the loan. It takes only a slight disparity between American and foreign prices to penalize the American farmer in the export market.

2. The loan contributed to the decline in world consumption of American cotton. Consumption of American staple decreased about 2,400,000 bales during the past season, while consumption of foreign growths increased about 2,400,000 bales.

3. The loan stimulated foreign production for the 1935-1936 cotton season.

The Bureau of Agricultural Economics reports that the 1935-1936 acreage abroad would not have increased had the price of American cotton been 10 cents per pound during the past season. Loss of foreign markets is a source of continued attack on the Administration. The existence of the loan conceals the fundamental causes of decline in our foreign trade and plays into the hands of the political opponents of the Administration.

4. The loan contributed toward the restriction of purchases by domestic mills because it distorted relationships between spot prices and futures prices and between various months in the futures markets, and interfered with hedging to protect normal manufacturing operations.

5. The government faces a loss, not only on the principal of the loans made but the carrying charges on the cotton are accruing at the rate of \$1,700,000 per month.

6. The loan hangs over the market as a price-distorting factor, even though the government had pledged itself not to call the

loans at least until after February 1, 1936. In addition to its effects upon the spot and futures markets, the cotton is a price depressing influence because the trade feels it eventually must move into trade channels.

7. Due to government holdings of staple lengths from 7/8" to 1" middling, stocks of cotton of desirable qualities in the hands of cotton merchants are approaching an irreducible minimum. During recent months there have been frequent reports that cotton merchants have been forced to refuse orders because they were unable to obtain the qualities of cotton desired. Less than 2,000,000 bales of the 9,000,000 bales of American cotton carry-over on August 1 were in trade channels.

#### Political dangers of 12 cent loan.

Over a considerable period, economic and political considerations are of necessity closely parallel; that is if they are sound. In the long run, sound economics is good politics. The ultimate political disadvantages of the 12 cent loan far outweigh its temporary political advantages.

The administration will need the support of the South much more in 1936 than at present. The government can make a 12 cent loan on the 1935 cotton crop with political advantage only if it is prepared to make another 12 cent loan a year hence on the 1936 crop.

If 12 cents is loaned on the 1935 and 1936 crops--or even on the 1935 crop, perhaps--the government probably will have such a large investment in cotton, and so much cotton on its hands, that the loans will become the same kind of a political liability that the Federal Farm Board's cotton and wheat loans followed by purchases, turned out to be in 1932.

Political repercussions in the South in 1936 would be intense if, as in 1932, the government again in 1936 should be forced by public sentiment against a tremendous federal investment in cotton to abandon its loan policy and let the price drop. The electoral votes of Georgia and Louisiana alone might be decisive in a hard fought campaign. The cotton program has been assailed in both states by Governor Talmadge and Senator Long, both of whom may actively oppose the Administration next year. A breakdown in the cotton program might enable them to win both states away from the Administration.

It is true that a policy which involves no loan, or a loan which would allow cotton to move freely to market, may cause some grumbling for a time this year. It would, however, probably insure

a price for the staple for 1936 which would be satisfactory to the majority of Southern producers at the time when existence of favorable public opinion will be vital.

Even if the South could be held in line politically by 12 cent loans in 1935 and 1936 the result elsewhere might offset any advantage in the cotton growing section.

The producers of other commodities may logically be expected to interpret the rate of the cotton loan as the yardstick for the rate on commodities which they produce. Already considerable pressure has developed for loans on corn, oats, rye, barley and wheat. The Commodity Credit Corporation points out that if loans were made on the 1935 corn crop equal to those made on the 1934 crop (55 cents per bushel) there would exist the probability that the Treasury might lose hundreds of millions of dollars. Such losses would be enormously costly from a political as well as economic point of view.

If the 12 cent loan is made, producers of other commodities will be justified in demanding similar high loans. Should these loans not be forthcoming, their resentment would be likely to express itself at the polls. An extension of the high commodity loan policy to other crops would duplicate on a magnified scale the disastrous economic and political experience of the Farn Board.

Resentment has been aroused against the entire adjustment program in some industrial sections. This is particularly true in New England where the decline of the textile industry has been erroneously blamed upon the cotton processing tax.

Another 12 cent loan, with possible extension of the policy to other commodities, would inevitably intensify opposition where the benefits of the agricultural policies are not immediately apparent. The unwise economic policies involved in the loan would become glaringly apparent in the midst of the presidential campaign--too late to take effective remedial steps.

The circumstances which make a 12 cent loan a temporary political asset are the circumstances which force such a loan to become a tremendous political liability later. In other words, a natural price recovery relieving the loan of price-fixing characteristics would have all the political benefits of a loan without any of its political dangers.

#### Effect on issue of constitutionality.

The Supreme Court probably will pass upon the constitutionality

of the Bankhead Act before the next term of court is over. There is grave doubt about the result.

The outcome of the 1936 election might easily turn on the question of whether public support goes to the President on the one hand or to the Supreme Court on the other, if the court should precipitate this issue by sweeping decisions against New Deal measures.

If such a situation should develop, it would be vital to the Administration to have the issue clear out. The existence of a 12 cent loan on cotton might confuse the issue seriously. If the 12 cent loan were not in effect and the Supreme Court declared the Bankhead Act unconstitutional, the whole of Southern Agriculture might be instantly aroused against the Court. But with the 12 cent loan, the Administration might be forestalling the very reaction upon which it depended. Cotton prices would be sustained temporarily through the crutch afforded by the loan. The farmers would be unable to see the damage done them. Their response might be apathy instead of indignation.

#### Consequences of invalidation of the Bankhead Act.

It is entirely possible that the Bankhead Act may be declared unconstitutional before the next cotton planting season. This Act was written primarily as a safeguard for the voluntary program. The feeling was that the inducements created as the price of cotton rose would cause evasion of the voluntary program to an extent that would mean its breakdown unless a penalty was imposed.

The difficulty of keeping production within bounds without the Bankhead Act would be intensified if the 12 cent loan is continued. In other words, the price peg would make it to the advantage of a great many growers to evade the restrictions of the voluntary program. The producers would know the price of cotton before the crop was planted, assuming, of course, that continuation of the 12 cent loan in 1935 would make imperative its extension in the 1936 election year. The farmers might plant every available acre intending to sell one big crop at a pegged price to the government before being overtaken by the inevitable market collapse. Without the Bankhead Act, the production control basis of the loan would be gone.

Lacking the Bankhead Act, we could not get rid of a heavy accumulation of government controlled cotton without tremendous losses to the government, the growers and the textile and ginning industries.

Keeping in mind that the Bankhead Act may very probably be held invalid by the Supreme Court, it is highly important that all

possible steps be taken to prevent a further accumulation of cotton. An adverse decision on the Bankhead Act probably would have a decidedly bearish effect upon price. Provided further acquisition of cotton stocks is prevented, however, the government would be in a position to turn this situation to its political advantage, with a different form of help to the South. The Agricultural Adjustment Administration could increase benefit payments to growers who cooperate and comply with their contracts. This would offset to a substantial extent the loss resulting from the price declines. The original theory of the Adjustment Act was to reward cooperating growers with benefit payments that would compensate for the lack of parity price.

Most of the pressure, or at least a large portion of it, that is being applied for the loan comes from political sources. The senators and congressmen who are demanding a loan, however, can not be depended upon to accept the blame for failure. The blame will rest upon the entire Roosevelt Administration.

The 12 cent loan for the 1935 crop.

The 1935 cotton crop is now estimated at 11,798,000 bales. The world carry-over of American cotton is about 9,000,000 bales, making a total estimated supply for the 1935-1936 season of approximately 20,800,000 bales. Of this supply more than 5,000,000 bales is included in the 12 cent loan and producers' pool stocks. In addition the producers' pool has nearly a million bales of futures contracts on which it can call for delivery, thus bringing the government financed holdings to nearly 6,000,000 bales. This leaves only 14,800,000 bales of "free" cotton. This quantity is barely sufficient for consumption and carry-over purposes during the 1935-1936 season and if this quantity is further reduced by another 12 cent loan the inevitable result will be a reduction in exports and consumption of American cotton and further stimulation of production and consumption of foreign growths of cotton.

In view of the present supply and consumption outlook, it appears that even without a price-pegging loan, the farm price of cotton during the 1935-1936 season will average about 11 to 11½ cents. This price would bring producers a much larger gross income from cotton during 1935-1936 than that which was obtained on the smaller crop of 1934.

It is doubtful if a 12 cent loan would increase average prices to producers by as much as 1 cent per pound during the 1935-1936 season. Undoubtedly at present a loan psychology is dominating the cotton market and a 12 cent loan would probably have some price raising effect in the early fall months just as it tended to support prices for a time last fall. Before the year is over, however, the



fundamental conditions of supply and demand would determine prices and it is probable that prices would break below the 12 cent level, as they did in the past season.

The most important price effect of a loan is the raising of spot prices and near month future prices above the levels of the more distant futures prices. This forces merchants and mills to take a loss on cotton which they carry under hedges. As a result, merchants and mills cannot afford to buy cotton in the usual manner. This was an important factor in the reduction in exports last year. While a loan tends to support prices early in the season, therefore, it also tends to check exports and consumption, and the larger stocks at the end of the season tend to depress prices.

It is difficult to estimate the quantity of cotton that might be added to the holdings under government loans if a 12 cent loan were put into effect this year. It is possible that between 2,000,000 and 3,000,000 bales would be added to the government holdings and world consumption of American cotton might be reduced by as much as 1,000,000 to 1,500,000 bales below what it would be without a loan.

It is entirely possible that by the end of the 1935-1936 season the stock of government financed cotton would be in the neighborhood of 8,000,000 to 9,000,000 bales.

It is doubtful that any production control program in 1936 could offset the effect of these accumulated supplies, and therefore it is probable that a loan in 1936 would be necessary to prevent a more serious price decline at that time. By the beginning of the 1936-1937 cotton year the cotton now held will cost the government approximately 14 cents per pound including carrying costs. On the 8,000,000 bales of spots and futures for which the government would be accountable, therefore, it would have a potential loss of \$40,000,000 for each cent that the price at which this cotton could be liquidated was below 14 cents per pound.

#### A possible alternative.

Under the circumstances, it is essential to find some strong alternative to continuance of the 12 cent loan. One alternative would be a 10 cent loan, supplemented by additional payments to cotton producers from funds made available under the amendments to the Agricultural Adjustment Act.

The Jones amendment to the Adjustment Act Amendments which has now been accepted by both houses of Congress earmarks 30 percent of the customs receipts into a special fund which amounts to approximately \$92,000,000 for the present fiscal year.

This fund is available to "(1) encourage the exportation of agricultural commodities and products" by several methods, including "payments to producers in connection with the production of that part of any agricultural commodity required for domestic consumption".

A proposal has been made that the reduction of the loan to 10 cents be accompanied by additional payments of 1 cent a pound or possibly more on that part of the grower's crop which is used for domestic consumption.

This alternative to the present arrangement undoubtedly would result in a sharp increase in exports and would thus carry out the purposes of the amendment.

The average amount of cotton used for domestic consumption is approximately 40 percent of production for the 1928-1932 period. This is designated as the domestic allotment by the Agricultural Adjustment Administration. The Administration and the Department of Agriculture have the figures on the domestic allotment of every grower who is cooperating in the cotton adjustment program. Thus, little time would be consumed in arriving at the amount due each producer if the additional payment is decided upon.

I am inclined to believe that this supplement to a 10 cent cotton loan would provide a workable solution of our problem.

For example, the growers would receive about \$30,000,000 additional if a one-cent payment is decided upon; \$60,000,000 if a payment of two cents per pound is thought feasible. Our economists point out that with these additional payments, the total income to cotton producers in 1935 would be approximately as much as it would be if all the cotton were placed under a 12 cent loan or if the farm price were pegged at 12 cents.

A 12 cent loan, as has been pointed out, would act as a price peg for the 1935 crop. Studies made by Department economists indicate that the removal of this peg will result in average farm prices for the 1935 crop of around 11 or  $11\frac{1}{2}$  cents.

A price of  $11\frac{1}{2}$  cents a pound, as compared to 12 cents, represents a diminished income of about \$30,000,000; a price of 11 cents a difference of approximately \$60,000,000.

Furthermore, a large portion of this additional payment would go to share-croppers and other tenants who cultivate the land for a portion of the cotton crop, since the landlord and tenant would share in the payment as they share in the crop.

Under the suggested arrangement, a share-cropper who produced cotton for half of the crop would receive \$50 of a \$100 payment.

I believe also that the combination of a 10 cent loan with

additional payments would go far toward tempering the disappointment Southern producers might feel if another 12 cent loan is not forthcoming on the 1935 crop. The goal of the Agricultural Adjustment Act is a fair exchange value for cotton and other agricultural commodities. As I have said, the logical course to pursue is to allow the price to seek its natural level and to compensate producers with additional benefit payments.

The plan I have outlined has shortcomings and faults from an economic standpoint but in my opinion it is infinitely to be preferred to another 12 cent loan. I can not too strongly urge that we refrain from repeating fundamental errors, once they are revealed. Otherwise, I do not believe the Agricultural Adjustment Administration can endure.

Still another alternative is the suggestion that the 12 cent loan be made available only to the small producer. For our purposes a small producer may be defined as one whose Bankhead Act allotment is five bales or less. It would not be practical, in my opinion, to extend the loan to growers whose allotment is more than five bales.

Our statisticians estimate that about 800,000 bales would be eligible to a 12 cent loan if the loan were made available to growers with an allotment of two bales or under. About 380,000 of the over 2,000,000 cotton producers would be affected and around \$50,000,000 would be needed to finance the loan.

The amount of cotton which would be affected ascends sharply after the two-bale allotment is passed. If the loan were extended to producers whose allotment is five bales roughly between 4,000,000 and 4,500,000 bales would be eligible. A third of the crop might be accumulated by the government on this basis.

An extension of the 12 cent loan privilege to small producers has possibilities which warrant careful consideration. Pending further study, however, I make no recommendation but simply present the facts as we see them.

It must be kept in mind that many of the larger producers of cotton in the South have farms and plantations that are heavily mortgaged as the result of economic conditions since the War. Those without the scope of the loan might feel keenly that they had been discriminated against.

The motive of the proposal to limit the 12 cent loan to small producers is sound and commendable. But due to the nature of the financial relationships between many landlords and tenants, one likely result would be that not a few landlords would acquire large blocks of

government money under the names of their small tenants and share-croppers.

To summarize: Leaving aside the proposal for a loan to small producers only, it appears that a 10 cent loan with an additional payment to cooperating producers on their domestic consumption allotments in lieu of a 12 cent loan, would tend to (1) prevent an unnecessary and undesirable reduction in exports and consumption of American cotton, (2) reduce potential losses to the government on additional accumulations of loan cotton, (3) protect growers' income, (4) prevent to an extent the advantage foreign growers would gain at the expense of our growers, and (5) put the government in a stronger position to deal effectively with the cotton adjustment program and price situation in the fall of 1936 and thereafter than it will be if burdened by the additional stocks that it may accumulate under a 12 cent loan this year.

Sincerely yours,

*H. A. Wallace*

Secretary.

*Duplicate Copy  
Confidential*

Hon. Henry Morgenthau, Jr.,

Secretary of the Treasury.

Dear Mr. Secretary:

A brief resume of some of the principal factors which have affected cotton prices and marketings since March, 1933, may aid you in understanding our position on the Commodity Credit Corporation cotton loan.

Summary of government steps in past two years.

The world carry-over of American cotton on August 1, 1933, was 11,588,000 five hundred pound bales as compared to the normal carry-over of between 4,000,000 and 5,000,000 bales. The price per lint pound of cotton was around six cents as compared to an average of between 15 and 20 cents since the War and a high of 36.5 cents in 1919.

At the time the Agricultural Adjustment Act became effective, an unusually heavy crop was in prospect and an emergency step was taken in plowing under approximately 10,500,000 acres which would have yielded in the neighborhood of 4,500,000 bales of cotton.

Even so, a crop of 13,047,000 bales was harvested and the price of cotton in the early fall of 1933 was less than 9 cents per pound on the farm.

Producer dissatisfaction and the feeling on the part of government officials that a loan of 10 cents per pound was economically sound, principally because of production control, led to the 10 cent loan. This was applicable to the cotton produced in the calendar year, 1933.

The price of cotton rose steadily during 1933 and the major portion of 1934. In consequence, relatively little cotton accumulated

as a result of the 10 cent loan, the loan being far enough below the market price to permit the free movement of the staple both here and abroad.

By August 1, 1934, the world carry-over of American cotton, as a result of the cotton adjustment program and other factors, had been reduced to 10,634,000 bales. The spot price of cotton was more than 13 cents and estimates were that the carry-over as of August 1, 1935, would be considerable less than 8,000,000 bales.

These factors led to an increase in the loan on cotton from 10 cents to 12 cents. The conditions extremely favorable to the producer were continued. The grower took no risk whatever and stood to gain by the amount that the price of cotton increased above the loan value.

It is true that up to this time, the 10 and 12 cent cotton loans have proved of value to American cotton producers. They were justifiable as emergency measures during the period before the economic revival had manifested itself in demand for cotton. In this period, the loans resulted in an increase in farm income which could not have been brought about in any other way. This statement, however, is concerned not with past justification but with the future consequences if the 12 cent loan policy is continued.

Unfavorable developments resulting from the 12 cent loan during the cotton year which ended August 1, 1935, have convinced officials of the Department of Agriculture, the Agricultural Adjustment Administration, the Commodity Credit Corporation and other agencies involved that an extension of the 12 cent loan to apply to the crop produced during the calendar year, 1935, would be extremely unwise both from an economic and a political standpoint.

On August 1, 1935, spot cotton covered by outstanding government loans exceeding market value amounted to 5,086,849 bales. Loans of 12 cents a pound on 5,086,849 bales of cotton represent more than \$300,000,000. If the loan had been held at 10 cents a year ago, the total of outstanding loans would be far smaller than it is.

Even with the loan, the price of spot cotton declined below 12 cents during the cotton season which ended August 1. It has fluctuated recently at a price between 10½ and 11½ cents.

In view of present conditions and crop prospects, all indications are that an extension of the loan would result in the continued increase in the amount of cotton covered by federal loans. Any forecast as to

the amount of eventual accumulation would be in the nature of a guess but it is not unlikely that the government might begin the next cotton year with loans exceeding market value outstanding on 8,000,000 bales of cotton.

Economic disadvantages of 12 cent loan.

Heavy additions to stocks of loan cotton in the 1934-1935 cotton year is only one of the ramifications of the loan policy that has caused apprehension. Among other effects of the 12-cent loan are:

1. It doubtless contributed to some extent to the decline of American cotton exports which totaled only 4,800,000 bales in the 1934-1935 cotton year as compared to normal exports of approximately 8,000,000 bales. The loan increased the normal price disparity between American and foreign growths. A statistical analysis indicates that about 1,000,000 bales of the decrease in exports may be attributed to the effects of the loan. It takes only a slight disparity between American and foreign prices to penalize the American farmer in the export market.

2. The loan contributed to the decline in world consumption of American cotton. Consumption of American staple decreased about 2,400,000 bales during the past season, while consumption of foreign growths increased about 2,400,000 bales.

3. The loan stimulated foreign production for the 1935-1936 cotton season.

The Bureau of Agricultural Economics reports that the 1935-1936 acreage abroad would not have increased had the price of American cotton been 10 cents per pound during the past season. Loss of foreign markets is a source of continued attack on the Administration. The existence of the loan conceals the fundamental causes of decline in our foreign trade and plays into the hands of the political opponents of the Administration.

4. The loan contributed toward the restriction of purchases by domestic mills because it distorted relationships between spot prices and futures prices and between various months in the futures markets, and interfered with hedging to protect normal manufacturing operations.

5. The government faces a loss, not only on the principal of the loans made but the carrying charges on the cotton are accruing at the rate of \$1,700,000 per month.

6. The loan hangs over the market as a price-distorting factor, even though the government had pledged itself not to call the

loans at least until after February 1, 1936. In addition to its effects upon the spot and futures markets, the cotton is a price depressing influence because the trade feels it eventually must move into trade channels.

7. Due to government holdings of staple lengths from  $7/8$ " to 1" middling, stocks of cotton of desirable qualities in the hands of cotton merchants are approaching an irreducible minimum. During recent months there have been frequent reports that cotton merchants have been forced to refuse orders because they were unable to obtain the qualities of cotton desired. Less than 2,000,000 bales of the 2,000,000 bales of American cotton carry-over on August 1 were in trade channels.

Political dangers of 12 cent loan.

Over a considerable period, economic and political considerations are of necessity closely parallel; that is if they are sound. In the long run, sound economics is good politics. The ultimate political disadvantages of the 12 cent loan far outweigh its temporary political advantages.

The administration will need the support of the South much more in 1936 than at present. The government can make a 12 cent loan on the 1935 cotton crop with political advantage only if it is prepared to make another 12 cent loan a year hence on the 1936 crop.

If 12 cents is loaned on the 1935 and 1936 crops--or even on the 1935 crop, perhaps--the government probably will have such a large investment in cotton, and so much cotton on its hands, that the loans will become the same kind of a political liability that the Federal Farm Board's cotton and wheat loans followed by purchases, turned out to be in 1932.

Political repercussions in the South in 1936 would be intense if, as in 1932, the government again in 1936 should be forced by public sentiment against a tremendous federal investment in cotton to abandon its loan policy and let the price drop. The electoral votes of Georgia and Louisiana alone might be decisive in a hard fought campaign. The cotton program has been assailed in both states by Governor Talmadge and Senator Long, both of whom may actively oppose the Administration next year. A breakdown in the cotton program might enable them to win both states away from the Administration.

It is true that a policy which involves no loan, or a loan which would allow cotton to move freely to market, may cause some grumbling for a time this year. It would, however, probably insure



a price for the staple for 1935 which would be satisfactory to the majority of Southern producers at the time when existence of favorable public opinion will be vital.

Even if the South could be held in line politically by 12 cent loans in 1935 and 1936 the result elsewhere might offset any advantage in the cotton growing section.

The producers of other commodities may logically be expected to interpret the rate of the cotton loan as the yardstick for the rate on commodities which they produce. Already considerable pressure has developed for loans on corn, oats, rye, barley and wheat. The Commodity Credit Corporation points out that if loans were made on the 1935 corn crop equal to those made on the 1934 crop (55 cents per bushel) there would exist the probability that the Treasury might lose hundreds of millions of dollars. Such losses would be enormously costly from a political as well as economic point of view.

If the 12 cent loan is made, producers of other commodities will be justified in demanding similar high loans. Should these loans not be forthcoming, their resentment would be likely to express itself at the polls. An extension of the high commodity loan policy to other crops would duplicate on a magnified scale the disastrous economic and political experience of the Farm Board.

Resentment has been aroused against the entire adjustment program in some industrial sections. This is particularly true in New England where the decline of the textile industry has been erroneously blamed upon the cotton processing tax.

Another 12 cent loan, with possible extension of the policy to other commodities, would inevitably intensify opposition where the benefits of the agricultural policies are not immediately apparent. The unwise economic policies involved in the loan would become glaringly apparent in the midst of the presidential campaign--too late to take effective remedial steps.

The circumstances which make a 12 cent loan a temporary political asset are the circumstances which force such a loan to become a tremendous political liability later. In other words, a natural price recovery relieving the loan of price-fixing characteristics would have all the political benefits of a loan without any of its political dangers.

#### Effect on issue of constitutionality.

The Supreme Court probably will pass upon the constitutionality

of the Bankhead Act before the next term of court is over. There is grave doubt about the result.

The outcome of the 1936 election might easily turn on the question of whether public support goes to the President on the one hand or to the Supreme Court on the other, if the court should precipitate this issue by sweeping decisions against New Deal measures.

If such a situation should develop, it would be vital to the Administration to have the issue clear out. The existence of a 12 cent loan on cotton might confuse the issue seriously. If the 12 cent loan were not in effect and the Supreme Court declared the Bankhead Act unconstitutional, the whole of Southern Agriculture might be instantly aroused against the Court. But with the 12 cent loan, the Administration might be forestalling the very reaction upon which it depended. Cotton prices would be sustained temporarily through the crutch afforded by the loan. The farmers would be unable to see the damage done them. Their response might be apathy instead of indignation.

#### Consequences of invalidation of the Bankhead Act.

It is entirely possible that the Bankhead Act may be declared unconstitutional before the next cotton planting season. This Act was written primarily as a safeguard for the voluntary program. The feeling was that the inducements created as the price of cotton rose would cause evasion of the voluntary program to an extent that would mean its breakdown unless a penalty was imposed.

The difficulty of keeping production within bounds without the Bankhead Act would be intensified if the 12 cent loan is continued. In other words, the price peg would make it to the advantage of a great many growers to evade the restrictions of the voluntary program. The producers would know the price of cotton before the crop was planted, assuming, of course, that continuation of the 12 cent loan in 1936 would make imperative its extension in the 1936 election year. The farmers might plant every available acre intending to sell one big crop at a pegged price to the government before being overtaken by the inevitable market collapse. Without the Bankhead Act, the production control basis of the loan would be gone.

Lacking the Bankhead Act, we could not get rid of a heavy accumulation of government controlled cotton without tremendous losses to the government, the growers and the textile and ginning industries.

Keeping in mind that the Bankhead Act may very probably be held invalid by the Supreme Court it is highly important that all

possible steps be taken to prevent a further accumulation of cotton. An adverse decision on the Bankhead Act probably would have a decidedly bearish effect upon price. Provided further acquisition of cotton stocks is prevented, however, the government would be in a position to turn this situation to its political advantage, with a different form of help to the South. The Agricultural Adjustment Administration could increase benefit payments to growers who cooperate and comply with their contracts. This would offset to a substantial extent the loss resulting from the price declines. The original theory of the Adjustment Act was to reward cooperating growers with benefit payments that would compensate for the lack of parity price.

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A price of 11½ cents a pound, as compared to 12 cents, represents a diminished income of about \$30,000,000; a price of 11 cents a difference of approximately \$60,000,000.

Furthermore, a large portion of this additional payment would go to share-croppers and other tenants who cultivate the land for a portion of the cotton crop, since the landlord and tenant would share in the payment as they share in the crop.

Under the suggested arrangement, a share-cropper who produced cotton for half of the crop would receive \$50 of a \$100 payment.

I believe also that the combination of a 10 cent loan with

additional payments would go far toward tempering the disappointment Southern producers might feel if another 12 cent loan is not forthcoming on the 1935 crop. The goal of the Agricultural Adjustment Act is a fair exchange value for cotton and other agricultural commodities. As I have said, the logical course to pursue is to allow the price to seek its natural level and to compensate producers with additional benefit payments.

The plan I have outlined has shortcomings and faults from an economic standpoint but in my opinion it is infinitely to be preferred to another 12 cent loan. I can not too strongly urge that we refrain from repeating fundamental errors, once they are revealed. Otherwise, I do not believe the Agricultural Adjustment Administration can endure.

Still another alternative is the suggestion that the 12 cent loan be made available only to the small producer. For our purposes a small producer may be defined as one whose Bankhead Act allotment is five bales or less. It would not be practical, in my opinion, to extend the loan to growers whose allotment is more than five bales.

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It must be kept in mind that many of the larger producers of cotton in the South have farms and plantations that are heavily mortgaged as the result of economic conditions since the War. Those without the scope of the loan might feel keenly that they had been discriminated against.

The motive of the proposal to limit the 12 cent loan to small producers is sound and commendable. But due to the nature of the financial relationships between many landlords and tenants, one likely result would be that not a few landlords would acquire large blocks of

government money under the names of their small tenants and share-croppers.

To summarize: Leaving aside the proposal for a loan to small producers only, it appears that a 10 cent loan with an additional payment to cooperating producers on their domestic consumption allotments in lieu of a 12 cent loan, would tend to (1) prevent an unnecessary and undesirable reduction in exports and consumption of American cotton, (2) reduce potential losses to the government on additional accumulations of loan cotton, (3) protect growers' income, (4) prevent to an extent the advantage foreign growers would gain at the expense of our growers, and (5) put the government in a stronger position to deal effectively with the cotton adjustment program and price situation in the fall of 1936 and thereafter than it will be if burdened by the additional stocks that it may accumulate under a 12 cent loan this year.

Sincerely yours,

Secretary.

~~HAT~~  
Mr. Secretary:  
note: the original signed copy was given to your office for transmittal  
Alfred Steedman  
Assistant Administrator

My dear Mr. [unclear]  
I can not see  
any difference  
in the evidence  
that you have  
presented in the  
case of Jim  
Boyd and  
Mr. [unclear]'s  
Jim  
Boyd.

Everybody in the  
Treasury is strongly  
opposed to his  
appointment.  
Henry



August 20, 1935

MEMORANDUM FOR THE PRESIDENT:

The specific reasons why I am unwilling to recommend the appointment of Mr. M. Hampton Magruder as Collector of Internal Revenue for the Baltimore District are as follows:

1. In 1929, he received, as legislative agent of clients, the sum of \$2500.00 from the Southern Maryland Agricultural Association for services and expenses in opposing and defeating the anti-racetrack bill in the Maryland Legislature; the sum of \$13,300.00 from the Maryland trust companies for services in procuring the passage of an amendment limiting the tax on gross receipts as applied to the banking business of trust companies in Maryland, and the sum of \$1,000 from the Susquehanna Power Company for services in opposing the Squire bill in the Senate of the Maryland Legislature, making a total of \$17,000.00. Of this amount, he reported the disbursement to twenty-three employees of a total of \$7,450.00, but, on inquiry by revenue agents, refused to divulge the persons to whom this money was disbursed, or the specific services rendered by such persons.

2. In October, 1930, and August, 1933, he made unexplained bank deposits of \$10,850.00, and inquiry by revenue agents as to the source of these deposits elicited the claim that "This is evidently a cash deposit of funds taken from my safe deposit box in the Riggs National Bank, where I deposited, from time to time over a period, sums in cash." The explanation made is unsatisfactory to me, not only because of its intangible characteristics, but because of the further fact that during the period of several years, ending in 1929, he showed receipts of some \$50,000.00 from clients for services, and expenses as legislative agent, whereas after that date, his reports do not disclose any such receipts. It was about that time that an investigation of Mr. Magruder's income tax returns was made, which resulted in the disallowance of claims for deduction of various legislative expenses.

The investigation of Mr. Magruder's fitness for appointment as Collector of Internal Revenue disclosed several other matters less tangible in character than those mentioned above, but tending to indicate his lack of availability for this position. Among them is the fact that he claimed to have had

dealings on only three occasions with Jimmy LaFontaine, who operated a gambling establishment in Prince Georges County for many years, in open violation of law: First, to defend him on a gambling charge; Second, to represent some of LaFontaine's employes; and Third, to prepare a deed for the transfer of real estate. The records disclose that subsequent to the occasions mentioned, Mr. Magruder sold to LaFontaine ten thousand dollars worth of bonds in the Capitol Cemetery Company, of which he was President, and collected five per cent commission. As a further indication of the character of the clients solicited by Mr. Magruder in the sale of the bonds of his cemetery company, the records disclose that he also sold \$22,500.00 worth of these bonds to a Mr. Edward L. Mahoney, of Prince Georges County, a saloon-keeper of Prince Georges County prior to Prohibition, and who, after Prohibition, was financially interested in the operations of one Joseph Kelly (deceased), who was a notorious bootlegger and smuggler of Baltimore, Maryland.

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury.

(signed)  
Guy T. Helvering

Elmer L. Irey.

August 30, 1935.

TO THE PRESIDENT:

Section 32 of H. R. 8492 as agreed upon by the Senate and House conferees provides an appropriation for each fiscal year beginning with the fiscal year ending June 30, 1936 of an amount equal to 30% of the gross receipts from duties collected under the customs laws during the period January 1 to December 31, both inclusive, preceding the beginning of each fiscal year.

This section is highly objectionable for the following reasons:

(1) It appropriates directly instead of authorizing an appropriation, thus denying to the President the opportunity and right to inquire into the need for an appropriation and the submission of an estimate to the Congress as contemplated by the Budget and Accounting Act; likewise it deprives the Appropriations Committee of Congress of their right to consider and pass upon the need for an appropriation.

(2) It makes a permanent indefinite appropriation in direct opposition to the policy adopted by the enactment of the "Permanent Appropriation Repeal Act of 1934." The following excerpt from the report of the subcommittee of the Appropriations Committee which handled the Permanent Appropriation Repeal Act in the last Congress will be interesting in this connection:

"It is maintained that neither by ethics, logic, nor by Constitutional authority has any one Congress the right of binding the hands of posterity by the enactment of laws mandatorily calling for automatic withdrawals from the Federal Treasury without annual examination, approval and supervision by succeeding Congresses. It is the conclusion of the Committee after hearing numerous witnesses that permanent appropriations are a vicious usurpation and invasion of the rights of sitting Congresses; that they complicate bookkeeping in the office of the Treasurer and the Division of Bookkeeping and Warrants of the Treasury Department; make auditing in the Comptroller General's office difficult; conceal from Congress many avenues of receipts and expenditures (which in itself is an invitation to extravagance), and for lack of proper annual disclosure, make the work of the Appropriation Subcommittees conjectural and uncertain \*\*\*."

The Committee further points out that appropriations of this character have been availed of as a means of foreclosing the right of each Congress to pass upon the appropriation needs of any project or beneficiary of this favorite device, and that by the use of them the doors of the Treasury are left wide open to administrative authorities to expend such amounts as they may deem necessary without Congress upon recommendation of its duly constituted committees in any wise passing either upon the element of need or reviewing the policies or purposes of those charged with the administration and expenditure of Government moneys.

(3) It places annually at the disposal of a single individual a sum ranging between approximately \$90,000,000 for the fiscal year 1935 and an undetermined sum in subsequent years which, if our customs receipts aggregate as much as they did in 1927, will amount to \$180,000,000, to be

## 3.

expended by him "at such time, in such manner and in such amounts" as he may determine. This is a delegation of power and authority with a vengeance; it denies the President any authority whatever over the expenditure of huge sums of money in the operation of an executive agency.

(4) It provides for the expenditure annually for an undetermined number of years of large sums of money without any provision whatever being made for raising the revenue with which to finance such expenditures. There is a total lack of coordination between the funds that are made available and the purposes for which they are required.

(5) It provides for expenditures not contemplated in the Budget estimates for the fiscal year 1936 and will materially increase the deficit for that year as well as materially add to the annual expenditures for each year thereafter.

(6) The three purposes for which the fund may be used represent a new agricultural aid policy of such significance as to justify exhaustive debate and consideration in relation to the prevailing policy.

4.

For such an important policy to become law by the "back door" of conference committee agreement is to disregard the very fundamentals of legislative procedure.

Under the circumstances I believe the bill should be returned to the Congress without your approval to have this objectionable section removed.

*prepared by.  
HO  
Bill  
Hans ?*

WCNS46

*Add Buchanan Statement  
on Cotton*

*105  
Max  
Chambers*

ADD CONFERENCE, HOUSE

BUCHANAN SAID THAT IF THE GOVERNMENT WERE TO MAKE WHEAT AND COTTON LOANS, IT WOULD HAVE TO MAKE ADVANCES ON SUCH OTHER COMMODITIES AS CATTLE, HOGS, RICE, FLAX, BARLEY, RYE, DAIRY PRODUCTS, TOBACCO AND POTATOES AND THIS WOULD MEAN A COST OF \$2,000,000,000 OR "MAYBE AN ADDITIONAL \$2,000,000,000."

"WHERE ARE WE GOING TO GET THAT MONEY? COTTON IS ALREADY COSTING THE GOVERNMENT 13 1/2 CENTS A POUND AND THE CARRYING CHARGES FOR STORAGE ARE INCREASING FROM \$5 TO \$6 PER BALE A YEAR," BUCHANAN SAID.

8/26--N1134A

## ADD CONFERENCE HOUSE

BUCHANAN SAID THAT HE WOULD HAVE THE DEFICIENCY BILL REFERRED TO HIS COMMITTEE IF POSSIBLE AND THEN INVESTIGATE THE ENTIRE SITUATION.

"I DO NOT THINK THAT FAILURE TO ACT IMMEDIATELY ON THE BILL WOULD ENDANGER THE SOCIAL SECURITY PROGRAM. WE HAVE SUFFICIENT MONEY TO CARRY OUT THE PROVISIONS IN THE BILL," HE SAID.

HE EXPRESSED BELIEF THAT THIS ACTION WOULD GIVE CONGRESS A "CHANCE TO STUDY THE SITUATION" SO THAT REPORTS COULD BE MADE NEXT SESSION AND MIGHT RESULT IN STRENGTHENING THE ORIGINAL SOCIAL SECURITY PROGRAM.

"I STILL AM AS STEADFASTLY OPPOSED TO THE WHEAT AND COTTON LOANS," HE SAID.

BYRNS ALSO INDICATED THE DEFICIENCY BILL, NOW BOOSTED TO A \$500,000,000 MEASURE BY THE SENATE'S LOANS AMENDMENTS, WOULD BE REFERRED TO THE APPROPRIATIONS COMMITTEE. HOWEVER, IF THE SENATE ASKS FOR RETURN OF THE BILL SO IT MAY CONSIDER CHANGES, BYRNS PREDICTED THE HOUSE WOULD LET THE BILL GO BACK.

BUCHANAN ESTIMATED THAT IT MIGHT COST AS MUCH AS \$1,000,000,000 TO PUT THE 1 1/2 CENTS A POUND WHEAT AND 12 CENT COTTON LOAN PROVISIONS THROUGH.

8/26--N1138P



WCNS48

## ADD CONFERENCE, HOUSE

"AND IF THEY GIVE ALL FARMERS THE SAME KIND OF DEAL SO ALL MAJOR COMMODITIES WOULD BE EFFECTED, IT WOULD COST \$2,000,000,000," HE SAID.

"DOES THE PRESIDENT AGREE?" HE WAS ASKED.

"NOT ONLY THE PRESIDENT BUT EVERY BODY WHO KNOWS ANYTHING ABOUT THE SITUATION.

"IT WOULD RUIN COTTON PRODUCTION IN THE SOUTH TO GIVE 12 CENT LOANS BECAUSE THAT IS ABOVE THE WORLD PRICE."

HE SAID THE COTTON POLICY HAS ALREADY "PRACTICALLY SPOILED THE WORLD EXPORT-MARKET AND THAT THE RESULT HAS BEEN TO PILE UP 5,000,000 BALES BY THE GOVERNMENT.

"THIS WOULD INCREASE BY 5,000,000 BALES ANNUALLY," HE WARNED, "AND WHAT HOPE WOULD THERE BE FOR THE COTTON FARMER?"

HE SAID THAT ALTHOUGH HE PREVIOUSLY ESTIMATED THE COTTON AND WHEAT LOAN PROVISIONS WOULD BE \$393,000,000 ANNUALLY, A RECHECK SHOWED THAT THEY WOULD AMOUNT TO A MINIMUM OF \$700,000,000 AND A MAXIMUM OF \$1,000,000,000.

8/26--N1141A

## ADD CONFERENCE, HOUSE

SPEAKER BYRNS INDICATED THAT HE WAS BACKING BUCHANAN "TO THE LIMIT."  
"WHATEVER BUCH WANTS I'M FOR," SAID BYRNS.

"WE ARE READY TO ADJOURN RIGHT NOW," SAID BYRNS, "IT IS UP TO THE SENATE WHAT HAPPENS ON THE DEFICIENCY BILL, NOT UP TO US."

BUCHANAN POINTED OUT THAT THE GOVERNMENT HAS THE POWER TO THROW THE PRESENT 5,000,000 BALES ON THE MARKET AND SAID THAT SUCH ACTION WOULD RUIN THE ENTIRE MARKET.

"NO POLITICAL AGENCY SHOULD CONTROL SUCH VAST POWERS BECAUSE THEY MIGHT BE ABUSED BY SOME UNCONSCIONABLE INDIVIDUAL," HE SHOUTED.

HE POINTED OUT THE GOVERNMENT DOES NOT HAVE THE MONEY TO CARRY THE PROJECTED LOAN PROGRAM THROUGH THE RFC AND DOUBTED THAT IT COULD GET IT.

"IF WE ADOPT A 9 CENT LOAN POLICY, THE BANKS COULD CARRY IT, HOWEVER BECAUSE THERE IS NOT FINER COLLATERAL THAN COTTON. AT 12 CENTS, NO BANK WOULD CARRY IT AND THE ENTIRE BURDEN WOULD BE THROWN UPON THE FEDERAL GOVERNMENT," BUCHANAN SAID.

"DO YOU HAVE ANY IDEA WHAT THE SENATE IS GOING TO DO ABOUT IT ALL," A REPORTER SHOT AT HIM.

"HELL, NO," WAS THE PROMPT ANSWER.

8/26--N1145A

Fed Farm Bd - Sen 109

WCNS44

THE FORMER FEDERAL FARM BOARD LOST \$344,900,000 IN ITS 1929-33 ATTEMPT TO STABILIZE THE PRICE OF WHEAT AND COTTON, A SENATORIAL SUB-COMMITTEE HEADED BY SENATOR McNARY REPORTS.

IN A BRIEF SUMMARY OF THE VOLUMINIOUS FINDINGS OF THE AGRICULTURE SUB-COMMITTEE McNARY SAID 69 CENTS OUT OF EVERY DOLLAR APPROPRIATED FOR THAT PURPOSE HAD BEEN LOST.

HE SAID THE FEDERAL FARM BOARD FROM 1929 UNTIL 1933, WHEN IT WAS SUCCEEDED BY THE FARM CREDIT ADMINISTRATION, LOANED A TOTAL OF \$1,150,000,000.

THE REPORT SAID THAT "INEXPERIENCE, EXTRAVAGANCE, AVRICE AND IN A FEW CASES DISHONESTY ON THE PART OF OFFICIALS AND EMPLOYEES OF SOME OF THE COOPERATIVES INCREASED THE LOSSES."

"THE LOSSES WERE COSTLY," McNARY SAID. "THE COMMITTEE IN ITS REPORT HAS SOUGHT TO SUMMARIZE THE BOARD'S EXPERIENCES IN A MANNER MOST USEFUL AS A GUIDE TO FUTURE POLICY IN FINANCING FARM MARKETING.

"THE PROMINENCE WHICH, ACCORDINGLY, THE REPORT GIVES TO THE BOARD'S LOSSES AND ITS UNFORTUNATE TRANSACTIONS OUGHT NOT TO OBSCURE THE VALUE OF THE ASSISTANCE AFFORDED BY THE REVOLVING FUND TO SCORES OF SMALLER-SCALE COOPERATIVES WHO UTILIZED IT IN GOOD FAITH AND PUNCTILIOUSLY MET THEIR OBLIGATIONS."

8/26--N1131A

Report of Estimates by Chester Davis over Telephone

Taking the same percentage established by last year's experience, 5 million bales of cotton would be presented as a basis for loans involving a commitment of 300 million dollars.

Cotton: RFC points out that you should have an additional 50 million dollars to cover warehousing charges. No estimate has been made of losses but 2 million bales would probably be added to Government stocks.

Wheat: Estimates 200 million bushels at an average of 80¢ per bushel, requiring commitment of 160 million dollars. Carry-over would probably be the poorer grades and estimates the loss would be one-half the amount.

Corn: Estimates that it would be necessary to loan 60¢ a bushel on 400 million bushels, making a commitment of 240 million dollars. RFC estimates 750 million bushels that might be taken in.

Davis estimates that a total of 700 million dollars would be required to take care of the program without allowing any warehousing charges, which would amount to another 100 million dollars.

Davis points out that he does not believe there is statutory basis for making loans at the rates proposed and that if the legal counsel for the banks should so advise their clients, the entire outlay would fall on the Government.

COPY

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ESTIMATE OF ADDITIONAL ADVANCES  
by  
COMMODITY CREDIT CORPORATION

IF EXISTING COMMITMENTS IN AGREEMENTS ARE COMPLIED WITH

1. 1934 Cotton Loans

Sales now pledged with Commodity Credit Corp.	4,450,000
Loans from R.F.C.	\$240,425,000
Additional obligation " funds required to finance to June 30, 1936	36,000,000
	<u>40,000,000</u>
Additional Funds	<u>\$ 76,000,000</u>

2. 1935 Cotton Loans @ 12¢ per pound

Estimated crop (bales)	11,900,000
Sales estimated that will come under this loan	<u>4,000,000</u>
Now funds required from R.F.C.	\$300,000,000
Additional funds, handling charges	<u>50,000,000</u>
	<u>\$350,000,000</u>

3. 1935 Wheat Loans @ 90¢ per bushel

Estimated crop	630,000,000
Estimated bushels coming under this loan	210,000,000
Funds required @ 90¢ per bushel	\$189,000,000

4. 1935 Corn Loan @ 60¢ per bushel

Estimated crop	2,250,000,000
Estimated bushels coming under this loan	750,000,000
Funds required at 60¢ per bushel	450,000,000

SUMMARY OF NEW FUNDS REQUIRED

1. Carry 1934 Cotton Loan to June, 1936.	\$ 76,000,000
2. 1935 Cotton Loan at 12¢ per pound.	350,000,000
3. 1935 Wheat Loan at 90¢ per bushel	189,000,000
4. 1935 Corn Loan at 60¢ per bushel	<u>450,000,000</u>
	<u>\$1,065,000,000</u>

August 25, 1935

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by  
COMMODITY CREDIT CORPORATION

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2. 1935 Cotton Loans @ 12¢ per pound

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Bales estimated that will come under this loan		<u>5,000,000</u>
New funds required from R.F.C.		\$300,000,000
Additional funds, handling charges		<u>50,000,000</u>
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August 25, 1935

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August 25, 1935



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Davis estimates that a total of 700 million dollars would be required to take care of the program without allowing any warehousing charges, which would amount to another 100 million dollars.

Davis points out that he does not believe there is statutory basis for making loans at the rates proposed and that if the legal counsel for the banks should so advise their clients, the entire outlay would fall on the Government.

August 21, 1935

Six more emergency agencies were put under the Bureau of the Budget today when the President signed the second Executive Order of the series of three which will be submitted to him. The agencies affected today are the Federal Deposit Insurance Corporation, the Federal Surplus Relief Corporation, the two Export-Import Banks of Washington, the Reconstruction Finance Corporation and the Electric Home and Farm Authority.

August 21, 1935.  
Wednesday.

117 A

H.M.Jr: Morgenthau speaking.

Senator

Glass: This is Senator Glass talking.

H.M.Jr: Hello, Senator.

G: How are you, sir?

H.M.Jr: Oh, pretty well.

G: Mr. Secretary, about two weeks ago, maybe a little more than that, I forwarded to the President a letter of protest from the Tobacco Manufacturers Association of the country against the silver policy of the Government, pointing out what in its judgment has resulted in an almost destruction of the export tobacco trade with Japan. And they wanted an interview with the President, but the President suggested that he would send a letter to you and let you consider the matter before he would accord them an interview.

H.M.Jr: Yes.

G: I don't know whether that's been done or not.

H.M.Jr: Well, I understand - it reached me just today.

G: Yes.

H.M.Jr: See?

G: Well, if you'd be good enough to let me have a reply. The President took the position that the injury to the export trade was not due to the silver policy, but was due to the too high price at which tobacco is selling.

H.M.Jr: Yes. Well, Senator, I'll be delighted to look into it, but if it is a silver policy, what am I going to do about it?

G: Well, I don't know just rightly what you're going to do about it - rightly whether you would like to have those people come up and interview you about it.

H.M.Jr: Well, anybody that you want to send, I'm always delighted to see.

G: But, if it isn't a silver policy, I'd like you to say that.

H.M.Jr: Well, I'll look into it at once, but -

G: The President took the position that it was not a silver policy, but it was too high a price of tobacco.

H.M.Jr: Yes. Well, it's the kind of a thing - I'll look into it

myself, but it's the kind of a thing that this committee which they've just appointed to look into silver and the effects on trade that they ought to study.

G: Yes.

H.M.Jr: But, I'll have our own people look it over and -

G: Let me have a reply to the letter, please.

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

G: So I can send it to those people.

H.M.Jr: I'll get you one out before the end of this week.

G: All right, thank you.

H.M.Jr: Thank you.

THE WHITE HOUSE  
WASHINGTON

118

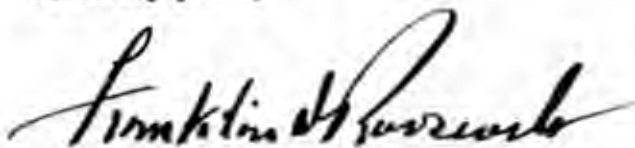
My dear Mr. Secretary:

August 22, 1935

I am writing to inform you that all applications for allocation of funds from the \$4,880,000,000 appropriation under the Emergency Relief Appropriation Act of 1935, approved April 8, 1935, must be in the hands of the Division of Applications and Information of the National Emergency Council not later than Thursday, September 12, 1935, in such form that they can be presented to the Advisory Committee on Allotments for final action at its meeting of September 17, 1935. No applications for allocation of funds will be received or considered thereafter.

It is planned that all allocations recommended by the Advisory Committee on Allotments up to and including September 17, 1935, and approved by me will have been acted upon by the Secretary of the Treasury and by the Comptroller General prior to September 24, 1935. It is therefore directed that all governmental agencies, Federal, State, municipal, etc., be prepared on or before October 22, 1935, either to ask for bids for construction work or begin operations by direct labor (force account) on the project. Where projects are to be carried on under contracts, such contracts must be awarded and signed on or before December 15, 1935.

Sincerely yours,



The Honorable,

The Secretary of the Treasury.

August 23, 1935.  
Friday.

118 A

Canadian Minister

Herridge: This is Herridge.

H.M.Jr: And this is Morgenthau.

H: Good morning. How are you?

H.M.Jr: Fine.

H: Hope you had a good holiday.

H.M.Jr: I don't know when.

H: Oh, you mean to say you haven't been away?

H.M.Jr: No, no.

H: Oh, gosh. Do you mind me speaking to you personally about something

H.M.Jr: Go right ahead.

H: It's about that bill. I don't know whether you've gone over it yourself. It's your revenue - Liquor Revenue Bill. In the last of at setting up the right as you, Secretary of the Treasury - empowering the Secretary of the Treasury to embargo goods in respect to those parties which, you know, are in suit, the terms against which are in suit in this country. Now, I'm not asking you to come in, I just want to say this -

H.M.Jr: Yes.

H: We've got the bad ones cleaned up, that's all settled, you see, we made available the B-13's and got them on the road. Now, last week - I'm just saying this privately because I don't want to represent anything too officially, it appears to be improper, but last week the Bronson people, that is the seat of that big crowd, lawyer to a Canadian people came to me and asked me if I'd see if they couldn't get next to a Treasury solicitor, try to settle something, clean it up. They're doing well, you know. They just don't want to be suspect. Now, the other people, I know, have been told to do the same thing, so that's the whole picnic.

H.M.Jr: That was the Rifles?

H: No, they've cleaned up, you know.

H.M.Jr: The Rifles have - I know, they've paid.

H: Yes.

H.M.Jr: Now, the Bronsons want to do the same thing?

H: They want to come in and, you see, they haven't been sued. There's been no claim lodged against them.

H.M.Jr: I see.

H: But, they came to me last week - as a matter of fact, you see, I tried to talk to them and talk to you. I told them that our advice was the Government could represent I said, if I were in your shoes I'd get busy and get this damn thing cleaned up. I said, the Treasury's well disposed toward my government and we shouldn't have any difficulty.

H.M.Jr: That's right.

H: There's no persecution enter into anything like that. They're just business claims and they said, by God, we don't see why you fellows don't pay it; you've got lots of money.

H.M.Jr: That's right.

H: Well, they've been coming backwards and forwards and gradually getting their nerve up and I think they've had some bum advice. They've been told, you're not to disclose a hand. I said, that's all damn nonsense, you go down there and ask to see one of the Treasury lawyers and you'll find them perfectly fair and talk business; see where you're getting on then. I said, don't leave your people in terror here. Well, as I say, Phillips came in to me last week and said, ~~I don't think you'll~~ would you mind getting me an entree down there. I said, I don't think you'll have any trouble, but I'll think it over and see what can be done. Now, as soon as they move - the Walker people have been very reluctant, but they will have to move, too. You see, they can't take a chance of these fellows getting a prior settlement to them. And that's your whole works.

H.M.Jr: Yes.

H: Now, what I'm just afraid about this whole thing, frankly, is that I'll be up to Canada. Bennett opened up the records and you can imagine the ties to it, the political pressure to keep them shut and these big money interests raising hell. Well, he just said, no. He said, Henry Morgenthau and I have been friends; we're going to clean up this damn smuggling thing and that's all there is to it.

H.M.Jr: Who said that?

H: Bennett.

H.M.Jr: Oh.

H: And I told him that - I said, well, I think you deserve quite a bit of credit for opening this up just before an election because all this other bunch goes right dead against him then.

H.M.Jr: Yes.

H: But, that's the situation. And I said to him, now you open this up and the Treasury's getting no under treatment, they won't ask for more and in the course of time they will ask for more.

H.M.Jr: Yes.

H: But, I said, I think as a rule you ought to get the thing amicably adjusted. You shouldn't have any nonsense and I said, we've got a bigger deal on now and we're working together.

H.M.Jr: Well, what did the P.M. decide?

H: Well, he gave all this stuff, you know.

H.M.Jr: Yes.

H: And that was done for the Rifle claim. As soon as we made our books available to your people, the Rifle people came rushing through and settled.

H.M.Jr: I see.

H: And so that's all cleaned up. But, the only two real people now standing are the Walkers and the Bronsons.

H.M.Jr: Grand.

H: I suppose solely to Central Canadian business.

H.M.Jr: Well, I get the gist of your conversation and I'll talk it over with Oliphant.

H: Yes. It's just - I'll just tell you this, old man, this last business - I'm just afraid - I just don't want to have it be said, oh well, damn it all, we - I just put my neck out to help those fellows and the thing, I believe, that will clean up - putting it that way, it's just taking these fellows by the throat and putting them out of business. I know that the Treasury wants the source of this thing, but I honestly believe - speaking to you privately - that we can get much further ahead and I will definitely tell these people - I'll tell you right now personally - I'll tell these people that my advice is to get in and get a settlement right at once.

H.M.Jr: I see.

H: And the Bronsons are anxious; they've been phoning you this week to know that they can come down and what I can fix up.



H.M.Jr: Well -

H: As soon as they show their noses here, the Walker's will come right in on top of them.

H.M.Jr: I get you. Well, I appreciate it and your call is most helpful.

H: I thought I'd better tell you that because I really think we're getting on to this stuff, you know it?

H.M.Jr: Yes. We'll have it cleaned/<sup>up, I think</sup>from what you tell me over the phone.

H: Oh, yes, those fellows will come right in. They want to settle, they just don't want to peddle over this. They want to do business in a nice friendly way. And Bennett has been so pleased over this thing, that I'm just terrified that this clause, you know, might knock him out.

H.M.Jr: Well, let me look into it right away.

H: Thanks, old man.

H.M.Jr: Thank you.

H: Goodbye.

Congressman John W.  
McCormack.

August 23, 1935.  
Friday.

118E

McCormack: Hello, Mr. Secretary. How are you?

H.M.Jr: How's Mr. McCormack?

McC: Pretty well, thank you.

H.M.Jr: Good.

McC: Listen, on our Immigration Building up in Boston -

H.M.Jr: Yes.

McC: My thought is we may need that bad.

H.M.Jr: Well, Mrs. Roosevelt wrote me about it. Somebody from up your way asked her - some person, I don't know - some woman?

McC: I don't know.

H.M.Jr: And I wrote her here just two days ago in explanation why we couldn't - and I'll be glad to send you a copy of that.

McC: Well, now - I've looked into the matter somewhat. You see, we've only - out of the sixty million dollars, we've only got a million dollars in Massachusetts.

H.M.Jr: But, you're getting five for a new court house.

McC: Oh, no. For what?

H.M.Jr: For a new court house or some kind of a building in Boston.

McC: Oh, no, no, no. No, we haven't - why, 1933 is the last time we got anything. You're talking about the new addition down at the South Station.

H.M.Jr: Yes.

McC: Why, that was 1933.

H.M.Jr: Well, let me do this, will you? Let me send you a copy of this thing that I had prepared and if it doesn't make horse sense, call me back.

McC: Well, I can tell you now, it doesn't because I've seen it.

H.M.Jr: Oh, you have?

McC: Yes.

H.M.Jr: What's that woman's name?

McC: Well, she's Commissioner of Immigration, Mary Ward.

H.M.Jr: Yes, that's the girl.

McC: A former National Committee woman.

H.M.Jr: Yes, it doesn't make sense?

McC: No, no, because in your statement - whoever gave - they gave him this information. You said that four billion some odd hundred thousand dollars for the new addition to the Post Office or supplement to the Post Office at South Station in 1935 - that was given in 1933.

H.M.Jr: Oh.

McC: Two years ago. I know, I made the price for it, and it was given - that's two years old. Well, I -

H.M.Jr: I haven't handled any of these things and Admiral Peoples will handle them up on the Hill there with Buchanan and that's the way they've been handled.

McC: Yes, but no, you're misinformed on that; that's two years old. That's 1933.

H.M.Jr: Well, may I do this -

McC: Yes.

H.M.Jr: Peoples is out of town, but let me call his office and tell him to get in touch with you tomorrow.

McC: I've talked with Peoples a couple of times, Mr. Secretary.

H.M.Jr: Yes.

McC: I talked with him about two days ago - only a few days ago and he realizes the situation and everything, but he's just negative and when you of talking with a man who's negative. what's the use

H.M.Jr: Well, I'll see you any time you want to.

McC: Well, here's the situation. You see, we're just - I'll tell you frankly, we're first time - I don't - in my district there's fifty thousand democratic, but the other boys are in bad shape. And you take sixty million dollars ahead - a billion from Massachusetts with a building which everybody admits they need, with the six Governors behind it and the entire Democratic delegation of all New England - Senators and Representatives behind it, they're asking to explain, you know that.

H.M.Jr: Well, I'll be glad to talk to Peoples again.

McC: Yes, but on the - naturally if I were in your position, on

the information you've received - a billion from Massachusetts and four billion already given, some odd hundred thousand given this year, public buildings, you'd say, well, Massachusetts has more than its share.

H.M.Jr: Yes, that's the way it looks.

McC: But it was two years ago that the four billion some odd hundred thousand was allocated, see?

H.M.Jr: Yes.

McC: That's on the Parcel Post Building. That's the new Parcel Post Building they're building at the South Station. That's a two-year old allocation.

H.M.Jr: Well, you know more about it than I do. Let me look into it.

McC: All right, Mr. Secretary. How are you otherwise?

H.M.Jr: Oh, I'm ready for a little rest.

McC: I don't blame you. I'm going away tomorrow morning - Mrs. McCormack and I - up to the White Mountains.

H.M.Jr: Good. I'll leave word that when Peoples comes back, he should talk to you.

McC: I'll tell you this much. He'll have to - if you find that what I told you is correct and if you're satisfied with the situation that we're struggling and staggering as we are with the whole New England Delegation behind -

H.M.Jr: I know.

McC: - the six Governors, why, you'll probably have to put a little pressure on Admiral Peoples because I talked with him and I talked with

H.M.Jr: Yes. Listen, I hear we got a rule on our Customs brokers.

McC: Yes, yes, we have. In fact, I stayed over especially today. I was going to leave this morning, but I decided to stay over with the hope that it'll come up.

H.M.Jr: Is it going to come up now?

McC: Well, probably - I'm in hopes it'll come up some time this afternoon.

H.M.Jr: There's some bad boys down here trying to fight it.

McC: Yes, no question about it. They're just unwise, they're just foolish to do that.

H.M.Jr: Yes, there's some bad boys down here.

McC: I tried to reason with them, tell them it was very good, but they don't want to have their books looked at and I don't know why they shouldn't when they're -

H.M.Jr: Well, hell, if they don't let us look at them this way, Congress will certainly give it to us another time and make it more severe.

McC: Exactly; that's what I told them.

H.M.Jr: Yes. Tell me, is the Federal Alcohol Control thing dead?

McC: Yes, it looks that way.

H.M.Jr: Yes.

McC: Here's the story, so you'd know now: I suggested to Doughton an out. We're willing to strike out the hotels and cafes - out of the bulk sales, understand?

H.M.Jr: Yes.

McC: That would leave bulk sales to the wholesalers for rebottling purposes who take out a rectifier's permit - that's all right and allow bulk sales for the consumer for his own use. Now, then, on the Independent Agency, I suggested that they establish an independent agency in the Treasury Department. Don't you see?

H.M.Jr: Well, I've kept my nose clean on that, you know.

McC: I know you have. But, of course, the whole thing started out wrong. I'll tell you frankly, it started out where we were with you fellows and we thought that there was a fight between the Treasury and Choate, and we worked with you and after we worked with you then we found out that you and Choate were in harmony and it left us in a bad position.

H.M.Jr: I see.

McC: have it go along. That's just the whole story.

H.M.Jr: I'm sorry.

McC: Now, on your bulk sale, Fuller is sore and -

H.M.Jr: He's sore?

McC: Well, he's gone along and we've trimmed his tail down a lot and then here's the story. When you're sitting in the Committee there and you have a lot of things yourself and the fellows go along with you, you can't dump them overboard.

H.M.Jr: I see.

McC: You see, I'm telling you frankly - I don't give a damn one way or the other, but Fuller's gone along and in the committee like that there's a little group - there's been a half dozen of us who were out in the cold for quite a little while before we compelled them to recognize and we had a talk with them so we all got you in trouble. And then in that half dozen there was a few of us who had a little - enough nerve to go over to play poker. Don't you see?

H.M.Jr: I get you.

McC: I'm telling you frankly and we're - I'm in a position where I can't dump this fellow overboard - talking to you confidentially - and some others are in the same position because he's gone along with us, as a matter of fact.

H.M.Jr: I see.

McC: Now, we're trying to reduce it to a minimum and a minimum - it seems to me that would be a damn good minimum - the wholesaler from rebottling purposes who take out a rectifier's license.

H.M.Jr: Well - because it's pretty late and I'm just curious. I've kept out of it now since I was up that one night and set up four bottles on the table.

McC: Well you - of course, he - you handled him well. (Laughing)

H.M.Jr: (Laughing) That was a funny one.

McC: And you treated him well, too. When he said he was just bullying along - aw, now, be a good sport. You just handled him perfect. You - when he didn't want to admit it, you know - he-

H.M.Jr: I said, oh, come on, be a good sport.

McC: That's it - be a good sport. No, you could have rubbed it in, but you didn't do it.

H.M.Jr: No.

McC: Well, you handled him well all along the line.

H.M.Jr: Well, thank you. Well, have a good time.

McC: Well, thanks, Mr. Secretary.

H.M.Jr: And I'll talk to Peoples.

McC: All right, thank you.

H.M.Jr: Goodbye.

August 26, 1935.  
Tuesday.

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H.M.Jr: Oh, I'm fine.

Thomas E.

Dewey: You have a case against a gentleman known as <sup>Dutch</sup> Judge Schultz.

H.M.Jr: I've heard of him, but you're wrong, the case -

D: The jurors have said that you have a big case, haven't they?

H.M.Jr: We - Department of Justice.

D: That's right.

H.M.Jr: Yes.

D: I take it all back.

H.M.Jr: Yes.

D: All of us.

H.M.Jr: Yes.

D: The only two men who know that case are I, because I got the indictment and Judge Rosenbloom because he's worked on it ever since.

H.M.Jr: Yes.

D: And Judge Rosenbloom is the one man who has been available and who knew the case who has not been allowed to try it. Everybody else has. Rosenbloom is coming on my staff-

H.M.Jr: Good.

D: - as soon as I can get him.

H.M.Jr: Who is he working for now?

D: What?

H.M.Jr: Who is he working for now?

D: He's still an Assistant United States Attorney.

H.M.Jr: Oh, I see.

D: Then on both of those trials they didn't let him run them so they didn't get conviction, which is best, but they were so badly handled, between you and me, that they couldn't get a conviction, according to the information which I get all around.

H.M.Jr: Yes.

D: Well, now I'm a State Officer now and I'm inclined to think -

we've spent a lot of time on law and there are a lot of legal questions which are pretty serious, but I'm inclined to think that we ought to risk trying to get him on the state charges.

H.M.Jr: Well, I don't know the thing, but they tell me - this is - I haven't got - that the state pulled an awful boner here a couple of weeks ago when they let him get out of their jurisdiction.

D: Well, he wasn't coming anyway.

H.M.Jr: He wasn't - but, I mean, I was told they pulled an awful boner when they let him go.

D: The reason they did that was that they decided they could get him for a much larger tax. I spent the morning with Graves - State Commissioner of Taxation and Finance -

H.M.Jr: Yes, Mark.

D: - who is, as you know, a very decent able fellow -

H.M.Jr: Very.

D: - and he was the man who made that decision and I'm sure it was made in the very best of faith and probably right.

H.M.Jr: Well, now what do you want out of me?

D: I wanted to talk with you about the prospect of our going ahead. I've discussed it with Graves at length and he's crazy to have us go ahead here. The Governor wants it, too, also. I talked with him this morning. Before doing anything of the kind, however, I feel that you've been so swell about this that I didn't want to even lift a finger until I had it cleared from you.

H.M.Jr: Well, now I appreciate that and I think the thing to do is let me switch you over to Oliphant.

D: But, the matter of - it's chiefly a matter of policy.

H.M.Jr: Yes, well, I don't - I don't know enough about it - why don't you talk to Oliphant and then he'll come in and talk to me. We'll give you a decision.

D: All right, sir, fine. I'd be very happy to.

H.M.Jr: Let me switch you over to Oliphant, see?

D: All right.

H.M.Jr: Just a second.

D: Surely.



Operator: Hello.

H.M.Jr: Give Mr. Dewey to Mr. Oliphant, will you?

O: Yes, sir.

H.M.Jr: Thank you.

FOR THE PRESS

August 26, 1935

CAUTION: For release in the afternoon newspapers of Monday, August twenty-sixth.

Please safeguard against premature release.

STEPHEN EARLY  
Assistant Secretary to the President

The President has addressed the following letter to:

The Secretary of Agriculture  
The Secretary of Commerce  
The Secretary of the Interior  
The Attorney General  
The Secretary of Labor  
The Secretary of the Navy  
The Secretary of State  
The Secretary of the Treasury  
The Secretary of War  
President, Civil Service Commission  
Director, Emergency Conservation Work  
Chairman, United States Employees' Compensation Commission  
Administrator, Resettlement Administration  
Administrator, Rural Electrification Administration  
Administrator of Veterans' Affairs  
Administrator, Puerto Rico Reconstruction Administration  
Administrator, Works Progress Administration

"I am writing to inform you that all applications for allocation of funds from the \$4,880,000,000 appropriation under the Emergency Relief Appropriation Act of 1935, approved April 8, 1935, must be in the hands of the Division of Applications and Information of the National Emergency Council not later than Thursday, September 12, 1935, in such form that they can be presented to the Advisory Committee on Allotments for final action at its meeting of September 17, 1935. No applications for allocation of funds will be received or considered thereafter.

"It is planned that all allocations recommended by the Advisory Committee on Allotments up to and including September 17, 1935, and approved by me will have been acted upon by the Secretary of the Treasury and by the Comptroller General prior to September 24, 1935. It is therefore directed that all governmental agencies, Federal, State, municipal, etc., be prepared on or before October 22, 1935, either to ask for bids for construction work or begin operations by direct labor (force account) on the project. Where projects are to be carried on under contracts, such contracts must be awarded and signed on or before December 15, 1935."

The following letter has been given Secretary Ickes as Administrator of Public Works:

"I am writing to inform you that, with respect to Public Works funds available for carrying out the purposes of the National Industrial Recovery Act, as amended, I desire that all future applications for allocations and all cancellations, rescissions and modifications of previous allocations be submitted to the Advisory Committee on Allotments, to be acted upon in the same manner and to the same extent as that Com-

nittee acts with respect to Allotments made under the Emergency Relief Appropriation Act of 1935.

"All applications for allocation of any funds must be in the hands of the Division of Applications and Information of the National Emergency Council not later than Thursday, September 18, 1935, in such form that they can be presented to the Advisory Committee on Allotments for final action at its meeting of September 17, 1935. No applications for allocation of funds will be received or considered thereafter.

"It is planned that all allocations recommended by the Advisory Committee on Allotments up to and including September 17, 1935, and approved by me will have been acted upon by the Secretary of the Treasury and by the Comptroller General prior to September 24, 1935. It is therefore directed that all governmental agencies, Federal, State, municipal, etc., be prepared on or before October 22, 1935, either to ask for bids for construction work or begin operations by direct labor (force account) on the project. Where projects are to be carried on under contracts, such contracts must be awarded and signed on or before December 15, 1935."

In addition to the above letters, the President has addressed another communication to Secretary Ickes, as Chairman of the Advisory Committee on Allotments, and sent a copy of it to Mr. Frank Walker, as Executive Director of the National Emergency Council:

"I am writing to inform you that all applications for allocation of funds from the \$4,380,000,000 Appropriation under the Emergency Relief Appropriation Act of 1935, approved April 8, 1935, must be in the hands of the Division of Applications and Information of the National Emergency Council not later than Thursday, September 18, 1935, in such form that they can be presented to the Advisory Committee on Allotments for final action at its meeting of September 17, 1935. No applications for allocation of funds will be received or considered thereafter.

"It is planned that all allocations recommended by the Advisory Committee on Allotments up to and including September 17, 1935, and approved by me will have been acted upon by the Secretary of the Treasury and by the Comptroller General prior to September 24, 1935. It is therefore directed that all governmental agencies, Federal, State, municipal, etc., be prepared on or before October 22, 1935, either to ask for bids for construction work or begin operations by direct labor (force account) on the project. Where projects are to be carried on under contracts, such contracts must be awarded and signed on or before December 15, 1935."

Communications from the President, therefore, have been given to the head of each Government Department or agency that has had an allocation of funds from the \$4,380,000,000 appropriation.

THE WHITE HOUSE  
WASHINGTON

August 26, 1935.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Does this give the data you need in regard to the Reclamation projects? It seems to me that it is not as complete as the Army Engineers' statements. If you need more information let me know.

F. D. R.



FEDERAL EMERGENCY ADMINISTRATOR  
OF PUBLIC WORKS  
WASHINGTON

AUG 23 1935

My dear Mr. President:

Attached hereto is a statement of a proposed construction program covering all reclamation projects, which was prepared by Dr. Mead in accordance with your request.

Sincerely yours,

(Sgd.) HAROLD L. ICKES  
Administrator.

The President,  
The White House.

RECEIVED  
AUG 23 1935  
SECRETARY OF THE TREASURY  
OFFICE

## DEPARTMENT OF THE INTERIOR

## Bureau of Reclamation

Amounts stated in thousands; 000 omitted.

State	Project	Purpose	Public Works allotment	Emergency Relief allocations	Amount unnecessary for complete usefulness	Remarks
CONTINUATION OF EXISTING PROJECTS:						
(A) PROJECTS ON WHICH WORK IS NOW IN PROGRESS WITH PUBLIC WORKS ALLOTMENTS:						
California:	All-American Canal	Diversion Dam, Main Canal and structures	9,000	15,000	14,500	Appropriations authorized by Boulder Canyon Act.
	Klamath - Tule Lake Division	Laterals, drainage, etc.	25	135	-	Construction of Tule Lake Division commenced in 1916; \$2,500,000 already expended.
Idaho:	Boise	Drainage of irrigated lands	40	160	-	To complete drainage which water users have agreed to repay.
Montana:	Frenchtown	Canal system	180	60	-	P.W.A. allotment insufficient to complete.
	Sun River	Canal enlargement, spillway gates, laterals, structures	600	715	-	To complete construction provided for under repayment contract.
	Chain Lakes Storage	Dam and reservoir	1,000	-	-	Estimated cost \$2,000,000 for which P.W.A. allotment was available; \$1,000,000 impounded the \$1,000,000 now available insufficient to complete. President by memo to Bureau of Budget stated that additional \$1,000,000 should be obtained from P.W.A.
Oregon:	Owyhee	Canals, laterals, structures	5,000	1,500	-	To replace P.W.A. allotments rescinded.
	Wale	Dam, canals, etc.	1,000	340	-	To complete project for which P.W.A. allotment is not sufficient.

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Utah:	Ogden	Dam, canals and structures	3,000	500	-	To complete project for which P.W.A. allotment was not sufficient.
	Provo River	Dam, canals and structures	1,000	3,000	6,000	P.W.A. allotment \$2,700,000 of which \$1,000,000 impounded; \$3,000,000 is requested to restore impounded P.W.A. allotment and an additional \$1,300,000 to provide a one-year program.
	Moon Lake	Dams, canals, etc.	1,200	240	-	To replace P.W.A. impounded money and complete project.
Washington:	Grand Coulee Dam	Power dam - Base for high dam	15,000	23,000	22,000	(See Columbia Basin project under "New Projects" for irrigation features.)
	" " "	Completion of high dam and power development	-	-	106,000	
Wyoming:	Casper-Alcova	Dams, power, canals	7,000	10,000	3,000	P.W.A. allotment originally \$22,700,000 or sufficient to complete the project; \$10,700,000 rescinded and \$5,000,000 impounded.
Various:	Colorado River Investigations	Investigations and surveys	100	250	-	To complete investigations authorized by Boulder Canyon Act.
"	Secondary projects	Investigations and surveys		250	-	This type of work carried on by annual appropriation from general treasury and Reclamation fund. Several P.W.A. allotments made for similar purposes.
			44,115	55,150	151,500	

(B) PROJECTS CONSTRUCTED OR PARTIALLY CONSTRUCTED;  
NO WORK AT PRESENT IN PROGRESS;

Arizona:	Salt River	Dams, spillways, etc.		4,500	Project originally constructed from Reclamation fund; estimated cost of work proposed \$6,814,000; the amount requested will complete dam.
Colorado:	Grand Valley	Pumping plant, canals, etc.		200	Completion of pumping unit, for which common facilities costing \$734,000 are available.
Idaho:	Boise - Payette	Canals, laterals, structures for gravity lands		1,000	Estimated cost of entire division \$4,900,000; the allotment requested will complete irrigation system for 32,000 acres of gravity lands; storage and power facilities constructed.
	Boise - Arrowrock	Repairs to dam		600	
Montana:	Bitter Root	Reconstruction and enlargements of irrigation system	100	200	Estimated cost of rehabilitation work \$375,000; \$200,000 will complete useful work.
New Mexico:	Carlsbad	Reservoir		1,500	Allocation requested will complete additional storage reservoir.
North Dakota:	Belle Fourche	Drainage		70	To complete drainage work which water users have agreed to repay.
Washington:	Yakima - Storage	Parapet wall and spillways		280	To complete storage reservoirs.
	Yakima - Rosa	Canal and distribution system		5,000	6,634 For additional construction to utilize existing storage.



Wyoming:	Riverton	Reservoir and canals		1,000		To complete \$4,770,000 is necessary; the allocation requested will provide storage and extend laterals for a complete operating unit.
	Shoshone - Heart Mountain	Canal and distribution system		1,500	5,000	Additional construction to utilize existing storage.
Total for Existing Projects			100	15,850	11,634	
NEW PROJECTS:						
Arizona:	Gila	Canals and distribution system	100	2,000	18,400	P.W.A. allotment available for investigations authorized by Boulder Canyon Act.
California:	Central Valley	Reservoir, canal, etc.		20,000		Entire development estimated at \$170,000,000; the allocation requested will complete useful units of the proposed development.
Montana:	Buffalo Rapids	Diversion dam, canals and laterals	20	1,000		P.W.A. allotment made for surveys and investigations; estimated cost of feasible project not yet available.
New Mexico:	Caballo	Caballo Dam	100	900		Reclamation part for constructing high dam.
Oregon:	Burnt River Deschutes	Reservoir "	50	500 1,000		P.W.A. allotment for surveys and investigations.
Texas:	Colorado River	Flood control		5,000		Flood control portion.
Washington:	Columbia Basin	Economic Surveys		250	208,000	Irrigation part of Columbia Basin project.
			270	30,920	226,400	

Summary:

Continuation of Existing projects

(a) Work now in progress

(b) For commencement of additional construction

New projects

44,115	55,150	151,500
100	15,850	11,634
270	30,920	226,400
44,515	101,920	491,454

*[Faint, illegible text, possibly bleed-through from the reverse side of the page]*

COST PER MAN YEAR OF NON-FEDERAL PROJECTS

Compiled from Reports of Bureau of Labor Statistics

"Relative Cost of Material and Labor in P. W. A. Construction"-R249

"Monthly Labor Review"

	P. W. A. 54 Buildings		P. W. A. 16 Water and Sewer Projects:		P. W. A. Total		P. W. A. Miscellaneous Projects Jan-Dec., 1934		R. F. C. Miscellaneous Projects Apr. 1934-May 1935	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Contract Price	1,875,000	100	1,045,000	100	2,920,000	100	217,200,000	100	69,490,000	100
Payroll on Job	505,000	27	275,000	26	780,000	27	52,800,000	24	19,450,000	28
Cost of Materials	1,055,000	56	527,000	51	1,582,000	54	123,600,000	57	36,540,000	53
Overhead and Misc.	315,000	17	243,000	23	558,000	19	40,800,000	19	15,500,000	19
Man Hours-Total	653,000		462,000		1,115,000		79,200,000		26,980,000	
" " Per Mo.	77		77		77		77		150	
" " " Yr.	924		924		924		924		1,560	
Man Years	707		500		1,207		85,700		17,500	
Cost per Man Year	2,600		2,100		2,400		2,500		4,000	



TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Monday, August 26, 1935.

Press Service  
No. 5-64

The Secretary of the Treasury, on behalf of the Federal Farm Mortgage Corporation, is today offering to the people of the United States \$100,000,000, or thereabouts, 1-1/2 percent bonds of 1939 of the Federal Farm Mortgage Corporation, and is inviting tenders therefor through the Federal Reserve banks. The bonds will be sold to the highest bidders. Tenders will be received at the Federal Reserve banks and branches thereof up to 12 o'clock noon, Eastern standard time, on Wednesday, August 28, 1935. Tenders will not be received at the Treasury Department, Washington.

The bonds for which tenders are invited will be dated September 3, 1935, and will mature September 1, 1939. They will not be subject to call for redemption prior to maturity. They will be fully and unconditionally guaranteed both as to interest and principal by the United States, and will be exempt both as to principal and interest from Federal, State, municipal and local taxation (except surtaxes, estate, inheritance and gift taxes). Bearer bonds with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

Each tender must state the face amount of bonds bid for, which must be \$1,000 or any even multiple thereof, and the price offered, which must be expressed on the basis of 100, with fractions expressed as 32ds of 1 percent in accordance with the usual practice - for example, 100-16/32. Tenders not received at a Federal Reserve bank or branch before 12 o'clock noon, Eastern standard time, Wednesday, August 28, 1935, will be disregarded. Tenders will be accepted without deposit from incorporated banks and trust companies and

from responsible and recognized dealers in investment securities. Tenders from others must be accompanied in every case by a deposit of 5 percent of the face amount of bonds bid for, except where the tender is accompanied by an express guaranty of payment by an incorporated bank or trust company. If the tender is accepted, in whole or in part, the deposit will be applied toward payment for the bonds, and if the tender is rejected the deposit will be returned to the bidder.

Tenders should be made on the printed forms and forwarded in special envelopes, which will be supplied by the Federal Reserve banks. Incorporated banks and trust companies not located in a city where a Federal Reserve bank or branch is located, may, in their discretion, submit tenders by telegram.

Immediately after the closing hour for the receipt of tenders on Wednesday, August 28, 1935, all tenders received at the Federal Reserve banks and branches up to the closing hour will be opened, and public announcement of the acceptable prices will follow as soon as possible. In considering the acceptance of tenders, the highest prices offered will be accepted in full down to the amount required, and if the same price appears in two or more tenders and it is necessary to accept only a part of the amount offered at such price, tenders for smaller amounts may be accorded preference and tenders for larger amounts prorated to the extent necessary in accordance with the respective amounts bid for. The Secretary of the Treasury expressly reserves the right, however, to reject any or all tenders or parts of tenders, and to award less than the amount bid for, and any action he may take in any such respect or respects shall be final.

Payment for any bonds allotted on accepted tenders must be made or completed in cash or other immediately available funds on or before September 3, 1935.

The text of the official circular follows:

## FEDERAL FARM MORTGAGE CORPORATION

1-1/2 PERCENT BONDS OF 1939

Dated September 3, 1935

Due September 1, 1939

Interest payable March 1 and September 1

FULLY AND UNCONDITIONALLY GUARANTEED BOTH AS TO PRINCIPAL AND INTEREST BY THE UNITED STATES OF AMERICA AS EVIDENCED BY THE STATEMENT OF THE SECRETARY OF THE TREASURY ON EACH BOND

Exempt both as to principal and interest from all Federal, State, municipal, and local taxation (except surtaxes, estate, inheritance, and gift taxes)

1935  
Department Circular No. 549

TREASURY DEPARTMENT,  
Office of the Secretary,  
Washington, August 26, 1935.

Public Debt Service

The Secretary of the Treasury, on behalf of the Federal Farm Mortgage Corporation, offers to the people of the United States \$100,000,000, or thereabouts, 1-1/2 percent bonds of 1939 of the Federal Farm Mortgage Corporation, and invites tenders therefor, through the Federal Reserve banks.

Description of Bonds

The bonds will be dated September 3, 1935, and will bear interest from that date at the rate of one and one-half percent per annua, payable on a semiannual basis on March 1, 1936, and thereafter semiannually on September 1 and March 1 in each year until the principal amount becomes payable. They will mature September 1, 1939, and will not be subject to call for redemption prior to maturity.

Bearer bonds with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The bonds will not be issued in registered form. Provision will be made for the interchange of bonds of different denominations at any Federal Reserve bank or at the Division of Loans and Currency of the United States Treasury, Washington, D. C., and through any other agency designated for the purpose by the Federal Farm Mortgage Corporation.

These bonds are issued under the authority of the Federal Farm Mortgage Corporation Act, approved January 31, 1934, as amended, which provides that these bonds



and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation (except surtaxes, estate, inheritance, and gift taxes).

Section 16(a) of that act contains the following provisions: "The first sentence of the eighth paragraph of section 13 of the Federal Reserve Act, as amended, is further amended by inserting before the semicolon after the words 'Section 13(a) of this Act' a comma and the following: 'or by the deposit or pledge of Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act'." Thus, the bonds are legally acceptable to secure 15-day borrowings from the Federal Reserve banks.

Section 4 of the Federal Farm Mortgage Corporation Act, as amended, also provides as follows: "\* \* \* Such bonds shall be fully and unconditionally guaranteed both as to interest and principal by the United States and such guaranty shall be expressed on the face thereof, and such bonds shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof. In the event that the Corporation shall be unable to pay upon demand, when due, the principal of, or interest on, such bonds, the Secretary of the Treasury shall pay to the holder the amount thereof which is hereby authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated, and thereupon to the extent of the amount so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such bonds. \* \* \*"

Tenders and Allotments

Tenders will be received at the Federal Reserve banks and branches thereof up to 12 o'clock noon, Eastern standard time, Wednesday, August 28, 1935, and unless received by that time will be disregarded. Tenders will not be received at the Treasury Department, Washington. Each tender must state the face amount of bonds bid for, which must be \$1,000 or any even multiple thereof, and the price offered. The price offered must be expressed on the basis of 100, with fractions expressed as 32ds of 1 percent, in accordance with usual practice, e.g., 100-16/32.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied in every case by a deposit of 5 percent of the face amount of bonds bid for, except where the tender is accompanied by an express guaranty of payment by an incorporated bank or trust company. If the tender is accepted, in whole or in part, the deposit will be applied toward payment for the bonds, the balance to be paid as hereinafter provided. If the tender is rejected, the deposit will be returned to the bidder.

Tenders must be enclosed in envelopes, securely sealed, addressed to the Federal Reserve bank, or branch, of the district, and plainly marked "Tender for 1-1/2 percent bonds of 1939 of the Federal Farm Mortgage Corporation". The Federal Reserve banks will supply printed forms and special envelopes for submitting tenders. Incorporated banks and trust companies not located in a city where a Federal Reserve bank or branch is located may, in their discretion, submit tenders by telegram, but such telegrams must be received at the Federal Reserve bank or branch before the time fixed for closing.

Immediately after the closing hour for the receipt of tenders on August 28, 1935, all tenders received in writing or by telegraph at the Federal Reserve banks or branches thereof up to the closing hour (12 o'clock noon, Eastern standard time) will be opened. The Secretary of the Treasury will determine the acceptable prices offered and will make public announcement thereof as soon as possible after the opening of tenders. Those submitting tenders will be advised by the Federal Reserve banks of the acceptance or rejection thereof, and payment on accepted tenders must be made as hereinafter provided. In considering the acceptance of tenders, the highest prices offered will be accepted in full down to the amount required; and if the same price appears in two or more tenders and it is necessary to accept only a part of the amount offered at such price, tenders for smaller amounts may be accorded preference and tenders for larger amounts prorated to the extent necessary

in accordance with the respective amounts bid for. The Secretary of the Treasury expressly reserves the right, however, to reject any or all tenders or parts of tenders, and to award less than the amount bid for, and any action he may take in any such respect or respects shall be final.

#### Payment

Payment for any bonds allotted on accepted tenders must be made or completed on or before September 3, 1935, in cash or other immediately available funds. In every case where payment is not so completed, the 5 percent deposit with the application shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the Federal Farm Mortgage Corporation.

#### General Provisions

Federal Reserve banks, as fiscal agents of the United States, are authorized and requested to receive tenders, to make allotments as 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 allotments, and to perform such other acts as may be necessary to carry out the provisions of this circular. Pending delivery of the definitive bonds, Federal Reserve banks may issue interim receipts.

The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the receipt of tenders and the sale of bonds under this circular, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,  
Secretary of the Treasury.

August 29, 1935.

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The Executive Committee of the Open Market Committee of the Federal Reserve System met with the Secretary of the Treasury in his office at 11 o'clock. Those present were:

Henry Morgenthau, Secretary of the Treasury,  
T.J. Coolidge, Under Secretary of the Treasury,  
R.A. Young, Governor, Federal Reserve Bank of Boston,  
W.R. Burgess, Deputy Governor, Federal Reserve Bank of New York  
G.J. Seay, Governor, Federal Reserve Bank of Richmond,  
M.J. Fleming, Governor, Federal Reserve Bank of Cleveland,  
G.J. Schaller, Governor, Federal Reserve Bank of Chicago,  
D.W. Bell, Assistant to the Secretary,  
G.C. Haas, Director of Research & Statistics,  
C.B. Upham.

Mr. Coolidge reported that since Friday New York dealers had sold \$35,000,000 bonds and \$35,000 of notes out of their net position and that they now hold long position of \$15,000,000. Yet they only bid for \$14,000,000 of the new issue of Farm Credit securities although their normal bid would run around \$50,000,000 to \$60,000,000.

Mr. Coolidge said that the Treasury had bought about \$25,000,000 of securities in the last two weeks.

Mr. Morgenthau said that through a misunderstanding the Treasury had bought \$3,000,000 on Monday.

Mr. Coolidge said that Devine, a New York dealer, has been around to the Farm Credit Administration to pick up \$15,000,000 of the new issue for 99.2.

Mr. Burgess said Devine is a very smart dealer -- that he had sold short in this particular instance -- that it is to his advantage

for the market to go up and down -- that he has an enormous volume of turnover.

Mr. Burgess gets Devine's position every night. He added that every dealer must be short at times but that Devine, like most of them, is more often long than short.

Mr. Morgenthau said the first thing to be decided was whether the exchange for Fourth Libertys should be announced next Tuesday or the following Monday.

Mr. Young said he preferred to have it on Tuesday. In his opinion the market will say the Treasury is afraid if we wait. He thinks the offering should be sweetened.

Mr. Coolidge said that the market is prepared for an announcement Tuesday but is not expecting it for sure.

Mr. Burgess said that the market interpreted the Secretary's statement in his press conference a week ago as meaning that the offering would be made for Tuesday.

Mr. Coolidge was of the opinion that there was no obligation on the Treasury to make the announcement Tuesday but thought the market might be in a position to make it desirable. Reference was had to the transcript of the Secretary's press conference of August 22 in which he said that he might have something in about a week.

Mr. Burgess agreed there was no moral obligation to make the offering on Tuesday but thought the psychology of the street was such<sup>as</sup> to make it desirable. He was of the opinion that the market will not be settled until there has been an announcement.

Mr. Morgenthau stated that there was no difference from the situation of a year ago and that the dealer shelves are now clear.

Mr. Seay thought this important and was very much in favor of waiting until a week from Monday. He thinks there is a good bit of instability in the market now and that it will be better later.

Mr. Fleming said that Cleveland is not close enough to the market to have much of an opinion.

Mr. Schaller said that he voted for Tuesday and thought the sooner the offering was made, the better.

Mr. Morgenthau reported that Governor Harrison of New York had telephoned advising a delay until a week from Monday.

Mr. Haas and Mr. Bell were in favor of waiting until a week from Monday. Mr. Bell thought the market would then be in a nice position.

Mr. Upham was inclined to favor action on Tuesday, taking the view that the market would not settle until an announcement had been made.

Mr. Burgess was for announcing on Tuesday.

Mr. Coolidge said that he was on the fence -- that he was for action now if he thought we would get what we want.

Mr. Coolidge, Mr. Morgenthau and Mr. Burgess were of the opinion that it depended on how the market closed tonight.

Mr. Morgenthau said we would need \$900,000,000 to \$1,000,000,000 new money between now and first of January, and that we would need \$500,000,000 between now and October. He made two suggestions. First, that we make a conversion on Tuesday and then seek \$500,000,000 new money on October 1st, or that we would have a three-way issue with a choice of a bond or note and use the note to raise new money.

Mr. Young was of the opinion that the conversion and the new

money should be split rather than combined. He thought the Treasury ought to maintain a \$2,000,000 balance at the present time. He thinks the condition of the market is too heavy to be crowded and that the financing should be taken piece meal. There is a good deal of unrest about the Government bond market.

Mr. Morgenthau was of the opinion that this was exaggerated somewhat by the dealers and salesmen.

Mr. Burgess stated that they were barometers reflecting an attitude.

Mr. Coolidge reported that insurance companies were doing a good bit of investment buying.

Mr. Young said the small banks are trading heavier than usual.

Mr. Schaller said they regarded the market as too high.

Mr. Seay said the sales by small banks since July in his district have been much heavier than purchases.

Mr. Coolidge reported good buying by trustees and investors.

Mr. Young said there was a lot of trustee money available.

Mr. Schaller said that commercial loans were picking up some in his district and diverting money from the Government market.

Mr. Seay said the announcement on hurrying up of WPA projects was an underlying influence in market decline -- because it was thought that the Treasury would be forced to press its financing to raise new money.

Mr. Morgenthau said the purpose was exactly the opposite -- to give notice that if dirt were not flying by December 15 the projects would be cancelled.

Mr. Schaller inquired about the difference in the market now

and a week ago on notes.

Mr. Burgess said there had been a full drop of a point, that the drop in bonds had been less. He said he would favor splitting refunding from new money subject to being able to get a satisfactory ticket. He thought a simple refunding offer best.

Mr. Morgenthau said he would rather get the new money first.

Mr. Burgess thought that would not be good psychology and would not settle the market -- that they were expecting a conversion offer.

Mr. Coolidge and Mr. Seay were of the opinion that the rate is more important than the maturity.

Mr. Morgenthau gave them his ideas as follows: Tomorrow after the market closes decide whether the offering should be Tuesday or the following Monday. In any event combine the refunding with the cash offering and then give the market a rest. He explained that Mr. Coolidge was in favor of resuming auction offerings if the long term bonds went up.

Mr. Coolidge interposed to say that this was on the theory that we would get a better investment and a better average price if not in too big offerings.

Mr. Morgenthau said that he would like to have as long a bond as he could get for 2-3/4% with at least half a point profit, with a 5 year note as an alternative for conversion privilege, the note to be also used for new money.

Mr. Burgess suggested a 4 year note. He said a 1-1/2% note maturing early in 1939 would be nice.

Mr. Bell said that a 1-1/2%, 4 year note would be better for the



Treasury than a 1-3/4% 5 year note.

Mr. Morgenthau said that he was open to argument on that.

All but Mr. Morgenthau adjourned to Mr. Coolidge's office for further discussion.

Mr. Coolidge explained his theory. He said that all but \$4,000,000,000 of the Federal debt is due or callable by 1946. He dislikes to sell anything maturing prior to 1946. He would like to keep selling the 2-7/8ths of 1955-60 every chance until all are out that the market will take. He seeks a better distribution of maturities. He even thought of giving the holders of called Fourth Liberties the option of a note or the 2-7/8ths of 1955-60. He does not like to wait until December to get the next lot of new money. He would prefer to get it when needed by the auction method. He referred to the fact that anything under 12 years piles up maturities, but that is probably where the conversion will have to go. If there is an option he thinks we better get a little cash. If there is only a 10 year 2-3/4 bond he will try for no cash, but if we offer a note or bond he would try for some cash on the note.

Mr. Young said there was not much difference really between making the offering next Tuesday or a week later. He thinks it is a little large to ask the market to raise \$1,500,000,000 at once.

Mr. Coolidge suggested the possibility of going to \$75,000,000 a week on bills.

Mr. Burgess said that he thought a three-way offering too much and that it would muddle the market. He made a counter suggestion of a refunding offer only on Tuesday of a 3-1/2 year, 1-1/2% note and a 10 to 12 year 2-3/4% bond. The bond is thin but thinks the note would hold it. He would ask for no cash on the note but ask

for cash later on a note with a better rate or on a bond.

Mr. Coolidge said that both the note and the bond would sell at a premium of half a point. He thought we might not get more than \$200,000,000 on the bond.

Mr. Burgess thought it would be \$400,000,000 to \$500,000,000, and the note is good enough to hold up the bond.

Mr. Coolidge thought it might raise the market but that we wouldn't sell many bonds.

Mr. Burgess said the market doesn't like a bond of over 10 years just now but that they will take a 10 to 12 year bond.

Mr. Young suggested that the committee report back to the Secretary that they were split 50-50 whether the offering should be Tuesday or the following Monday but that they were in favor of refunding only on Tuesday and getting cash later. Also that they favor a 3-1/2 year, 1-1/2% note with gravy and a 10 to 12 year 2-3/4% bond priced closely. This would mean a \$500,000,000 cash offering later.

Mr. Burgess and Mr. Schaller were of the opinion that the market 2-7/8<sup>market</sup> is sour and may stay below par some time. His only desire for waiting a week is the possibility of giving an option on the 2-7/8, if for instance they go to par and a half next week.

Mr. Burgess said he thought the note might be 3-1/2 years or 4 years, depending on the market tomorrow. He said he made his recommendation out of consideration for the whole bond market, not Government financing alone. He thought the announcement on Tuesday would be a steadying influence and help business recovery.

Mr. Young commented that he didn't think offering on Tuesday or the following Monday had a "goddamn" thing to do with business

recovery.

The committee returned to Mr. Morgenthau's office and Mr. Young reported the program outlined above.

It was decided to leave the matter until after the market closed tomorrow, Mr. Morgenthau and Mr. Coolidge to consult by phone with Mr. Young and Mr. Burgess.

Mr. Morgenthau suggested a clause on the circular to make it possible to raise the price on the bond if it did not go too well and it was agreed that this was a good idea.

Mr. Coolidge and Mr. Burgess suggested that it would be necessary to pay the coupon on the Liberties up until October 15th and begin interest on the new security on September 15th.

During the course of the meeting, there was some discussion of replacing the present stock of Federal Reserve Notes bearing a "payable in gold" clause with a new supply bearing a changed wording. It was explained that if this were done, the cost would have to be borne by the Reserve banks as the Treasury has no appropriation available.

It was reported that Governor Harrison was very much in favor of the change being made.

Mr. Young said that his bank would do it and pay for it regardless of action taken by the other banks.

Mr. Seay said that he was reluctant to give up the old phrasing and that the expense was prohibitive anyway.

No definite conclusion was reached.

August 29, 1935

Last night, when I left Mr. Coolidge's house it was definitely decided and understood that the release on subscriptions of \$85,000,000 to the Farm Credit offering of bonds would be on the ticker at either 9'clock or just before 9 o'clock this morning, Standard Time. I was dumbfounded to learn on reaching the office this morning that Mr. Coolidge had given instructions, on request from Madison of the Federal Reserve in New York, not to give out the statement until ten minutes past 9. I told Mr. Coolidge I thought he had made a blunder, because it might prove difficult to explain why the information was held back for ten minutes.

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Thursday, August 29, 1935.

Press Service  
No. 5-66

Secretary of the Treasury Morgenthau today announced the result of the offering by the Treasury on Monday of \$100,000,000, or thereabouts, of 1-1/2 percent bonds of 1939 of the Federal Farm Mortgage Corporation, tenders for which were received at the Federal Reserve banks up to 12 o'clock noon, on Wednesday, August 28.

Tenders for \$85,592,000 face amount of bonds were received, of which \$85,262,000 was accepted at prices ranging from 100 down to 98. The average price of the bonds to be issued is approximately 99. Based on the average price at which the bonds are to be issued on September 3, 1935, the yield is about 1.762 to maturity, September 1, 1939.