The Secretary 205

For your information

DWB 4/13/37

Brief Analysis of H. R. 6240, Farm Tenancy Bill

TITLE I.

1. Authorizes Secretary of Agriculture to make loans for the acquisition of farms in such amounts, as may be certified by County Committees, as may be necessary to acquire the property, subject to approval of the Secretary of Agriculture. All loans to be secured by a first mortgage or deed of trust on the farm.

2. Loans are to be repaid in installments within an agreed period of not more than 30 years. Interest to be 3%. Borrower to pay taxes and assessments on the farm and for insurance on farm buildings.

3. Authorizes the appropriation of $50,000,000, "for each of the fiscal years ending prior to July 1, 1942".

TITLE II. (Rehabilitation Loans.)

1. Authorizes the Secretary of Agriculture to make loans for purchase of livestock, farm equipment, supplies, and other farm needs, and for refinancing indebtedness, and for family subsistence. Loans to bear 3% interest and have maturities not in excess of 5 years, and to be repayable in installments.

2. Loans to be secured by chattel mortgages, liens on crops, and assignments of proceeds from sales of agricultural products, or by any one or more of these.

3. Authorizes appropriations of $75,000,000, each, for fiscal years ending June 30, 1938 and June 30, 1939.

4. In addition to 3, authorizes the appropriation for the fiscal year ending June 30, 1938, the balances of funds available to the Secretary of Agriculture for loans and relief to farmers under Executive Order No. 7530, Dec. 31, 1936, as amended by Executive Order No. 7557, Feb. 19, 1937, which are unexpended on June 30, 1937.

5. Authorizes the President to allot, out of appropriations hereafter made for relief or work relief for any fiscal year ending prior to July 1, 1939, such sums as he determines to be necessary to carry out the provisions of Title II.

TITLE III.

1. Authorizes and directs the Secretary of Agriculture to develop a program of land conservation and land utilization.

2. To effectuate such a program, the Secretary is authorized to acquire submarginal land and land not primarily suitable for cultivation; to protect, improve, develop, and administer lands acquired, or to sell, exchange, lease, or otherwise dispose them, with or without a consideration, to public authorities and agencies for public purposes. Also, to cooperate with Federal, State, Territorial, and other public agencies in developing plans for a program of land conservation and utilization.

3. As soon as practicable after the end of each calendar year the Secretary of Agriculture shall pay to the county in which any land is held under this Title III 25% of the net revenues from such land.

4. Authorizes appropriation of $10,000,000 for fiscal year ending June 30, 1938, and $20,000,000 for each of the three fiscal years thereafter, for carrying out the provisions of Title III.

TITLE IV. (Farm Security Administration.)

1. Directs establishment in the Department of Agriculture of a Farm Security Administration to carry out purposes of Act.

2. Resettlement Projects: Authorizes the Secretary of Agriculture to continue to perform functions invested in him by Executive Order No. 7530, Dec. 31, 1936, as amended by E. O. No. 7557, Feb. 19, 1937, and Act of June 29, 1936 (49 Stat., 2035), as shall be necessary only for completion and administration of those resettlement projects, rural rehabilitation projects for resettlement purposes, and land development and land utilization projects, for which funds have been allotted by the President. The balances of funds available to the Secretary for such purposes, unexpended June 30, 1937, are authorized to be appropriated to carry out said purposes.

3. Authorizes administrative expenses "within the limit of appropriations made therefor."

GD 8/10/37

75th CONGRESS
1st Session

H. R. 6240

IN THE HOUSE OF REPRESENTATIVES

April 8, 1937

Mr. Jones introduced the following bill; which was referred to the Committee on Agriculture and ordered to be printed

A BILL

To encourage and promote the ownership of farm homes and to make the possession of such homes more secure, to provide for the general welfare of the United States, to provide additional credit facilities for agricultural development, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Farm Security Act of 1937".

TITLE I

POWER OF SECRETARY

Section 1. (a) The Secretary of Agriculture (hereinafter referred to as the "Secretary") is authorized to make loans in the United States and in the Territories of Alaska and Hawaii to persons eligible to receive the benefits of this title to enable such persons to acquire farms.

(b) Only farm tenants, farm laborers, sharecroppers, and other individuals who obtain, or who recently obtained, the major portion of their income from farming operations shall be eligible to receive the benefits of this title. In making available the benefits of this title, the Secretary shall give preference to persons who are married, or who have dependent families, or, wherever practicable, to persons who are able to make an initial down payment, or who are owners of livestock and farm implements necessary successfully to carry on farming operations. No person shall be eligible who is not a citizen of the United States.

(c) No loan shall be made for the acquisition of any farm unless it is of such size as the Secretary determines to be sufficient to constitute an efficient farm-management unit and to enable a diligent farm family to carry on successful farming of a type which the Secretary deems can be successfully carried on in the locality in which the farm is situated.

COUNTY COMMITTEES AND LOANS

SEC. 2. (a) The County Committee established under section 42 shall—

(1) Receive applications of persons desiring to finance the acquisition of farms in the county by means of a loan from the Secretary under this title.

(2) Examine and appraise farms in the county with respect to which an application for a loan is made.

(b) If the committee finds that an applicant is eligible to receive the benefits of this title, that by reason of his character, ability, and experience he is likely successfully to carry out undertakings required of him under a loan which may be made under this title, and that the farm with respect to which the application is made is of such character that there is a reasonable likelihood that the making of a loan with respect thereto will carry out the purposes of this title, it shall so certify to the Secretary. The committee shall also certify to the Secretary the amount which the committee finds is the reasonable value of the farm.

(c) No certification under this section shall be made with respect to any farm in which any member of the committee has any property interest, direct or indirect.

(d) No loan shall be made to any person or with respect to any farm unless certification as required under this section has been made with respect to such person and such farm by the committee.

TERMS OF LOANS

SEC. 3. (a) Loans made under this title shall be in such amount (not in excess of the amount certified by the County Committee to be the value of the farm) as may be necessary to enable the borrower to acquire the farm and shall be secured by a first mortgage or deed of trust on the farm.

(b) The instruments under which the loan is made and security given therefor shall—

(1) Provide for the repayment of the loan within an agreed period of not more than thirty years from the making of the loan.

(2) Provide for the payment of interest on the unpaid balance of the loan at the rate of 3 per centum per annum.

(3) Provide for the repayment of the unpaid balance of the loan, together with interest thereon, in installments in accordance with amortization schedules prescribed by the Secretary.

(4) Be in such form and contain such covenants as the Secretary shall prescribe to secure the payment of the unpaid balance of the loan, together with interest thereon, to protect the security, and to assure that the farm will be maintained in repair, and waste and exhaustion of the farm prevented.

(5) Provide that the borrower shall pay taxes and assessments on the farm to the proper taxing authorities, and insure and pay for insurance on farm buildings.

(6) Provide that upon the borrower's assigning, selling, or otherwise transferring the farm, or any interest

therein, without the consent of the Secretary, or upon involuntary transfer or sale, the Secretary may declare the amount unpaid immediately due and payable.

(c) No instrument provided for in this section shall prohibit the prepayment of any sum due under it.

EQUITABLE DISTRIBUTION OF LOANS

SEC. 4. In making loans under this title, the amount which is devoted to such purpose during any fiscal year shall be distributed equitably among the several States and Territories on the basis of farm population and the prevalence of tenancy, as determined by the Secretary.

APPROPRIATION

SEC. 5. To carry out the provisions of this title, there is authorized to be appropriated for each of the fiscal years ending prior to July 1, 1942, the sum of $50,000,000.

TITLE II—REHABILITATION LOANS

BORROWERS AND TERMS

SEC. 21. (a) The Secretary shall have power to make loans to eligible individuals for the purchase of livestock, farm equipment, supplies, and for other farm needs, and for the refinancing of indebtedness, and for family subsistence.

(b) Loans made under this section shall bear interest at a rate not in excess of 3 per centum per annum, and shall have maturities not in excess of five years. Such loans shall be payable in such installments as the Secretary may provide in the loan agreement. All loans made under this title shall be secured by a chattel mortgage, a lien on crops, and an assignment of proceeds from the sale of agricultural products, or by any one or more of the foregoing.

(c) Only farm owners, farm tenants, farm laborers, sharecroppers, and other individuals who obtain, or who recently obtained, the major portion of their income from farming operations, and who cannot obtain credit on reasonable terms from any federally incorporated lending institution, shall be eligible for loans under this section.

DEBT ADJUSTMENT

SEC. 22. The Secretary shall have power to assist in the voluntary adjustment of indebtedness between farm debtors and their creditors and may cooperate with and pay the whole or part of the expenses of State, Territorial, and local agencies and committees engaged in such debt adjustment. He is also authorized to continue and carry out undertakings with respect to farm debt adjustment uncompleted at the time when appropriations for the purpose of this section are first available. Services furnished by the Secretary under this section shall be without charge to the debtor or creditor.

APPROPRIATION

SEC. 23. (a) To carry out the provisions of this title, there is authorized to be appropriated, for the fiscal years ending June 30, 1938, and June 30, 1939, a sum not exceeding $75,000,000 for each of such fiscal years.

(b) In addition to the authorization contained in subsection (a), for the fiscal year ending June 30, 1938, the balances of funds available to the Secretary for loans and relief to farmers, pursuant to Executive Order Numbered 7530 of December 31, 1936, as amended by Executive Order Numbered 7557 of February 19, 1937, which are unexpended on June 30, 1937, are authorized to be appropriated to carry out the provisions of this title.

(c) The President is authorized to allot to the Secretary, out of appropriations hereafter made for relief or work relief for any fiscal year ending prior to July 1, 1939, such sums as he determines to be necessary to carry out the provisions of this title and to enable the Secretary to carry out such other forms of rehabilitation of individuals eligible under this title to receive loans as may be authorized by law and designated in the Executive order directing the allotment.

TITLE III—RETIREMENT OF SUBMARGINAL LAND

PROGRAM

SEC. 31. The Secretary is authorized and directed to develop a program of land conservation and land utilization, including the retirement of lands which are submarginal or not primarily suitable for cultivation, in order thereby to correct maladjustments in land use, and thus assist in controlling soil erosion, preserving natural resources, mitigating floods, preventing impairment of dams and reservoirs, conserving surface and subsurface moisture, protecting the watersheds of navigable streams, and protecting the public lands, health, safety, and welfare.

POWERS UNDER LAND PROGRAM

SEC. 32. To effectuate the program provided for in section 31, the Secretary is authorized—

(a) To acquire by purchase, gift, or devise, or by transfer from any agency of the United States or from any State, Territory, or political subdivision, submarginal land and land not primarily suitable for cultivation, and interests in and options on such land. Such property may be acquired subject to any reservations, outstanding estates, interests, easements, or other encumbrances which the Secretary determines will not interfere with the utilization of such property for the purposes of this title.

(b) To protect, improve, develop, and administer any property so acquired and to construct such structures thereon as may be necessary to adapt it to its most beneficial use.

(c) To sell, exchange, lease, or otherwise dispose of, with or without a consideration, any property so acquired, under such terms and conditions as he deems will best accomplish the purposes of this title, but any sale, exchange, or grant shall be made only to public authorities and agencies and only on condition that the property is used for public purposes. The Secretary may recommend to the President other Federal, State, or Territorial agencies to administer such property, together with the conditions of use and administration which will best serve the purposes of a land-conservation and land-utilization program, and the President is authorized to transfer such property to such agencies.

(d) With respect to any land, or any interest therein, acquired by, or transferred to the Secretary for the purposes of this title, to make dedications or grants, in his discretion, for any public purpose, and to grant licenses and easements upon such terms as he deems reasonable.

(e) To cooperate with Federal, State, Territorial, and other public agencies in developing plans for a program of land conservation and land utilization, to conduct surveys and investigations relating to conditions and factors affecting, and the methods of accomplishing most effectively, the purposes of this title, and to disseminate information concerning these activities.

(f) To make such rules and regulations as he deems necessary to prevent trespasses and otherwise regulate the use and occupancy of property acquired by, or transferred to, the Secretary for the purposes of this title, in order to conserve and utilize it or advance the purposes of this title. Any violation of such rules and regulations shall be punished as prescribed in section 5388 of the Revised Statutes, as amended (U. S. C., 1934 ed., title 18, sec. 104).

PAYMENTS TO COUNTIES

SEC. 33. As soon as practicable after the end of each calendar year, the Secretary shall pay to the county in which any land is held by the Secretary under this title, 25 per centum of the net revenues received by the Secretary from the use of the land during such year. In case the land is situated in more than one county, the amount to be paid shall be divided equitably among the respective counties. Payments to counties under this section shall be made on the condition that they are used for school or road purposes, or both. This section shall not be construed to apply to amounts received from the sale of land.

APPROPRIATION

SEC. 34. To carry out the provisions of this title, there is authorized to be appropriated the sum of $10,000,000 for the fiscal year ending June 30, 1938, and $20,000,000 for each of the three fiscal years thereafter.

TITLE IV—GENERAL PROVISIONS

FARM SECURITY ADMINISTRATION

SEC. 41. (a) The Secretary shall establish in the Department of Agriculture a Farm Security Administration to assist him in the exercise of the powers and duties conferred by this Act.

(b) For the purposes of this Act, the Secretary shall have power to—

(1) Appoint (without regard to the civil-service laws and regulations) and fix the compensation of such officers and employees as may be necessary. No person shall be appointed or transferred under this Act to any position in an office in a State or Territory the operations of which are confined to such State or Territory or a portion thereof, or in a regional office outside the District of Columbia the operations of which extend to more than one, or portions of more than one, State or Territory, unless such person has been an actual and bona-fide resident of the State or Territory, or region, as the case may be, in which such office is located, for a period of not less than one year next preceding the appointment or transfer to such position (disregarding periods of residence outside such State or Territory, or region, as the case may be, while in the Federal Government service). If the operations of the office are confined to a portion of a single State or Territory, the Secretary in making appointments or transfers to such office shall appoint or transfer only persons who are residents of such portion of the State or Territory.

(2) Accept and utilize voluntary and uncompensated services, and, with the consent of the agency concerned, utilize the officers, employees, equipment, and information of any agency of the Federal Government, or of any State, Territory, or political subdivision.

(3) Within the limits of appropriations made therefor, make necessary expenditures for personal services and rent at the seat of government and elsewhere; contract stenographic reporting services; purchase and exchange of supplies and equipment, law books, books of reference, directories, periodicals, newspapers, and press clippings; travel and subsistence expenses, including the expense of attendance at meetings and conferences; purchase, operation, and maintenance, at the seat of government and elsewhere, of motor-propelled passenger-carrying and other vehicles; printing and binding; and for such other facilities and services as he may from time to time find necessary for the proper administration of this Act.

(4) Make contracts for services and purchases of supplies without regard to the provisions of section 3709 of the Revised Statutes (U. S. C., 1934 ed., title 41, sec. 5) when the aggregate amount involved is less than $300.

(5) Make payments prior to audit and settlement by the General Accounting Office.

(6) Acquire land and interests therein without regard to section 355 of the Revised Statutes, as amended (relating to restrictions on the acquisition of land by the United States).

(7) Compromise claims and obligations arising under, and adjust and modify the terms of mortgages, leases, contracts, and agreements entered into pursuant to, this Act, as circumstances may require.

(8) Pursue to final collection, in any court, State or Federal, all claims arising under this Act, or under any mortgage, lease, contract, or agreement entered into pursuant to this Act.

(9) Make such rules and regulations as he deems necessary to carry out this Act.

RESETTLEMENT PROJECTS

SEC. 43. The Secretary is authorized to continue to perform such of the functions vested in him pursuant to Executive Order Numbered 7530 of December 31, 1936, as amended by Executive Order Numbered 7557 of February 19, 1937, and pursuant to Public Act Numbered 845, approved June 29, 1936 (49 Stat. 2035), as shall be necessary only for the completion and administration of those resettlement projects, rural rehabilitation projects for resettlement purposes, and land development and land utilization projects, for which funds have been allotted by the President, and the balances of funds available to the Secretary for said purposes which are unexpended on June 30, 1937, are authorized to be appropriated to carry out said purposes.

GENERAL PROVISIONS APPLICABLE TO SALE

SEC. 44. The sale or other disposition of any real property acquired by the Secretary pursuant to the provisions of this Act, or any interest therein, shall be subject to the reservation by the Secretary on behalf of the United States of not less than an undivided half of the interest of the United States in all coal, oil, gas, and other minerals in or under such property.

SURVEYS AND RESEARCH

SEC. 45. The Secretary is authorized to conduct surveys, investigations, and research relating to the conditions and factors affecting, and the methods of accomplishing most effectively, the purposes of this Act, and may publish and disseminate information pertinent to the various aspects of his activities.

VARIABLE PAYMENTS

SEC. 46. The Secretary may provide for the payment of any obligation or indebtedness to him under this Act under a system of variable payments under which a surplus above the required payment will be collected in periods of above-normal production or prices and employed to reduce payments below the required payment in periods of subnormal production or prices.

SET-OFF

SEC. 47. No set-off shall be made against any payment to be made by the Secretary to any person under the provisions of this Act, by reason of any indebtedness of such person to the United States, and no debt due to the Secretary under the provisions of this Act shall be set off against any payments owing by the United States, unless the Secretary shall find that such set-off will not adversely affect the objectives of this Act.

BID AT FORECLOSURE

SEC. 48. The Secretary is authorized and empowered to bid for and purchase at any foreclosure or other sale, or otherwise to acquire property pledged or mortgaged to secure any loan or other indebtedness owing under this Act; to accept title to any property so purchased or acquired in the name of the United States; to operate or lease such property for such period as may be deemed necessary or advisable to protect the investment therein; and to sell or otherwise dispose of such property so purchased or acquired upon such terms and for such considerations as the Secretary shall determine to be reasonable, but subject to the reservation of mineral rights provided for in section 44.

FEES AND COMMISSIONS PROHIBITED

SEC. 49. No officer, attorney, or employee of the United States shall, directly or indirectly, be the beneficiary of or receive any fee, commission, gift, or other consideration for or in connection with any transaction or business of the United States under this Act other than such salary, fee, or other compensation as he may receive from the United States. Any person violating the provisions of this section shall, upon conviction thereof, be punished by a fine of not more than $1,000 or imprisonment for not more than one year, or both.

EXTENSION TO TERRITORIES

SEC. 50. The provisions of this Act shall extend to the Territories of Alaska and Hawaii.

SEPARABILITY

SEC. 51. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

75TH CONGRESS } 1ST SESSION } **H. R. 6240**

A BILL

To encourage and promote the ownership of farm homes and to make the possession of such homes more secure, to provide for the general welfare of the United States, to provide additional credit facilities for agricultural development, and for other purposes.

By Mr. JONES

APRIL 8, 1937

Referred to the Committee on Agriculture and ordered to be printed

April 13, 1937

My dear Mr. President:

Mr. Watson states in his letter to you dated March 27, 1937, upon which you have asked my comment, that the Board of the United States Chamber of Commerce is prepared to recommend to its annual meeting that the plan of corporate taxation outlined in your message to Congress on March 3, 1936, be substituted for the plan now embodied in the Revenue Act of 1936. The Chamber has apparently had a complete change of heart, since it vigorously opposed all forms of undistributed profits taxation before the congressional committees in 1936. Its Committee on Federal Finance stated to the Senate Committee on Finance: "The proposal is utterly impractical, unworkable, and unsound."

The chief differences between the present system of corporate taxation and that which you outlined are twofold: (1) A normal tax upon corporate net incomes has been retained at somewhat lower rates ranging from 8 percent to 15 percent; and (2) the capital stock tax, at a substantially reduced rate, and the excess-profits tax have been retained. Mr. Watson proposes the repeal of these three taxes, plus the substitution of the rates of undistributed profits tax embodied in the House Bill for the rates now in the law. As his memorandum shows, these changes would be highly beneficial to corporations distributing more than forty percent of their incomes.

Your message to the Congress gave two principal reasons for the adoption of a corporate undistributed profits tax: (1) The avoidance of individual surtaxes or their equivalent by wealthy stockholders under the prior system; and (2) the inequitable distribution of the tax load as between unincorporated and incorporated businesses. It is significant that the Board of the Chamber now seems willing to endorse the principle of undistributed profits taxation and to accept both of your objectives. Your message did not, of course, recommend any specific rate structure, but the Board now appears to approve the rates incorporated in the House Bill. Changes in the existing rate structure, when made, should be carried out, not with a view solely to a large-scale reduction in corporation taxes, but to the advancement of that equitable distribution of the tax burden which was one of the two principal grounds for your message last year.

The Treasury Department has not altered its view of the basic soundness of the suggestions you made to the Congress in your tax message of a year ago. However, the wisdom of asking the Congress at this time to undertake a third substantial reorganization of corporate taxes in as many years is dubious. The first income-tax returns under the Revenue Act of 1936 were made only a few weeks ago. There has been no time for the tabulation, classification, and appraisal of the effects, possible weaknesses, and needed or desirable alterations, if any, of the existing law. The force of these considerations is very strongly on the side of deferring substantial alterations until the practical effects of the operation of the law are fully known.

I am attaching a draft of a letter to Mr. Thomas J. Watson which embodies a brief expression of this view.

Faithfully,

The President,

The White House.

Attachment

LHS:otm
4/13/37

My dear Mr. Watson:

I am gratified to know that the Board of the United States Chamber of Commerce is prepared to recommend to its annual meeting that the plan of corporate taxation, which I outlined in my message to the Congress on March 3, 1936, should be endorsed.

I am advised that the Treasury is now actively studying the first income-tax returns under the 1936 law. Until the results of this study become available, I believe that the existing law should be permitted to stand unchanged. We ought to defer consideration of substantial alteration until we have determined the practical results of its operation.

Very sincerely yours,

Mr. Thomas J. Watson,
870 Broadway,
New York, New York.

RM:mrl/LMS:etm
4/23/37

COPY

4/6/37

MR. MAGILL

MRS. FORBUSH

Will you be so good as to prepare the memorandum which the President requests, and route it back to the Secretary through this office in order that we may keep our records straight? Thank you.

/s/ G. E. Forbush

COPY

THE WHITE HOUSE

Washington

April 5, 1937

MEMORANDUM FOR SECRETARY MORGANTHAU:

Give me a memorandum on this.

F.D.R.

THOS. J. WATSON
270 BROADWAY
NEW YORK

March Twenty-seventh
1 9 3 7

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

Dear Mr. President:

As you know, I have been putting forth every effort to bring about cooperation between the United States Chamber of Commerce and the Administration.

At the Board Meeting of the Chamber last week, realizing that I had not been making very much headway in discussing various matters in open session, I had a private conversation with Mr. Harper Sibley, Mr. Silas Strawn and Mr. Eliot Wadsworth, with the result that certain changes were made in the program for the Annual Meeting of the Chamber to be held in April.

The Program Committee had already voted to have Professor Moley debate the Supreme Court proposition with Mr. Landis, but this part of the program was cancelled and it was then agreed that the Chamber would emphasize two things: First, that the Annual Meeting would be devoted largely to a discussion of the Tenant Farm Program, with the understanding that the Board would recommend that the Chamber back your Tenant Farm Program; second, they want to emphasize a change in the present tax on undistributed profits of corporations. It was understood that the Board will recommend that your tax program, which was proposed by you in 1936, be substituted for the plan which was agreed upon and put through by the House and the Senate as the Revenue Act of 1936. The reason for wanting to substitute your tax plan for the present law is because any fair-minded analyst cannot help but agree that your plan is the most equitable and that it will bring in the most revenue from corporations withholding dividends and, at the same time, your plan will permit corporations to retain reasonable amounts of their earnings for the development of their businesses.

The President

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The outstanding difference between the present law and your plan, as you will note from the attached schedule, is, as stated above, that your plan imposes higher taxes on corporations that are withholding dividends to avoid surtaxes that would be payable by their stockholders, and that it does not penalize corporations that retain reasonable portions for development purposes.

Your plan, as compared with the Revenue Act of 1936, is so much more equitable to every one concerned, that I believe action should be taken before Congress adjourns to substitute your plan for the law now in effect.

After my conference with Messrs. Sibley, Strawn and Wadsworth, I did not attend the afternoon meeting, but Mr. Sibley brought up these matters and was supported by Messrs. Strawn and Wadsworth. I am enclosing copies of letters which I received from Mr. Sibley and Mr. Wadsworth on the subject.

I believe the Annual Meeting of the Chamber will mark the beginning of helpful cooperation between the United States Chamber of Commerce and the Administration, and I am giving you the above information in confidence because I believe it is important for the industrial, financial people and the Government to all work together.

With kindest personal regards, I am

Sincerely yours,

Tom Watson

Thomas J. Watson/P

COMPARISON OF PERCENTAGES OF TOTAL FEDERAL TAXES

TO TOTAL ADJUSTED NET INCOME BEFORE FEDERAL TAXES

(Corporations With Adjusted Net Incomes of Over $50,000.)

When Dividends Paid Equal % of Income before Federal Taxes	Under: Revenue Act of 1935 (a)	Under: President Roosevelt Tax Plan	Under: Revenue Act of 1936 (a)
0%.	16.372%	42.500%	33.144%
10%.	16.372%	37.500%	30.444%
20%.	16.372%	32.500%	27.744%
30%.	16.372%	27.500%	25.044%
40%.	16.372%	22.500%	22.662%
50%.	16.372%	17.500%	20.462%
60%.	16.372%	13.125%	18.739%
70%.	16.372%	9.375%	17.175%
80%.	16.372%	6.000%	16.191%
90%.	16.372%	2.857%	15.904% (b)
100%.	16.372%	0.000%	15.904% (b)

(a) Capital Stock Taxes computed on declared value figure equivalent to 120% of minimum figure required to avoid Excess Profits Taxes.

(b) Some amount of dividend credit in excess -- can be used in subsequent years.

Above figures applicable for calendar year 1937 and subsequent years, computed on $1,000,000.

Key: - To determine the approximate amount of total Federal Taxes on any amount of adjusted net income in excess of $50,000:
Refer to above table, locate line showing percentage of dividends paid, then apply effective percentages to such amount of income.

Example - Corporation with net income of $10,000,000. before Federal Taxes:

Under	Paying Dividends of 50%		Paying Dividends of 60%	
Revenue Act of 1935. .	$1,637,200.	16.372%	$1,637,200.	16.372%
Roosevelt Plan. . . .	$1,750,000.	17.500%	$1,312,500.	13.125%
Revenue Act of 1936. .	$2,046,200.	20.462%	$1,873,900.	18.739%

Effective percentages under Revenue Acts of 1935 and 1936 vary slightly on account of variation in rate of normal income taxes applicable on portion of income below $40,000.

BOSTON CHAMBER OF COMMERCE

President's Office

March 23, 1937

Thomas J. Watson, Esquire,
270 Broadway
New York, N. Y.

Dear Tom:

Just a line to report that after some discussion in the Directors meeting about a joint debate on the Court, the idea was dropped. Silas and I valiantly supported the views you expressed. The subject of agriculture was substituted.

Sincerely yours,

(Signed) Ell.

(Eliot Wadsworth)

COPY

CHAMBER OF COMMERCE OF THE UNITED STATES

WASHINGTON

Harper Sibley
President.

March 19, 1937.

Mr. Thomas J. Watson, President,
International Business Machines Corporation,
270 Broadway,
New York, N. Y.

Dear Tom:

Following your suggestion we eliminated the Supreme Court as one of the matters to be discussed at the annual meeting, and we brought up the tax on corporate surpluses as a major item for discussion. We also decided to put on farm tenancy as one of the major items.

Following your further suggestion, I hope you will go with me to see the President, if possible, in connection with these matters whereby we are definitely in support of his program.

Looking forward to being at your dinner shortly, believe me,

Sincerely yours,

(signed) Harper Sibley

President.

HS/485

-C O P Y-

EMBASSY OF THE UNITED STATES OF AMERICA

Office of the Treasury Attache

Customs

2 Avenue Gabriel
Paris, France

April 13, 1937.

Confidential

MEMORANDUM FOR THE SECRETARY:

Subject: Narcotics - Europe

We have all been quite busy here due to a rush of narcotic business which rather piled up on us for several days. While we were busy "chaperoning" Kessler (the member of the Katz-Blinds gang whom Nicholson notified us was on the way from China) from Stolpce at the Polish frontier to Vienna, then to Paris, Brumer personally escorting him and the national police of the various countries concerned cooperating very well at every turn, we commenced to get good information on the NORMANDIE with regard to her impending sailing. It also turned out that Kessler was sailing on this vessel. All in all, there were five suspicious movements in connection with the NORMANDIE: namely (1) Kessler; (2) Meyersohn, whom we had been observing in Paris, who appeared at Havre at the last moment and dashed up the gangplank without having bought a ticket; (3) the jazz orchestra player Goldman with 20 kilos of heroin; (4) the sailor, name unknown, supposed to have 20 kilos of opium; and (5) the suspicious baggage mentioned in the telegram to the Bureau. Since the NORMANDIE has been at New York for two days now and we have received no report of any seizures, I assume nothing was found. However, I hope that through observing Kessler after he lands, New York can uncover the local connections of the Katz-Blinds international gang. Also, whom Meyersohn hooks up with in New York; and the business connections of Goldman, the orchestra player.

In connection with the Kessler affair, we had our first demonstration of how to make use of all facilities available in covering an operation spread all over Europe. For instance: Brumer was sent to Stolpce to personally convoy Kessler wherever he went. He followed him to Vienna, observed him there, then followed him to Paris. While Kessler was en route to Paris, Blinds, whom we were watching at Vienna, suddenly started for Paris also. To cover him, we had to take one of the Vienna office force, Poglies, a big Austrian, to follow him to Paris. (When Blinds got as far as the French frontier, the French police refused him entrance and turned him back to the Swiss police, who took him to Zurich and put him in jail for investigation, where he still is. We were sorry to see this happen, as we hoped to observe Blinds and Kessler together at their business meetings in Paris. It would appear that the French authorities, whom we had gotten all "steamed up" about the matter, through overzealousness turned Blinds back instead of letting him pass through.) We then got word from Nicholson that he suspected that a compatriot of Kessler's was aboard the PRESIDENT WILSON (Dollar Line) due in Europe through Suez immediately. We figured the narcotics might be aboard the WILSON. To cover this angle, we called on the Consuls at Naples, Genoa, and Marseilles, to cover the passenger list and bonded or other suspicious baggage. (The Consuls responded very well.) It then developed that Kessler was leaving on the NORMANDIE, so we sent Beers to Havre to properly see him off, including sitting in with the Vice-Consul at the passport inspection, unobtrusively. Then we found that a Vice-Consul, Mr. Fuqua, from Paris was going on the NORMANDIE, so we lined him up to observe Kessler en route. All in all, the above was good training for our narcotic unit. Scharff directed operations and did very well, with a little coaching at the proper times about angles he had not had experience in as yet. Scharff is an excellent man and is living up to your expectations fully. It is too bad he is not a permanent member of our European force.

I noted with interest the agreement between Treasury and State with regard to handling narcotic matters in the future. This will improve matters considerably. I also noted Mr. Bullitt's willing endeavor to help. He is now back here and I have an appointment to see him. His attitude is of the greatest help to us here.

We are getting along very well with the French Surete. They are loosening up all the time and are now a real help to us.

Scharff has proved very good at getting informers. He has dug up several promising ones. We have talked with several others whom we have had to later weed out. Beers has also proved to have a knack with informers.

Mr. Wait is on sick leave until the end of the month.

Regards to all.

Respectfully,

THOMPSON.

MEETING RE RAILROAD RETIREMENT

April 13, 1937
11:00 A.M.

Present: Mr. Magill
Mr. Bell
Mr. J. J. Pelley
Mr. George Harrison
Senator Pat Harrison
Congressman Robert Doughton
Mr. Murray Latimer
Mr. Arthur J. Altmeyer

Sen. Harr.: Well, what have you got for us this morning - glad tidings or good news, or more trouble?

H.M.Jr: Well, I don't know about glad tidings, but we've got a report from the actuaries.

Sen. Harr.: Was Latimer there?

Magill: No.

Sen. Harr.: Oh, their actuary was Glenn, wasn't it?

Magill: Yes

Sen. Harr.: I see.

Magill: Want me to read it?

H.M.Jr: I think read it out loud.

Magill: This is a report by these four actuaries that we had locked up in the jury room to reach an agreement on this thing the other day.

"In accordance with your informal request an actuarial conference was held on April 8, 1937, to discuss the adequacy of the tax rates contained in the proposed Railroad Retirement Bill.

"Those attending the conference were Mr. George B. Buck, Consulting Pension Fund Actuary, New York, and Chairman of the Federal Board of Actuaries of the Civil Service Retirement and Disability Fund, Mr. Joseph Glenn, Actuary of the Railroad Retirement Board, Mr. W. R. Williamson, Actuary for the Social Security Board, Mr. R. R. Reagh, Government Actuary, Treasury Department, and Mr. Maurice S. Brown, Actuary, Treasury Department. The conclusions reached at this conference are summarized as follows:

"(1) It was unanimously agreed that the tax rates of the proposed bill are inadequate.

"(2) Mr. Williamson made a motion that the tax rates in the proposed bill should be changed to rates beginning at 5 percent for the first three years and going up 1 percent instead of one-half percent each triennial period to a maximum of 9 percent beginning January 1, 1949. Mr. Buck, Mr. Williamson and Mr. Reagh voted "yes" to this motion, Mr. Glenn alone voting in the negative. (Mr. Brown, serving in a capacity of technical assistant, did not vote.)

"(3) Mr. Glenn suggested a flat rate of 7 percent for some fixed period of years, leaving the matter of adjustment, if necessary, to a future Congress. Mr. Glenn admitted, however, that a uniform tax rate of 7 percent would very probably prove to be inadequate on a permanent basis. Subsequently Mr. Glenn stated that he favored the continuation of the present tax act (Public No. 400, 74th Congress, Second Session) except as amendments are necessary to change the scope of the coverage, thereby requiring an annual reconsideration of the adequacy of the rate. He believes that in no case should the fixed period exceed ten years and preferably that it should not exceed five years. He feels that a period of at least five years will elapse before sufficient experience has been accumulated to warrant the establishment of a definite rate for a longer period.

"(4) It was unanimously agreed that the bill should carry a provision requiring periodical valuations of the contingent liabilities created by the act in respect to new entrants, existing members and pensioners, with a report to Congress and the public setting forth the amount of such liabilities as well as the level percentage of payroll required to pay the benefits. It was further agreed that in order to assure the railroads, the employees and the public of technical representation, the actuarial valuations should be made subject to the supervision of a board of actuaries, one of whom might be designated by the railroads, one by the railroad employees, and the third by the Secretary of the Treasury.

"Mr. Henry Moir, Chairman of the Finance Committee of the United States Life Insurance Company and a member of the Federal Board of Actuaries, was unable to attend the meeting; however, he did confer with Mr. Williamson and Mr. Reagh on April 9, and expressed himself as being in favor of the 5 to 9 percent scale of tax rates which was agreed to by all except Mr. Glenn. Mr. Moir's views are set forth in a letter to Mr. Magill dated April 9. In this letter Mr. Moir makes the suggestion that 'in the early years employees pay the full amount of 5 percent and that the additional charges running up to 9 percent ultimately be paid solely by the employers, thus equalizing in a manner the benefits and putting the extra costs on those who get the most of the extra benefits, namely the present employees.' In a footnote to the letter, Mr. Moir makes an alternative suggestion that 'this might be made 4½ percent at first, rising to 9 percent on a 50-50 principle.

" Respectfully submitted,

George B. Buck
Joseph B. Glenn
W. R. Williamson
R. R. Reagh "

Mr. Buck was not present when the report was concluded, but it was read to him over the telephone and he authorized that his name be signed to it.

Sen. Harr.: Were these rates suggested on the basis that they are pretty generally agreed to, of 67 fraction percent as the retirement age?

(Altmeyer comes in)

Magill: Well, I have a letter from them on that subject. I don't know that the Secretary knows this, but Mr. Harrison and Mr. Pelley sent a letter which was presented to the actuaries, asking them to specify the assumptions which they used. I have their answer, which is to the effect that they used the same assumptions and the same tabulations, etc., which were used by the Railroad Retirement Board.

Sen. Harr.: That was 67 plus, wasn't it?

Magill: Right, yes.

Harrison: Let me understand Number One in that letter of April 10 that you just read, signed by four actuaries. "It was unanimously agreed that the tax rates of the proposed bill are inadequate." What is your understanding of that statement? Is that based on the tax rates without consideration for the loading under Social Security, or does that include the loading under Social Security?

Magill: It is my understanding they took that into account; that, taking all the factors into account, it is their view that for the plan to carry itself the rate should be five to nine in the way they have stated, or Mr. Glenn thinks a level seven.

Doughton: Think it should be five to seven, or seven flat?

Magill: Mr. Glenn has suggested it should be a level rate of seven; that is, starting now at seven and continuing at seven, with this provision for readjustment at some period of three years, five years, what you will. The others, the three others who attended the conference, and Mr. Moir, who is the third member of this Government board of actuaries, all felt that the rate should run from five to nine; that is, increasing - starting at five for the first three years, then increasing one percent and running at six for the next three years, and so on, until they reach nine in 1949.

Doughton: Wasn't it a kind of understanding, or sentiment expressed here at our meeting the other day last week, that we go along for three years and then have a survey of the whole situation? Having accumulated all the facts, they could make an adjustment then in the light of experience up to that time.

Magill: That's right. I think we all agree that a provision of the kind they mention here in Paragraph 4 ought to go in; that is, a provision for periodical adjustment of the rates.

Now, the actuaries' idea, as I understand it, is that the rates to go into the bill ought to be rates of such a character that, in the light of your experience now, they indicate that the plan would be self-supporting. If it proves in the future that more money is coming in than is necessary, rates should be adjusted downward. If it proves that the money coming in is less than we need, the rates should be adjusted that way.

Doughton: These three-year periods here with the raise in the rates don't mean, then, to interfere with or stop the three-year adjustment.

Magill: That's right.

Doughton: But it is just the best calculation they can make now.

Magill: That's exactly it.

Harrison: You don't know to what extent the rates are inadequate? Was it just slight or was it of great importance?

Magill: Well, I don't know. I didn't attend their meeting either. All I have is this report. In accordance with our discussion here the other day, we put them in a conference room together and they worked at it on Thursday afternoon, Thursday evening.

Harrison: The reason I asked that question is that I have a statement here from Mr. Glenn and this is a distinct surprise to me - that he had signed his name to another statement that the tax yield would be inadequate. I just wonder how often he changes his mind.

H.M.Jr: I'd like to ask why does Mr. Glenn do a thing like that?

Latimer: Mr. Glenn, I'm - let me explain in behalf of Mr. Glenn.

H.M.Jr: I mean this Railroad Board is all the time springing surprises on the Treasury. I mean who are you working for anyway?

Latimer: We're working for the Government of the United States.

H.M.Jr: Well, I just wonder sometimes who you are working for. What right does Mr. Glenn have to send something like that and not advise us?

Latimer: You have a copy of it.

H.M.Jr: Of Mr. Glenn's letter?

Magill: I don't know what it is.

Harrison: This is the final statement that we received from the Retirement Board.

Latimer: And the actuaries.

Harrison: On the cost.

Magill: Was this before or after the meeting?

Harrison: Before.

Magill: Well then, all that stuff went into the meeting. We sent in everything we had.

Harrison: Now, when we got through with our agreement with the railroads, I asked the Retirement Board actuary to give me a statement of the cost of providing the benefits, the last final word on the cost of providing the benefits, and that was just before this conference was held. And I got the statement; it might have been prepared still earlier than that.

Now, here's the statement that I received from Mr. Glenn. It starts out in 1937, runs up to 1975; shows the income, shows the outgo. And in 1975, under the present schedule of taxes we propose, there will be a surplus of 592 million, 275 thousand dollars, after all the benefits are paid up to 1975. And I have it here for each year commencing 1937.

Sen. Harr.: When was that letter....

Harrison: This was prepared and forwarded to me just before the conference of the actuaries.

Sen. Harr.: I don't see anything improper in that. But they refigured it, I suppose.

H.M.Jr: Well, when I made that statement I thought that the letter you had was given after this meeting.

Harrison: No, before.

H.M.Jr: Well then, I withdraw my statement. I thought it was given after. That is what I couldn't understand.

Harrison: I don't understand the difference in Glenn's two statements.

Magill: Well, all - as I say, as far as this summary is concerned, I am in exactly the same position you are, because, as I think we all did, I wanted to be scrupulously fair about this thing and I didn't attend their meeting at all. I went around once in the course of the afternoon to see how they were coming along and found they were at about an agreement, and this is, as you can see - they have all signed this thing and that's all I know about it.

Latimer: There is no difference in Mr. Glenn's position in that memorandum and what he's taken here. If you look at that particular statement there - 1975 - probably around the year 2000 the reserve is going down, you will notice.

Harrison: Well, this runs to 1975 and I understood that after that it would go down.

Latimer: Yes. Now, Mr. Glenn, of course, does not believe that the five to nine percent rates are necessary. He says on a seven percent flat rate that reserve would not go down. So Mr. Glenn's two statements are in accord. Of course, on the basis of that same statement, if you had a five to nine percent rate, you would have a couple billion reserve by 1975.

Sen. Harr.: You'd have a how much?

Latimer: Couple billion.

H.M.Jr: Couple billion surplus.

Latimer: That would be the accumulated excess of income over outgo.

Sen. Harr.: Well, I don't understand that, Latimer.

Magill: I don't either.

Sen. Harr.: Now, this figure is based on a five going up to seven. Latimer, this statement here that Mr. Harrison has read is based starting at five percent, going up one-half percent triennially to 1949; then it shows how much?

Harrison: $592,275,000.

Sen. Harr.: On this basis of seven percent flat, you say it won't be as much or be more?

Latimer: It will be more, but you won't go down; you come to a level point where it won't go down. But on the five to nine you have a still higher reserve.

Harrison: As I understand it, 1975 was as far in the future, with any degree of certainty, that any actuary could forecast the needs of a plan like this, because of the variable assumptions underlying the calculation of the cost. And they made the figures up for me to 1975, and it shows a surplus of 592 million by then.

Now, I agree, and I think anyone that knows anything about our railroad problem will agree, that the underlying assumptions on which you make the figures are so variable, changeable, that you just cannot plan it beyond 1975.

Magill: Of course, I don't get that letter, because we have had these various computations from the Retirement Board and, as I say, it is my - the actuaries have written me that they use the Railroad Retirement Board assumptions in arriving at this conclusion.

Now, I know that it is true, from some of the statements that we have had from the Retirement Board, that along about 1955 or 1962, along in that period, the fund would show a red figure.

H.M.Jr: May I interrupt a minute?

Harrison: 1955 - my figures show a surplus of $916,485,000.

H.M.Jr: May I ask....

Magill: As we have had so many statements, I don't know which is which.

H.M.Jr: Do I understand the Railroad Retirement Board did furnish Social Security and Treasury with a copy of this letter?

Latimer: Yes, we sent that to Mr. Magill; he has that, I believe.

Magill: I think we got it. Of course, I don't know what letter Mr. Harrison has. But I gave the actuaries everything that we had received.

Harrison: I think I got that two or three days before, and we transmitted a copy of it with a letter that we submitted to the actuaries - that is, to the Secretary of the Treasury. We transmitted a copy.

Latimer: If you remember, in that first memorandum we said complete recalculations were going on, and those are the complete recalculations (handing paper to Magill).

Magill: Of course, you appreciate I can't speak to this.

H.M.Jr: Well, may I not say something, please, because we don't - the other day, when this whole thing comes down to a matter of rates we couldn't agree on the actuaries, so I made the suggestion that - or somebody made the suggestion we get these actuaries together, and I said I'd be satisfied, didn't I?

Doughton: You made the suggestion yourself. That was your suggestion.

H.M.Jr: And I said I'd be satisfied with what this group has agreed on. And I haven't changed my position and I am perfectly willing to take either one of these. They make two suggestions and I'll take either one.

Doughton: I'd like to ask this question.

H.M.Jr: See? Now, we said we'd get these fellows together and get the report, and I'll take either. They make two suggestions. They make one suggestion and Glenn makes another. Now, I'll take either one, with the understanding that at the end of three years it be reviewed. Now, I stand just where I stood the other night.

Doughton: The question I wanted to ask was if this motion carried here in Number Two of the summary, made by Mr. Williamson, concurred in by all but Mr. Glenn, who didn't vote - if it is agreeable to all parties that the legislation proceed on that basis, that gives us a chance to readjust at the end of three years.

Harrison: You mean start out at five percent for the first three years and then study it.

Doughton: Unless experience accumulated up to that time would demonstrate some other rate was necessary. That is, as I understand, kind of a tentative suggestion. If it was permanent, there would be no use for the readjustment, but that's a tentative suggestion, the best they can give now.

Harrison: Start out at five percent for three years from the first of January, '37.

H.M.Jr: Yes.

Magill: Their suggestion is to write in in the same law and in the same way as the proposed plan, except you get a maximum of nine instead of the proposed maximum of seven, and write in this provision for an adjustment of rates periodically to see whether or not they are too high or too low.

Harrison: Well now, since you are going to have the examination of the question within three years and we both agree that if it does disclose that it needs to be revised, we will agree to a revision, why not start out with the proposed tax rates as we have them in the bill and then only - and make the revision on that base.

Magill: Well, isn't it better policy - as I understood it, we all agreed to get these actuaries in and see if we can get an agreement out of them. Now, all the actuaries agree that the proposed rates are inadequate, and they have proposed two alternatives. Well, as long as we are writing the bill now, why not write the bill in the form which they regard as adequate?

Harrison: There is just this to that. We had an agreement with the railroads that took the tax up to a maximum of seven. This raises the maximum two points beyond seven. Now, you can see what you're doing to our agreement.

Doughton: As I understand, Mr. Harrison, they did agree at the - the other day that at the end of a three-year period they would agree to whatever rates are necessary.

Harrison: Yes, I subscribe to that. I subscribe to that. At the end of the three-year period, have it adjusted to whatever is necessary. That's the way I understood it, and that was agreeable to Mr. Pelley.

H.M.Jr: May I ask, is that agreeable? Just what is your position now in the light of this report?

Pelley: I don't know that I have any position at all, Mr. Secretary. I would like to get straight on Mr. Glenn's position, because he is the actuary that we have relied upon throughout our negotiations, and I'd like to get clear as to whether or not he is changing his position.

Magill: This is his last word.

Sen. Harr.: Well, I don't see, John, where he's changed his opinion except this: As I understood Mr. Latimer, all of them had some doubt about after 1962 under the present proposal, starting out at five, going up one percent, etc., up 'til 1912. Now, Glenn subscribes to the proposition that if you make a flat rate of seven percent he doesn't think there would be any deficit. Isn't that right?

Latimer: No. No, he wants it revalued at certain periods. He's unwilling to say - he thinks it will be at least five years before you will have sufficient experience to establish the definite rate. That's his position.

But I'd like to say this about Mr. Glenn. Of course, in the statements which have been issued there by Mr.

Glenn, he has said that, taking this plan by itself without going into anything else, the level cost is 7.11 percent, so that he hasn't changed his position on that at all. In fact, this seven percent here is a little lower, taking it by itself, than what he has previously said.

Magill: As I get it, he says that seven percent is probably inadequate.

Latimer: Yes.

Magill: But he says, "Let's make it a flat seven."

Harrison: Well, that's the reason I asked the question if, in the statement that the tax rates were inadequate, they took into consideration the loading under Social Security, because the loading is in the figure 7.11.

Latimer: I think the general position of the actuaries was that it couldn't be taken into account; therefore, it was out.

Altmeyer: My understanding is that instead of there being a differential which would favor the railroad retirement system, there is a differential that would favor the Social Security system, if they all stayed together; that the actuaries agree now that....

Latimer: Glenn doesn't agree to that.

Altmeyer: My understanding is that the actuaries agreed that this differential existed only about the first 15 years and after that it turned the other way.....

Latimer: Glenn doesn't agree to that.

Altmeyer: ...and that the mistake made was that these figures were not run out far enough and it was assumed there was a permanent differential when it now appears, running the figures out further, because of a higher wage level there is a differential the other way.

Sen. Harr.: Well now, let me ask the Secretary of the Treasury - if one of these propositions should be agreed upon, then that removes the proposition that was debated at first as to the amount of taxes that is due the Government under the present law, which is estimated to be about a hundred and some odd millions of dollars, and that the Act start from January 1st this year....

H.M.Jr: That's right.

Sen. Harr.: ....as in the proposition. And under the agreement, as I understand, there would be paid in immediately to the Treasury, as of April 1st, about 30 millions of dollars. Is that right?

H.M.Jr: I don't know about the 30 million.

Sen. Harr.: Well, I understood it was 30 million.

Bell: It was about 55 million, I think Mr. Pelley said.

Harrison: For the six months.

Pelley: For the six months.

Latimer: First quarter, 27½.

H.M.Jr: But without - leaving out that last statement about how much is paid in, for the other part your statement of the facts is as I understand it.

Sen. Harr.: I just wanted to get that clear.

Doughton: Now, it is agreed that we'll start at five percent. That is what the railroads and the Brotherhoods seem to think will be adequate. The actuaries seem to be against them, think it may not be adequate. Now, it is agreed further that if it is not adequate they are willing to go up to what is adequate - 6, 7, 8 or 9.

Pelley: Go up with the taxes or come down on the benefits.

Harrison: That's Pelley's position. It is not my position. My position is: go up with the taxes.

Pelley: We'll settle that later.

Doughton: Let's fight that out three years from now.

Sen. Harr.: Well, of course, the motion here that all voted for except Mr. Glenn - five percent for three years - well, that's a little different from the agreement. The agreement that they made was five percent for the first year, increase to five and a quarter the second, five and a half the third.

Pelley: Five for three years and then....

Magill: This is the same as their agreement.

Sen. Harr.: I thought it went up a quarter.

Harrison: It goes up a quarter percent each three years for twelve years.

Doughton: It looks to me like you've got something you could start on and get away from these conferences; we've had enough.

H.M.Jr: It seems to me we've come about nine-tenths of the way.

Doughton: Well, all you want is the Treasury to be protected.

Sen. Harr.: I don't know - if you're going to do it, we've got the thing laid in our lap three years from now and the actuaries are going to be called in, but we don't know whether we'll be here.

Doughton: Get a lot of experience in three years.

Pelley: None of us know whether we'll be here.

H.M.Jr: Just one thing, Senator Harrison, you didn't mention. That is, if this goes through on the - whatever you call it - on the Number Two plan.....

Bell: Five to nine.

H.M.Jr: ...five to nine - I mean it would be necessary for us to send up in the last deficiency bill a request for 40 million.

Bell: Something like that.

Harrison: Enough to finance it for the balance of the fiscal year.

Bell: '38, yes.

Harrison: '38 fiscal year.

Sen. Harr.: Don't you get right away some 40 million or something like that?

H.M.Jr: Well, the important thing is to take over their 200 million dollar fund.

Bell: We have 46 million dollars already appropriated to take care of '37 and '38 under the present bill.

Pelley: How much of that has been spent, Mr. Bell?

Bell: About six million spent to date.

Latimer: Six million?

Bell: I think it's six million.

Pelley: About a million.

Latimer: About a million and a half.

Bell: I may be wrong on that.

Magill: I should think as long as you are contemplating an agreement that will undoubtedly go on indefinitely, you ought to write it in the same way - same general form that the plan contemplated; that you are setting it up on a permanent basis, five percent for three years, six percent for three years, seven percent for three years, etc. Social Security is written that way, isn't it?

Altmeyer: (Nods yes)

Magill: So you can see what - you've got this provision for adjustments. If the rates prove to be too high, all right, let's change it - or if they prove to be too low. But I think for the same reason you were talking about a minute ago, it is well to put the thing on a permanent basis if you can, so as to avoid as much as you can of this discussion as to what the rates ought to be three years from now, when we may not yet know. You see, Glenn says here, as far as that is concerned, that you won't know for five years whether the thing is self-supporting or not. Now, it seems to me that the proposal, this Number Two proposal, is entirely fair to everybody, because it means that the agreement starts off on exactly the basis that the Brotherhoods and the railroads have agreed.

Sen. Harr.: You don't have to take it back to them for any change?

Magill: Now, you step it up to a higher rate than that which was ultimately contemplated, but if that proves to be improper from your experience, why, you put in machinery for making the change.

Sen. Harr.: Well, writing the law is what I'm getting at now. I want to know your idea as to how the provisions should read. Are you going to write it and say that for the first three years the rates should be five percent and that after that time the Congress must fix the other rates?

Magill: No, I'd write it as a permanent plan - five percent for the first three years, six percent for the next three years, seven percent for the next three, etc., up to this maximum of nine which is going to be reached.

Sen. Harr.: Well, if you fix it that way, then the Brotherhoods and the railroads have got to take it back to their respective principals, because it is a change in their agreement. Am I right?

Pelley: You are.

Sen. Harr.: That's why I was asking the question.

Pelley: It seems to me now, since you folks have gotten away from the position that you had from the beginning, that we ought to pay in this money that's accrued under the old law, we ought to be able to carry out apparently what Mr. Doughton has in his mind. This agreement - just go on with the agreement, write it into the law; if you want to make some provision that at the end of five years have a look at it and see if it is adequate, and if not then some adjustment will be made, that's all right.

H.M.Jr: Three years.

Pelley: Three - well, that's all right. That will tell us a good many things. Three years from now we'll know something about where we're going a little more definitely than we do now. I think, to be perfectly frank with you, that our people would not agree now - not commit themselves to paying nine percent at any time. I don't know whether the men want to do that or not; that's 4½ percent of their pay. And Mr. Latimer says that it will build up a reserve of a couple of billion dollars. Now, we're rather poor and the men are none too rich and I don't know if you want to set up a reserve of that kind.

Sen. Harr.: Well, without committing yourself as put up to the railroads, do you think that they would rather have a five percent for three years and then step it up half a percent and get nine percent in twelve years, or whether they'd rather have a flat seven percent proposition?

Pelley: I think they'd rather have the five percent, Senator, because they are all in more or less financial difficulties - not all of them; some of them are all right. Their business is getting better. This five percent idea, I think, was what made it possible to sell it to them. They got started on the lower basis. And as I pointed out here the other day, we're really starting on a 2½ percent basis while all other industries are getting started at a one percent basis, and it's a pretty good load for them.

Magill: Of course, you've got a big selling point to them on this five to nine, for instance. You're relieving the fifteen railroads, or whatever it is, of this 200 million dollar liability which they are now under, and which, as I understand it, is costing 36 million dollars a year,.......

Bell: Which is more than 1½ percent.

Magill: ....when they get out of that - which is more than the 1½ percent. And further, they are relieved of the potential liability for whatever might be found to be due under this present law; and the way the Supreme Court is going now, I think they will uphold the present law. So I think as far as your railroads are concerned, they're getting an awful good break.

Pelley: Well, as a matter of fact, as compared with the present, they're stepping up their pension bill from some 36 million to a minimum of 55 million, and to a maximum of something like 75, and that is the condition that confronts them, and it takes that many millions of dollars to pay the bill.

Bell: But for the present you are better off under your proposed scheme than you would be if you came in under the Social Security Act.

Pelley: Well, I don't know; I haven't considered that.

Magill: As long as the railroads agreed to the five to seven proposition, I don't see how they can fail to agree to this, since you have this provision for an adjustment of the rates either way. Now, you were arguing with us the other day that the Treasury would be protected if we had a provision for adjusting the rates up. Now, by the same token you will be protected if you have a provision for adjusting the rates down. It will work both ways. It seems to me the sensible thing to do is to start the program on a basis which your actuaries agree is sound. Now, if you find that experience shows that they took too much into account, or didn't take enough, why, all right, let's change it. But as I understood, we were all in pretty general agreement the other day to put it up to these actuaries and see what they had to say, and if they could arrive at an agreement, to go forward on that basis.

Now, as the Secretary said, we are willing to go ahead with that arrangement. We'll take either one of these things.

Doughton: Looks like both the Treasury and the railroads are protected, provided they carry out the spirit of this agreement.

Magill: That's right.

Sen. Harr.: In writing the law I've gotten Mr. Magill's viewpoint that it ought to be written starting out at five and step it up to nine, and that is written into the law with a provision that in three years these reports come in and that such adjustments be made as are shown to be necessary at that time. Now, would that be satisfactory or would you rather have the law be written just as the agreement makes it, of stepping it up to seven percent?

Pelley: I'd rather have it as the agreement is written, Senator, and I think everybody is fully protected. If we've got the agreement, why not go ahead and carry it out? Just as George Harrison said and our people are willing - now, to go back to them with another proposition that lifts it up to nine - I think we'd have difficulty getting them to make a commitment now that they are going to pay nine several years from now.

Sen. Harr.: Is this provision of three years going to be written - about what would be the wording of it?

Magill: Well, I - I haven't got it in front of me. I think Kent has got a draft of such a provision. What we had in mind was a provision for reports as to the sufficiency of the fund remaining unexpended to meet the estimated liabilities.

Bell: With a recommendation.

Magill: With a recommendation.

Harrison: Well, we couldn't agree to anything like that. That ties the two together. The whole theory underlying it is to keep the two separated.

Magill: That's got to be taken into consideration.

Harrison: Have two reports. Have a report of the benefits under the benefit law, and a report of the liabilities under the - of the income under the tax law.

Magill: All right.

Harrison: And with that we can follow along. Because some individual employee or stockholder, or some railroad that has not subscribed, may attack this in the courts, and we don't want to tie them together because we feel then we wouldn't have a chance to sustain the two.

Magill: Of course, we're just as anxious as you are to put it on a basis to sustain it; we'll do everything we can to sustain it.

Harrison: Aside from that, I don't see anything wrong in the proposition. In fact, we have a section in the proposed bills now calling for a report.

Doughton: If we put the rates in there from five to nine, with a proviso that it not go to the nine unless necessary - it might not be necessary that the rate go that high, if experience demonstrates that five or six would be sufficient. If that proviso is put in that it shouldn't go above what is necessary to support it - if that is kept in good faith and it means anything, it looks to me like you are amply protected, and let's get this thing started.

Pelley: You see, the difficulty we have, Mr. Doughton - it is most important that all the roads agree to this. If I were handling George Harrison's job, I wouldn't enter into any kind of agreement with the railroads that didn't bring them all in, because I think he's got a right to ask that they all come in; he's making a deal for all of his men on all of these railroads. Well, some of the railroads have no pension plan; some of them pay nothing - the Milwaukee and others - several of them pay nothing. I think it would be impossible to get them committed to $4\frac{1}{2}$ percent of their payroll.

Doughton: With a proviso that they wouldn't have to pay it if experience demonstrated it wasn't necessary?

Pelley: Yes, I think it would be very difficult to get them to do it. They have, though, for the sake of an agreement, come in on the basis of ultimately $3\frac{1}{2}$ - 7 percent in twelve years.

Now, I say they have all come in. As a matter of fact, no one voted "no" on the proposition; there were a couple of them not voting. I think they will not contest the law if it is passed. I think they'll go right along. But to get them to come in on a nine percent basis I believe would be almost impossible - to get a unanimous assent, and that is what he wants and that is what I think he has a right to have.

Bell: Well, may I ask, what are you going to do at the end of three years if you find out that the rate to which you agreed is not sufficient?

Pelley: Well, we'd have to make a new agreement.

Bell: Then, I suppose, they are free to attack the Act.

Pelley: Beg pardon?

Bell: Are they free to attack the Act?

Pelley: Well, if there is a substantial change, more than anybody could stand, I presume they would feel that they had a right to do that.

Bell: Then this agreement really isn't much good except for the first three years, is it?

Pelley: Well,...

Sen. Harr.: Unless they got the confirmation of the railroads.

Bell: Unless they got the rates they want.

Pelley: Well, of course, what I have said is that if it is seen that the fund is not sufficient, then the same people will have to make another agreement, increase the tax or reduce the benefits, one or the other.

H.M.Jr: But you made a statement that not all the railroads have agreed to this.

Pelley: Well, there's nobody objected to it, Mr. Secretary. In the vote that was taken on the proposition, there was nobody - not any road voted "no."

H.M.Jr: Well, how did they vote on it?

Pelley: A part of the agreement is that the railroads will not contest this.

H.M.Jr: Have they all agreed to that?

Pelley: Nobody said they would - one or two not voting.

H.M.Jr: One or two might start a suit tomorrow.

Pelley: They might, but I think the chances are very remote. One of them, the one that I thought might, has said to me on the side that they'd go right along; they wouldn't give their assent to it because they have no pension plan at all, but they'll ride along with the group.

H.M.Jr: I mean you're - being very frank, it isn't you....

Pelley: I'm telling you just exactly....

H.M.Jr: You really can't give an ironclad guarantee on the suit.

Pelley: Well, I can on all but one or two railroads, and I don't think they're going to take on the cost, Mr. Secretary.

H.M.Jr: Pardon me?

Pelley: I don't think those one or two would want to take on the expense of fighting a law suit about it or contesting the validity of the law. There won't be any trouble about it.

H.M.Jr: Well, I'll just say to Senator Harrison I can only restate my position - where we were. We asked for this report and we got it and I'm willing to abide by it.

Latimer: Well, are those two things mutually exclusive? You say you'll take Mr. Glenn's suggestion and you will take what the other actuaries consider the equivalent of Mr. Glenn's suggestion on a step-up basis.

H.M.Jr: What do you mean?

Latimer: Well, the Number Two is equivalent to an 8.22 rate starting immediately. Glenn's flat seven - I don't know what equivalent step-up you'd have to have to start at five and get the equivalent of what Mr. Glenn's flat seven is.

Pelley: Probably won't be nine.

Latimer: No, wouldn't be nine.

H.M.Jr: Now, there are just the two - start five going to nine, or flat seven.

Bell: Would you (Latimer) reduce it to some point where you'd get a....

Latimer: What I am saying is, the Secretary has said that he's agreeable to Mr. Glenn's suggestion of seven percent.

H.M.Jr: A flat seven.

Latimer: Yes, a flat seven. Well, the equivalent of Number Two is 8.22. Now, you were saying that as far as you are concerned you'll take either seven or 8.22.

H.M.Jr: No, you can't....

Bell: As an average.

H.M.Jr: No, you can't say that. I'm saying just in the exact language; I'm not trying to rewrite or interpret anything. I'll take it just as it is written there.

Doughton: Without committing yourself (Pelley) for the railroads, would your view of it be that they prefer the starting at five and going to nine or starting now at seven? Not committing yourself - but of the two.

Pelley: Well, I couldn't say what their view would be on that. I don't know what they'd say about that, Mr. Doughton. I think they'd be pretty slow to get above seven. Some railroads probably would say - I'd take the seven now and that's all, if I had to settle it one way or the other.

H.M.Jr: You'd do what, Mr. Pelley?

Pelley: I think probably some of them would take the seven. I think I would if I were running a railroad - probably start at the seven rate rather than to go up to nine ultimately. This nine - this suggestion here, as Mr. Latimer says, is going to build up a tremendous reserve.

Harrison: Would that be to put it at seven percent and study it at the end of three years, or would that be a flat permanent rate?

Pelley: I have no idea of what they'd do about it; just trying to answer Mr. Doughton, really giving my own personal view.

Doughton: If you - in other words, if seven should not be enough, you'd fight to go down on the benefits rather than to go up above seven.

Pelley: That's right.

Sen. Harr.: Well, do you gentlemen want to confer with your respective interests?

Harrison: I want to get the record straight here on one question, if I may, because of the great importance to these men I represent. I'm not in the habit of picking their pockets myself, and don't want it to be done if I know it's going on.

Tell me about this Social Security loading. Now, where do we stand on that? Let me have the two versions.

Magill: Good!

Harrison: I'd like to know the two positions on that.

Altmeyer: We stand on the letter we wrote to Railroad Retirement. The effect of the letter we wrote to Mr. Latimer, in response to his letter, is that the railroads and the men should contribute to Social Security rather than Social Security contribute to the railroads.

Harrison: It is just the opposite to what we had been understanding heretofore.

Altmeyer: Yes, but our letter is clear there. Our letter says that the fourth principle furnishes the answer to the first of your specific questions. "Provision of an old-age retirement system for any specific group is to be regarded as composed of the general old-age benefit system with this correlative financial support, with a superimposed structure of benefits and a corresponding means of providing for them." In other words, the creation of the special system should not affect the balance between income and outgo which would exist without it. Now, if the differential is the other way, lifting out the railroad industry from Social Security does adversely affect the Social Security system rather than help it.

Harrison: What is the position of the Retirement Board as of today on that?

Latimer: Well, I'm basing mine on the studies made by Williamson, that between now and 1970 the taking out of the railroad employees does affect favorably Social Security. Of course, what - the difference there is we have taken into account a period.....

Altmeyer: You didn't mean Williamson. You meant Glenn.

Latimer: No, Williamson.

Harrison: What is the authority for your (Altmeyer) statement?

Altmeyer: My authority is that Williamson tells me that this differential ceases to exist in 15 years....

Harrison: (Laughs)

Altmeyer: ...and that the differential starts moving the other way at the end of 15 years.

Harrison: What does Williamson tell you (Latimer)?

Latimer: He told me it started moving the other way in 1974. Maybe he's made some new calculations.

Harrison: There is a differential until 1974 in favor of the railroad men?

Latimer: Yes.

Altmeyer: Well, it may mean that the differential starts moving the other way in 15 years, but does not completely disappear until 1974.

Harrison: But the ultimate result is that the differential is exactly the opposite from what we had understood previously.

H.M.Jr: Well now, gentlemen, I don't want to hurry this thing, but I don't know whether the railroad owners and workers want to have a chance to think this over.

I think as far as I'm concerned - I think I've made a cleancut statement, and if anybody wants to ask the Treasury where we stand at this time I'll repeat it if necessary, but I think I've made my position clear. I'd like to ask Senator Harrison and Mr. Doughton whether they want to ask me anything more.

Sen. Harr.: I think I understand your position. You say that either one of these alternative plans will be satisfactory to the Treasury.

H.M.Jr: As far as the Treasury - I can only speak for the Treasury, but I want to say - I have not shown this to the President, didn't want to bother him, but his position has been right along that he'd asked these gentlemen to get an agreement and if the Treasury was satisfied with the rates, he was satisfied; and that's what the President has said, that he left it to me on the rates. Now, we'll take either one of these things, and as long as the President, if the Treasury is satisfied, has said he'd agree likewise, that's our position now; and it's good tomorrow and it's good a week from tomorrow.

Sen. Harr.: This (letter of April 10 from actuaries) been given to the press?

H.M.Jr: No, we didn't want to do it unless you people wanted us to do it.

Doughton: Oh, I see.

Sen. Harr.: I want to keep this copy myself.

H.M.Jr: Would you like us to give it to the press?

Sen. Harr.: I don't care myself; it's up to these gentlemen.

Doughton: I don't think there's any use giving it to the press. They'd find something in it to criticize.

Sen. Harr.: The press will get it; they - hell, they get everything. So I don't see - anybody see any objection to giving it to the press?

Doughton: I think it won't benefit; it won't do any good.

H.M.Jr: It won't leak out from here; I can assure you that.

Doughton: If you give that to the press, without any sign of an agreement, the press will try to stick us, like they always do. We're just up against this situation, gentlemen, right now. Unless we can get an agreement, the only thing our Committee can do is to go forward with what the Committee deems is wisest to do, or do nothing. It looks like it's going to be left to our Committee right now - left to our Committee as to what we do, or do nothing.

H.M.Jr: Well, may I ask one question - two questions? One question I'd like to ask Mr. Pelley. Have you anything - I mean any complaint or anything about the reasonableness of my position, in view of the report I have received from the actuaries?

Pelley: Oh, I haven't any quarrel at all with anything you have done at any time, Mr. Secretary.

H.M.Jr: But I mean - anything you'd like to ask me to clear up my position?

Pelley: No, I don't think so. I can't quite get straight on this Glenn position. You see the position that we're in. We met to try to make an agreement, and we were told that we might use the Retirement Board and their actuaries, and we did that, and so far as I was concerned I relied absolutely on what they had to say about it, so far as the tax was concerned. And we get this agreement which we understand is actuarially sound and have said so. And what I am not quite clear on is whether the people who told us it was actuarially sound are now saying it was not. I'm not quite clear on that.

H.M.Jr: Well, I don't know how Mr. Altmeyer - but I can only talk for the Treasury and I just have to repeat. We went through what we said we would, that we'd get these fellows in a room and tell them what to do; they did it; now I'll take either one.

Now I just want, before we break up, to ask Mr. Harrison if he wants to ask me...

Harrison: No, I have no questions to ask. I do want to make this statement, though: that we proceeded on the figures furnished us by Mr. Glenn and now it is a distinct surprise to me, as I read the letter, that he makes the statement that the proposed tax rates are inadequate. And then, when we agreed to take over the present pensioners, the two hundred million, it was only with the understanding that there was a loading that we were entitled to of .54 of one percent of the payroll. We never agreed to pay any part of this out of our pockets, but we were willing to let part of that be used to pay that - 32 hundredths of the 54. Now if there isn't any loading, you can see that we're going to have to put up half of .32 or .16 to carry this load of two hundred million.

H.M.Jr: But, if you don't mind, this isn't between you and the Treasury.

Harrison: None whatever. I think your position, based on the advice you have there, is exactly what my attitude would be if I was in your position.

H.M.Jr: Well, all I can say is any time.... We're through, we've done our part, the rest is up to the gentlemen on the Hill. If they want to meet again, why, we're available.

Pelley: Mr. Morgenthau, I understand, or am I to understand, that you are agreeable to Number Three; that is, you'd be willing to start on a flat seven percent basis?

H.M.Jr: With the understanding that at the end of three years the matter would be reviewed.

Harrison: I think that is advisable, irrespective of what rate.

H.M.Jr: I'll take either one.

Pelley: Was there an answer to this letter we sent over?

Magill: I think there is, yes. I know there is. Do you want that?

Pelley: I'd be glad to have it.

Magill: I'm not sure I have it here; yes, I do. That's simply a letter of transmittal for your (H.M.Jr) signature.

H.M.Jr: I'd like to have a chance to read this. It's too important to just sign. Suppose we get it over to you late this afternoon.

Pelley: All right, any time.

Sen. Harr.: Magill, I wish you'd send up to me - and I expect Chairman Doughton wants the same thing - this tentative draft that you say Kent has, that covers the provisions with reference to three years.

Magill: All right.

Sen. Harr.: Because I think it's going to be rather difficult.

Magill: It is hard to draw; no question about that. I don't know how quick I can get it up to you.

Sen. Harr.: Well, what's the best thing on this newspaper business? They'll begin to talk, want to ask questions. All we can say to them, as I understand, is that we discussed this thing fully again, that the actuaries who were appointed have made a report and there is no definite conclusion to be reached between the Congressional representatives and the Treasury and the railroads and the Brotherhoods. Is that about right?

Doughton: We're studying their report.

Sen. Harr.: We're studying the report and undoubtedly there will be more conferences.

H.M.Jr: Anything you say is all right. You notice I haven't done any talking.

April 10, 1937.

Dear Mr. Secretary:

In accordance with your informal request an actuarial conference was held on April 8, 1937, to discuss the adequacy of the tax rates contained in the proposed Railroad Retirement Bill.

Those attending the conference were Mr. George B. Buck, Consulting Pension Fund Actuary, New York, and Chairman of the Federal Board of Actuaries of the Civil Service Retirement and Disability Fund, Mr. Joseph Glenn, Actuary of the Railroad Retirement Board, Mr. W. R. Williamson, Actuary for the Social Security Board, Mr. B. R. Reagh, Government Actuary, Treasury Department, and Mr. Maurice S. Brown, Actuary, Treasury Department. The conclusions reached at this conference are summarized as follows:

(1) It was unanimously agreed that the tax rates of the proposed bill are inadequate.

(2) Mr. Williamson made a motion that the tax rates in the proposed bill should be changed to rates beginning at 5 percent for the first three years and going up 1 percent instead of one-half percent each triannual period to a maximum of 9 percent beginning January 1, 1949. Mr. Buck, Mr. Williamson and Mr. Reagh voted "yes" to this motion, Mr. Glenn alone voting in the negative. (Mr. Brown, serving in a capacity of technical assistant, did not vote.)

(3) Mr. Glenn suggested a flat rate of 7 percent for some fixed period of years, leaving the matter of adjustment, if necessary, to a future Congress. Mr. Glenn admitted, however, that a uniform tax rate of 7 percent would very probably prove to be inadequate on a permanent basis. Subsequently Mr. Glenn stated that he favored the continuation of the present tax act (Public No. 400, 74th Congress, Second Session) except as amendments are

necessary to change the scope of the coverage, thereby requiring an annual reconsideration of the adequacy of the rate. He believes that in no case should the fixed period exceed ten years and preferably that it should not exceed five years. He feels that a period of at least five years will elapse before sufficient experience has been accumulated to warrant the establishment of a definite rate for a longer period.

(4) It was unanimously agreed that the bill should carry a provision requiring periodical valuations of the contingent liabilities created by the act in respect to new entrants, existing members and pensioners, with a report to Congress and the public setting forth the amount of such liabilities as well as the level percentage of payroll required to pay the benefits. It was further agreed that in order to assure the railroads, the employees and the public of technical representation, the actuarial valuations should be made subject to the supervision of a board of actuaries, one of whom might be designated by the railroads, one by the railroad employees, and the third by the Secretary of the Treasury.

Mr. Henry Moir, Chairman of the Finance Committee of the United States Life Insurance Company and a member of the Federal Board of Actuaries, was unable to attend the meeting; however, he did confer with Mr. Williamson and Mr. Reagh on April 9, and expressed himself as being in favor of the 5 to 9 percent scale of tax rates which was agreed to by all except Mr. Glenn. Mr. Moir's views are set forth in a letter to Mr. Magill dated April 9. In this letter Mr. Moir makes the suggestion that "in the early years employees pay the full amount of 5 percent and that the additional charges running up to 9 percent ultimately be paid solely by the employers, thus equalizing in a manner the benefits and putting the extra costs on those who get the most of the extra benefits, namely the present employees." In a footnote to the letter, Mr. Moir makes an alternative suggestion that "this might be made 4½ percent at first, rising to 9 percent on a 50-50 principle."

Respectfully submitted,

See p. 163 or 257 for authorization of signature

George B. Buck per RR

Joseph B. Glenn.

W R Williamson

R. R. Reagh

The Honorable,

The Secretary of the Treasury,

Washington, D. C.

Treasury Department 1937 APR 12 AM 11 01

TELEGRAPH OFFICE

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NEW YORK NY 1042A APR 12 1937

R R REAGH
GOVERNMENT AGENCY

HAVE REVIEWED LETTER SIGNED BY ACTUARIES AND AUTHORIZE THE AFFIXATION OF MY SIGNATURE

G B BUCK

1102A

April 13, 1937

Excerpt from Mr. Magill's memorandum to the Secretary entitled, "Memorandum of the Day's Activities for April 15th":

1. Railroad Retirement Legislation:

After our general conference this morning I instructed Mr. Kent to examine the latest drafts of the tax bill and to make sure that the provision for periodical reports was properly drawn. The Legislative Section has already been at work on the bill and we hope to give Chairman Doughton a complete draft tomorrow morning. Mr. Reagh will confer with Mr. Kent to give him the requisite actuarial information.

Senator Harrison called about 2:00 PM to get our reaction to a revision of the rate schedule to 5½ percent to begin with increasing in the course of twelve years to a permanent rate of 7½ percent. He stated that he would support these rates and that he believes the railroads will go along with him too. After reporting the conversation to you I tried to give him your reply but he had left his office with the word that he would call me in the morning. I reported the situation to Mr. Doughton and told him that I would keep in touch with any new developments.

This may be elaborated upon.

If so, of course, this may be destroyed.

April 13, 1937

I told the President at 1:20 today what we did on the Railroad Retirement thing; that we had the report and that we would take either plan suggested by the actuaries.

256
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A 16434.

March 31, 1937.

A BILL

To levy an excise tax upon carriers and certain other employers and an income tax upon their employees, and for other purposes.

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

DEFINITIONS

Section 1. That as used in this Act - -

(a) The term "employer" means any express company, sleeping-car company, or carrier by railroad, subject to Part I of the Interstate Commerce Act, and any company which may be directly or indirectly owned or controlled thereby or under common control therewith, and which operates any equipment or facilities or performs any service (other than trucking service) in connection with the transportation of passengers or property by railroad, or the receipt, delivery, elevation, transfer in transit, refrigeration or icing, storage, or handling of property transported by railroad, and any receiver, trustee, or other individual or body, judicial or otherwise, when in the possession of the property or operating all or any part of the business of any such "employer": Provided, however, That the term "employer" shall not include any street, interurban, or suburban electric railway, unless such railway is operating as a part of a general steam-railroad system of transportation, but shall not exclude any part of the general steam-railroad system of transportation now or hereafter operated by any other motive power. The Interstate Commerce Commission is hereby authorized and directed upon request of the Commissioner of Internal Revenue or upon complaint of any party interested to determine after hearing whether any line operated by electric power falls within the terms of this proviso. The term "employer" shall also include railroad associations, traffic associations, tariff bureaus, demurrage bureaus, weighing and inspection bureaus, collection agencies and other associations, bureaus, agencies or organizations controlled and maintained wholly or principally by two or more employers as hereinbefore defined and engaged in the performance of services in connection with or incidental to railroad transportation; and railway labor organizations of employees, national in scope, which have been or may be organized in accordance with the provisions of the Railway Labor Act, as amended, including their state and national legislative and general committees.

(b) The term "employee" means any person in the service of one or more employers for compensation.

(c) The term "employee representative" means any officer or official representative of an organization of employees other than a labor organization included in the term "employer" as defined in Section 1(a), who before or after the enactment hereof was in the service of an employer as defined in Section 1(a) and who is duly authorized and designated to represent employees in accordance with the Railway Labor Act, as amended, and any person who is regularly assigned to or regularly employed by such officer or official representative in connection with the duties of his office.

*A 16434-3

(d) A person is in the service of an employer wherever his service is rendered if he is subject to the continuing authority of the employer to supervise and direct the manner of rendition of his service, which service he renders for compensation: Provided, however, That a person shall be deemed to be in the service of an employer not conducting the principal part of its business in the United States, Alaska, Hawaii or the District of Columbia only when he is rendering service to it in the United States, Alaska, Hawaii or the District of Columbia.

(e) The term "compensation" means any form of money remuneration earned by a person for services rendered as an employee to one or more employers, including wages paid for time lost as an employee, but wages paid for time lost shall be deemed earned in the month in which such time is lost. Compensation which is earned during the period for which the Commissioner of Internal Revenue shall require a return of taxes hereunder to be made and which is payable during the calendar month following such period shall be deemed to have been paid during such period only.

INCOME TAX ON EMPLOYEES

Sec. 2. (a) In addition to other taxes, there shall be levied, collected, and paid upon the income of every employee a tax equal to the following percentages of the compensation of such employee not in excess of $300 per month, earned by him after December 31, 1936:

1. With respect to compensation earned during the calendar years 1937, 1938, and 1939, the rate shall be 2½ per centum;

2. With respect to compensation earned during the calendar years 1940, 1941, and 1942, the rate shall be 2 3/4 per centum;

3. With respect to compensation earned during the calendar years 1943, 1944, and 1945, the rate shall be 3 per centum;

A 16434-4

4. With respect to compensation earned during the calendar years 1946, 1947, and 1948, the rate shall be $3\frac{1}{4}$ per centum;

5. With respect to compensation earned after December 31, 1948, the rate shall be $3\frac{1}{2}$ per centum.

(b) The tax imposed by this section shall be collected by the employer of the taxpayer by deducting the amount of the tax from the compensation of the employee as and when paid. Every employer required so to deduct the tax is hereby made liable for the payment of such tax and shall not be liable to any person for the amount of any such payment.

(c) If more or less than the correct amount of tax imposed by this section is paid with respect to any compensation payment, then, under regulations made under this Act by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, proper adjustments, with respect both to the tax and the amount to be deducted, shall be made, without interest, in connection with subsequent compensation payments to the same employee by the same employer.

EXCISE TAX ON EMPLOYERS

Sec. 3. (a) In addition to other taxes, every employer shall pay an excise tax, with respect to having individuals in his employ, equal to the following percentages of the compensation not in excess of $300 per month paid by him to any employee for services rendered to him after December 31, 1936:

1. With respect to compensation paid to employees for services rendered during the calendar years 1937, 1938, and 1939, the rate shall be $2\frac{1}{2}$ per centum;

2. With respect to compensation paid to employees for services rendered during the calendar years 1940, 1941, and 1942, the rate shall be 2 3/4 per centum;

3. With respect to compensation paid to employees for services rendered during the calendar years 1943, 1944, and 1945, the rate shall be 3 per centum;

4. With respect to compensation paid to employees for services rendered during the calendar years 1946, 1947, and 1948, the rate shall be 3¼ per centum;

5. With respect to compensation paid to employees for services rendered after December 31, 1948, the rate shall be 3½ per centum.

(b) If more or less than the correct amount of the tax imposed by this section is paid with respect to any compensation payment, then, under regulations made by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, proper adjustments with respect to the tax shall be made, without interest, in connection with subsequent excise-tax payments made by the same employer.

REFUNDS AND DEFICIENCIES

Sec. 4. If more or less than the correct amount of the tax imposed by Section 2(a) or 3(a) of this Act is paid or deducted with respect to any compensation payment and the overpayment or underpayment of the tax cannot be adjusted under Section 2(c) or 3(b), the amount of the overpayment shall be refunded, or the amount of the underpayment shall be collected in such manner and at such times (subject to the statute of limitations properly applicable thereto) as may be

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prescribed by regulations under this Act as made by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury.

INCOME TAX ON EMPLOYEE REPRESENTATIVES

Sec. 5. In addition to other taxes, there shall be levied, collected, and paid upon the income of each employee representative a tax equal to the following percentages of the compensation of such employee representative not in excess of $300 per month, earned by him after December 31, 1936:

1. With respect to compensation earned during the calendar years 1937, 1938, and 1939, the rate shall be 5 per centum;

2. With respect to compensation earned during the calendar years 1940, 1941, and 1942, the rate shall be 5½ per centum;

3. With respect to compensation earned during the calendar years 1943, 1944, and 1945, the rate shall be 6 per centum;

4. With respect to compensation earned during the calendar years 1946, 1947, and 1948, the rate shall be 6½ per centum;

5. With respect to compensation earned after December 31, 1948, the rate shall be 7 per centum.

The compensation of an employee representative for the purpose of ascertaining the tax thereon shall be determined in the same manner and with the same effect as if the employee organization by which such employee representative is employed were an employer as defined in Section 1 (a) of this Act.

prescribed by regulations under this Act as made by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury.

INCOME TAX ON EMPLOYEE REPRESENTATIVES

Sec. 5. In addition to other taxes, there shall be levied, collected, and paid upon the income of each employee representative a tax equal to the following percentages of the compensation of such employee representative not in excess of $300 per month, earned by him after December 31, 1936:

1. With respect to compensation earned during the calendar years 1937, 1938, and 1939, the rate shall be 5 per centum;

2. With respect to compensation earned during the calendar years 1940, 1941, and 1942, the rate shall be $5\frac{1}{2}$ per centum;

3. With respect to compensation earned during the calendar years 1943, 1944, and 1945, the rate shall be 6 per centum;

4. With respect to compensation earned during the calendar years 1946, 1947, and 1948, the rate shall be $6\frac{1}{2}$ per centum;

5. With respect to compensation earned after December 31, 1948, the rate shall be 7 per centum.

The compensation of an employee representative for the purpose of ascertaining the tax thereon shall be determined in the same manner and with the same effect as if the employee organization by which such employee representative is employed were an employer as defined in Section 1 (a) of this Act.

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DEDUCTIBILITY FROM INCOME TAX

Sec. 6. For the purposes of the income tax imposed by Title I of the Revenue Act of 1934 or by any Act of Congress in substitution therefor, the taxes imposed by Sections 2 and 5 of this Act shall not be allowed as a deduction to the taxpayer in computing his net income.

COLLECTION AND PAYMENT OF TAXES

Sec. 7. (a) The taxes imposed by this Act shall be collected by the Commissioner of Internal Revenue and shall be paid into the Treasury of the United States, as internal-revenue collections.

(b) The taxes imposed by this Act shall be collected and paid quarterly or at such other times and in such manner and under such conditions not inconsistent with this Act as may be prescribed by the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury. If a tax imposed by this Act is not paid when due, there shall be added as part of the tax (except in the case of adjustments made in accordance with the provisions of this Act) interest at the rate of 6 per centum per annum from the date the tax became due until paid.

(c) All provisions of law, including penalties, applicable with respect to any tax imposed by Section 600 or Section 800 of the Revenue Act of 1926, and the provisions of Section 607 of the Revenue Act of 1934, in so far as applicable and not inconsistent with the provisions of this Act, shall be applicable with respect to the taxes imposed by this Act.

(d) In the payment of any tax under this Act, a fractional part of a cent shall be disregarded unless it amounts to one-half cent or more, in which case it shall be increased to one cent.

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COURT JURISDICTION

Sec. 8. The several District Courts of the United States and the District Court of the United States for the District of Columbia, respectively, shall have jurisdiction to entertain an application by the Commissioner of Internal Revenue to compel an employee or other person residing within the jurisdiction of the court or an employer subject to service of process within its jurisdiction, to comply with any obligations imposed on such employee, other person, or employer under the provisions of this Act. The jurisdiction herein specifically conferred upon such Federal courts shall not be held exclusive of any jurisdiction otherwise possessed by such courts to entertain actions at law or suits in equity in aid of the enforcement of rights or obligations arising under the provisions of this Act.

SOCIAL SECURITY ACT

Sec. 9. The term "employment," as defined in subsection (b) of Section 811 of Title VIII of the Social Security Act, shall not include service performed in the employ of an employer as defined in Section 1(a) of this Act or service performed for an organization of employees by an employee representative who is subject to the tax imposed by Section 5 of this Act.

SEPARABILITY

Sec. 10. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances shall not be affected thereby.

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REPEAL OF PRIOR TAX ACT

Sec. 11. The provisions of this Act are in substitution for the provisions of the Act of August 29, 1935, entitled "An Act to levy an excise tax upon carriers and an income tax upon their employees, and for other purposes," which is hereby repealed. All monies payable under the Tax Act which is repealed by this Act and not heretofore paid shall cease to be payable and all proceedings pending for the recovery of any such monies shall be terminated. All sums paid into the Treasury of the United States as and for taxes under the Tax Act which is repealed by this Act shall be refunded, except five-sevenths of the sums so paid as and for taxes with respect to compensation earned after December 31, 1936, and the sums not required to be refunded shall be retained in the Treasury of the United States and credited on taxes due and payable under this Act. All sums deducted by employers from the compensation of employees as and for taxes under the Tax Act which is repealed by this Act shall be refunded to such employees, except five-sevenths of the sums so deducted as and for taxes in respect of compensation earned after December 31, 1936, and the sums not required to be refunded shall be paid into the Treasury of the United States and thereupon shall be credited on taxes due and payable under this Act.

SHORT TITLE

Sec. 12. This Act may be cited as the "Carriers Taxing Act of 1937."

266 Recd 4/13

16435

April 6, 1937

A BILL

To amend an Act entitled "An Act to establish a retirement system for employees of carriers subject to the Interstate Commerce Act, and for other purposes," approved August 29, 1935.

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

PART I

That the Act of August 29, 1935, entitled "An Act to establish a retirement system for employees of carriers subject to the Interstate Commerce Act, and for other purposes," be, and it is hereby, amended to read as follows:

DEFINITIONS

Sec. 1. For the purpose of this Act -

(a) The term "employer" means any express company, sleeping-car company, or carrier by railroad, subject to Part I of the Interstate Commerce Act, and any company which may be directly or indirectly owned or controlled thereby or under common control therewith, and which operates any equipment or facilities or performs any service (other than trucking service) in connection with the transportation of passengers or property by railroad, or the receipt, delivery, elevation, transfer in transit, refrigeration or icing, storage or handling of property transported by railroad, and any receiver, trustee, or other individual or body, judicial or otherwise, when in the possession of the property or operating all or any part of the business of any such "employer": Provided, however, That the term "employer" shall not include any street, interurban, or suburban electric railway, unless such railway is operating as a part of a general steam-railroad system of transportation, but shall not exclude any part of the general steam-railroad system of transportation now or hereafter operated by any other motive power. The Interstate Commerce Commission is hereby authorized and directed upon request of the Board or upon complaint of any party interested to determine after hearing whether any line operated by electric power falls within the terms of this proviso. The term "employer" shall also include railroad associations, traffic associations, tariff bureaus, demurrage bureaus, weighing and inspection bureaus, collection agencies and other associations, bureaus, agencies or organizations controlled and maintained wholly or principally by two or more employers as hereinbefore defined and engaged in the performance of services in connection with or incidental to railroad transportation; and railway labor organizations of employees, national in scope, which have been or may be organized in accordance with the provisions of the Railway Labor Act, as amended, including their state and national legislative and general committees.

(b) The term "employee" means any person in the service of one or more employers for compensation and any person who is in the employment relation to one or more employers. The term "employee" shall also include any officer or official representative of an organization of employees other than a labor organization included in the term "employer" as defined in Section 1(a), who before or after the enactment date was in the service of an employer as defined in Section 1(a) and who is duly authorized and designated to represent employees in accordance with the Railway Labor Act, as amended, and any person who is regularly assigned to or regularly employed by such officer or official representative in connection with the duties of his office, and such employees are hereinafter sometimes called "employee representatives."

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(c) A person is in the service of an employer wherever his service is rendered if he is subject to the continuing authority of the employer to supervise and direct the manner of rendition of his service, which service he renders for compensation: Provided, however, That a person shall be deemed to be in the service of an employer not conducting the principal part of its business in the United States only when he is rendering service to it in the United States.

(d) A person is in the employment relation to an employer if he is on furlough, subject to call for service within or outside the United States and ready and willing to serve, or on leave of absence, or absent on account of sickness or disability; all in accordance with the established rules and practices in effect on the employer: Provided, however, That a person shall not be deemed to have been on the enactment date in the employment relation to an employer not conducting the principal part of its business in the United States unless during the last payroll period in which he rendered service to it prior to the enactment date, he rendered service to it only in the United States: And Provided, further, That a person shall not be deemed to have been, on the date he become eligible to receive an annuity under this Act, in the employment relation to an employer not conducting the principal part of its business in the United States unless during the last payroll period in which he rendered service to it prior to that date, he rendered service to it only in the United States.

(e) The term "United States," when used in a geographical sense, means the States, Alaska, Hawaii, and the District of Columbia.

(f) The term "years of service" shall mean the number of years a person as an employee shall have rendered service to one or more employers for compensation or received wages for time lost, computed in accordance with the provisions of Section 3 (b): Provided, however, That where service prior to the enactment date may be included in the computation of years of service as provided in sub-division 1 of Section 3(b), it may be included as to service rendered to an employer subject to this Act on the enactment date, irrespective of whether at the time such service was rendered the employer was an employer as defined in Section 1(a). Twelve calendar months, consecutive or otherwise, in each of which an employee has rendered such service or received such wages for time lost shall constitute a year of service. An ultimate fraction of six months or more shall be taken as one year. An ultimate fraction of less than six months shall be taken at its actual value.

(g) The term "annuity" means a monthly sum which is payable on the first day of each calendar month for the accrual during the preceding calendar month.

(h) The term "compensation" means any form of money remuneration earned by a person for services rendered as an employee to one or more employers including wages paid for time lost as an employee but wages paid for time lost shall be deemed earned in the month in which such time is lost.

(i) The term "Board" means the Railroad Retirement Board.

(j) The term "enactment date" means the 29th day of August, 1935.

ANNUITIES

Sec. 2(a) The following-described persons, if they shall have been employees on or after the enactment date, shall be eligible for annuities after they shall have ceased to engage in regular employment for hire and relinquished all rights to return to employer service, irrespective of when they shall have relinquished such rights, except that the requirement of relinquishment of rights to return to employer service shall not apply to the persons mentioned in sub-division 3 of this subsection prior to attaining age 65:

1. Persons who on or after the enactment date shall be sixty-five years of age or over.

2. Persons who on or after the enactment date shall be sixty years of age or over and either have completed thirty years of service or have become totally and permanently disabled for regular employment for hire, but the annuity of such a person shall be reduced at the rate of one-fifteenth for each year or monthly fraction thereof that he is under age sixty-five when his annuity begins to accrue.

3. Persons who on or after the enactment date are totally and permanently disabled for regular employment for hire and shall have completed thirty years of service. Such satisfactory proof of the permanent total disability and of the continuance of such disability until age sixty-five shall be made from time to time as may be prescribed by the Board. If the person fails to comply with the requirements prescribed by the Board as to proof of the disability or the continuance of the disability until age sixty-five, his right to an annuity under this subdivision by reason of such disability shall, except for good cause shown to the Board, cease, but without prejudice to his rights under subdivision 1 or 2 of this subsection. If, prior to attaining age sixty-five, such a person recovers and is no longer disabled for regular employment for hire, his annuity shall cease upon the last day of the month in which he so recovers and if after such recovery the person is granted an annuity under subdivision 1 or 2 of this subsection, the amount of such annuity shall

be reduced on an actuarial basis to be determined by the Board so as to compensate for the annuity previously received under this subdivision.

(b) An annuity shall begin to accrue as of a date to be specified in a written application to be signed by the person entitled thereto, and approved by the Board, which date shall not be more than sixty days before the filing of the application.

COMPUTATION OF ANNUITIES

Sec. 3 (a). The annuity shall be computed by multiplying a person's "years of service" by the following percentages of his "monthly compensation": 2 per centum of the first $50; 1½ per centum of the next $100; and 1 per centum of the next $150.

(b) The "years of service" of a person shall be determined as follows:

(1) In the case of a person who was an employee on the enactment date and on the date he became eligible to receive an annuity under this Act, and also in the case of a person who was an employee on the enactment date, but prior to the date he became eligible to receive an annuity under this Act had ceased active service for an employer because of a permanent physical or mental disability, the years of service shall include all his service subsequent to December 31, 1936, and if the total number of such years is less than thirty, then the years of service shall also include his service prior to January 1, 1937, but not so as to make his total years of service exceed thirty:

__Provided, however,__ That if on the enactment date any such person was not an employee of an employer conducting the principal part of its business in the United States and rendered service to an employer on or after January 1, 1937, his "years of service" shall include no greater proportion of his service prior to January 1, 1937, than his total compensation (including compensation in any month in excess of $300) for services on or after January 1, 1937, rendered anywhere to an employer conducting the principal part of its business in the United States or rendered in the United States to any other employer as defined in Section 1 (a) bears to his total compensation (including compensation in any month in excess of $300) for services rendered to an employer on or after January 1, 1937, both in and outside the United States.

(2) In all other cases, the years of service shall include only the service subsequent to December 31, 1936.

(3) Where the years of service include only part of the service prior to January 1, 1937, the part included shall be taken in reverse order beginning with the last calendar month of such service.

(4) In no case, shall the years of service include any service rendered after June 30, 1937, by a person who is sixty-five years of age or over.

(c) The "monthly compensation" shall be the average compensation earned by an employee in calendar months included in his "years of service," except (1) that with respect to service prior to January 1, 1937, the monthly compensation shall be the average compensation earned by an employee in calendar months included in his years of service in the years 1924-1931, and (2) that where service in the period 1924-1931 is insufficient to constitute a fair and equitable basis for determining the monthly compensation for service prior to January 1, 1937, the Board may determine the monthly compensation for such service in such manner as in its judgment shall be just and equitable. If the employee earned compensation after June 30, 1937, and after the last day of the month in which he attained age sixty-five, such compensation shall be disregarded if the result of taking such compensation into account would be to diminish his annuity. In computing the monthly compensation, no part of any month's compensation in excess of $300 shall be recognized.

(d) The annuity of a person who shall have been an employee representative shall be determined in the same manner and with the same effect as if the employee organization by which he shall have been employed were an employer as defined in Section 1 (a) of this Act.

(e) If the person was an employee when he attained age sixty-five and has completed twenty years of service, the minimum annuity payable to him shall be $40 per month: Provided, however, that if the monthly compensation on which his annuity is based is less than $50, his annuity shall be 80 percent of such monthly compensation, except that if such 80 percent is less than $20, the annuity shall be $20 or the same amount as the monthly compensation, whichever is less. In no case shall the value of the annuity be less than the value of the additional old-age benefit he would receive under Title II of the Social Security Act if his service as an employee after December 31, 1936, were included in the term "employment" as defined therein.

(f) An annuity shall not be paid with respect to any calendar month during which an annuitant engaged in regular employment for hire.

(g) Annuity payments due a person but not yet paid at death shall be paid to a surviving spouse if such spouse is entitled to an annuity under an election made pursuant to the provisions of Section 4 of this Act; otherwise, they shall be paid to the same person or persons who may be entitled to receive any death benefit that may be payable under the provisions of Section 5 of this Act.

(h) No annuity shall accrue with respect to the calendar month in which an annuitant dies.

(i) After an annuity has begun to accrue, it shall not be subject to recomputation on account of service rendered thereafter to an employer, except as provided in subdivision 3 of Section 2(a).

(j) If an annuity is less than $2.50, it may, in the discretion of the Board, be paid quarterly or in a lump sum equal to its commuted value as determined by the Board.

JOINT AND SURVIVOR ANNUITY

Sec. 4. A person whose annuity shall not have begun to accrue may elect prior to January 1, 1938, or at least five years before the date on which his annuity begins to accrue, or upon furnishing proof of health satisfactory to the Board, to have the value of his annuity apply to the payment of a reduced annuity to him during life and an annuity after his death to his spouse during life equal to, or seventy-five per centum of, or fifty per centum of, such reduced annuity. The amounts of the two annuities shall be such that their combined actuarial value as determined by the Board shall be the same as the actuarial value of the single life annuity to which the person would otherwise be entitled. Such election shall be irrevocable, except that it shall become inoperative, if the person or the spouse dies before the annuity begins to accrue or if the person's marriage is dissolved or if the person is granted an annuity under sub-division (3) of Section 2 (a): Provided, however, that the person may, if his marriage is dissolved before the date his annuity begins to accrue, or if his annuity under sub-division (3) of Section 2 (a) ceases because of failure to make the required proof of disability, make a new election under the conditions stated in the first sentence of this subsection. The annuity of a spouse under this subsection shall begin to accrue on the first day of the calendar month in which the death of the person occurs.

DEATH BENEFITS

Sec. 5. The following benefits shall be paid with respect to the deaths of persons who were employees after December 31, 1936:

(a) If the deceased should not be survived by a widow or widower who is entitled to an annuity under an election made pursuant to the provisions of Section 4 of this Act, there shall be paid to such person or persons as the deceased may have designated by a writing filed with the Board prior to his death, or if there be no designation, to the legal representative of the deceased, the amount, if any, by which four per centum of the aggregate compensation earned by the deceased after December 31, 1936, exceeds the sum of the total of the annuity payments actually made to the deceased plus the total of the annuity payments due the deceased but not yet paid at death. If the person or persons designated to receive the death benefit do not survive the deceased, the death benefit shall be paid to the legal representative of the deceased.

(b) If the deceased should be survived by a widow or widower entitled to an annuity under an election made pursuant to the provisions of Section 4, there shall, on the death of the widow or widower, be paid to such person or persons as the deceased may have designated by a writing filed with the Board prior to his death, or if there be no designation, to the legal representative of the deceased, the amount, if any, by which four per centum of the aggregate compensation earned by the deceased after December 31, 1936, exceeds the sum of the total of the annuity payments actually made to the deceased plus the total of the annuity payments actually made to the widow or widower under an election made pursuant to the provisions of Section 4 of this Act and under the provisions of Section 3(g) of this Act plus the total of the annuity payments due the widow or widower but not yet paid at death. If the person or persons designated to receive the death benefit do not survive the widow or widower, the death benefit shall be paid to the legal representative of the deceased.

In computing the aggregate compensation for the purpose of this section, no part of any month's earnings in excess of $300 shall be recognized.

PENSIONS TO PERSONS ON PENSION OR GRATUITY ROLLS OF EMPLOYERS

Sec. 6. Beginning July 1, 1937, each person then on the pension or gratuity roll of an employer by reason of his employment, who was on such roll on March 1, 1937, and was not, prior to July 1, 1937, eligible for an annuity under this Act based in whole or in part on service rendered prior to January 1, 1937, shall be paid on July 1, 1937, and on the first day of each calendar month thereafter during his life in substitution for the pension or gratuity from his employer, a pension equal in amount to the pension or gratuity granted to him by the employer without diminution by reason of a general reduction or readjustment made subsequent to January 1, 1931, and applicable to pensioners of the employer: Provided, however, That no pension payable under this section shall exceed $120 monthly and that no pension shall be paid with respect to any calendar month during which a pensioner engages in regular employment for hire: And Provided, further, That no person on the pension or gratuity roll of an employer not conducting the principal part of its business in the United States shall be paid a pension under this section unless, in the judgment of the Board, he was, on March 1, 1937, carried on the pension or gratuity roll as a United States pensioner. No person shall be entitled to receive both a pension under this section and an annuity under Section 2 of this Act.

Sec. 7. Nothing in this Act shall be taken as restricting or discouraging payment by employers to retired employees of pensions or gratuities in addition to the annuities or pensions paid to such employees under this Act, nor shall the Act be taken as terminating any trust heretofore created for the payment of such pensions or gratuities.

CONCLUSIVENESS OF RETURNS OF COMPENSATION AND OF FAILURE TO MAKE RETURNS OF COMPENSATION

Sec. 8 (a) Returns of compensation required by the Board to be filed with it shall be under oath and shall be conclusive as to the amount of compensation earned by a person during a particular calendar month and the fact that no return was made of the compensation claimed to be earned by a person during a particular calendar month shall be taken as conclusive that no compensation was earned by that person during that month, unless the error in the amount of compensation returned, in the one case, or in the failure to make return of the compensation, in the other case, is called to the attention of the Board within four years after the last date on which return of the compensation was required to be made.

(b) The Board shall adopt such rules and regulations in connection with its requirement of returns of compensation as, in its judgment, may be necessary and proper to prevent the application of subsection (a) of this section from defeating the purpose of this Act.

RECOVERY OF ERRONEOUS PAYMENTS

Sec. 9. There shall be no recovery of payments of annuities, death benefits or pensions from any person who, in the judgment of the Board, is without fault and where, in the judgment of the Board, such recovery would defeat the purpose of the benefits otherwise authorized or would be against equity and good conscience. No disbursing officer shall be held liable for any amount paid by him to any person where the recovery of such amount is waived under this section.

RETIREMENT BOARD

PERSONNEL

Sec. 10 (a) There is hereby established as an independent agency in the executive branch of the Government a Railroad Retirement Board, to be composed of three members appointed by the President, by and with the advice and consent of the Senate. Each member shall hold office for a term of five years, except that any member appointed to fill a vacancy occurring prior to the expiration of the term for which his predecessor was appointed shall be appointed for the remainder of the term and the terms of office of the members first taking office after the date of enactment of this Act shall expire, as designated by the President, one at the end of two years, one at the end of three years, and one at the end of four years, after the date of enactment of this Act. One member shall be appointed from recommendations made by representatives of the employees and one member shall be appointed from recommendations made by representatives of carriers by railroad subject to this Act, in both cases as the President shall direct, so as to provide representation on the Board satisfactory to the largest number, respectively, of employees and carriers concerned. One member, who shall be the chairman of the Board, shall be appointed initially for a term of two years without recommendation by either carriers or employees and shall not be in the employment of or be pecuniarily or otherwise interested in any employer or organization of employees. Vacancies in the Board shall not impair the powers nor affect the duties of the Board or of the remaining members of the Board of whom a majority of those in office shall constitute a quorum for the transaction of business. Each of said members shall receive a salary of $10,000 per year, together with necessary traveling expenses and subsistence expenses, or per diem allowance in lieu thereof, while away from the principal office of the Board on duties required by this Act.

DUTIES

(b) 1. The Board shall have and exercise all the duties and powers necessary to administer this Act. The Board shall take such steps as may be necessary to enforce this Act and make awards and certify payments. Decisions by the Board upon issues of law and fact relating to applications for annuities or death benefits shall not be subject to review by any other administrative or accounting officer, agent or employee of the United States.

2. The Board shall from time to time certify to the Secretary of the Treasury the name and address of each person entitled to receive a payment under this Act, the amount of such payment, and the time at which it should be made, and the Secretary of the Treasury through the Division of Disbursements of the Treasury Department, and prior to audit by the General Accounting Office, shall make payment in accordance with the certification by the Board.

3. The Board shall establish and promulgate rules and regulations to provide for the adjustment of all controversial matters arising in the administration of this Act, with power as a Board or through any member or designated subordinate thereof, to require and compel the attendance of witnesses, administer oaths, take testimony, and make all necessary investigations in any matter involving annuities or other payments and shall maintain such offices, provide such equipment, furnishings, supplies, services, and facilities, and employ such persons and provide for their compensation and expenses as may be necessary for the proper discharge of its functions. The Board shall have power to employ, without regard to the provisions of the civil-service laws, such employees, attorneys and special experts as may be necessary for the proper discharge of its duties and, without regard to the provisions of the Classification Act of 1923, as amended, to provide for their compensation and expenses. Employees of the Board who shall not have been appointed in accordance with the provisions of the civil-service laws and the Classification Act of 1923, as amended, may acquire a competitive civil service status if they shall have been in the employ of the Board for at least one year and shall have passed a non-competitive examination given by the Board, the nature of which shall be determined by the Board subject to the approval of the Civil Service Commission. All rules, regulations or decisions of the Board shall require the approval of at least two members except as provided in subdivision 4 of this subsection and they shall be entered upon the records of the Board, which

shall be a public record. Notice of a decision of the Board, or of an employee thereof, shall be communicated to the applicant in writing within thirty days after such decision shall have been made. The Board shall gather, keep, compile, and publish in convenient form such records and data as may be necessary to assure proper administration of the Act. The Board shall have power to require all employers and employees and any officer, board, commission, or other agency of the United States to furnish such information and records as shall be necessary for the administration of this Act. The several district courts of the United States and the District Court of the United States for the District of Columbia shall have jurisdiction upon suit by the Board to compel obedience to any order of the Board issued pursuant to this section. The orders, writs and processes of the District Court of the United States for the District of Columbia in such suits may run and be served anywhere in the United States. The Board shall make an annual report to the President of the United States to be submitted to Congress. Witnesses summoned before the Board shall be paid the same fees and mileage that are paid witnesses in the courts of the United States.

4. The Board is authorized to delegate to any of its employees the power to make decisions on applications for annuities or death benefits in accordance with rules and regulations prescribed by the Board: Provided, however, That any person aggrieved by a decision so made shall have the right to appeal to the Board.

COURT JURISDICTION

Sec. 11. The several district courts of the United States and the District Court of the United States for the District of Columbia, respectively, shall have jurisdiction to entertain an application and to grant appropriate relief on an application by an employee or other person aggrieved in or to the district court of any district wherein the Board may have established an office, to compel the Board to set aside an action or decision claimed to be in violation of a legal right of the applicant, or to take action, or to make a decision necessary for the enforcement of a legal right of the applicant. The decision of the Board upon any application for annuity, pension, or death benefit shall not be subject to review by any court unless suit is commenced within one year after the decision has been entered upon the records of the Board and communicated to the applicant, and in any such suit, the findings of the Board as to facts, unless contrary to the weight of the evidence, shall be binding upon the court. The jurisdiction herein specifically conferred upon the Federal courts shall not be held exclusive of any jurisdiction otherwise possessed by such courts to entertain actions at law or suits in equity in aid of the enforcement of rights or obligations arising under the provisions of this Act.

EXEMPTION

Sec. 12. No annuity or pension payment shall be assignable or be subject to any tax or to garnishment, attachment, or other legal process under any circumstances whatsoever, nor shall the payment thereof be anticipated.

PENALTIES

Sec. 13. Any officer or agent of an employer, as the word "employer" is hereinbefore defined, or any employee acting in his own behalf, or any person whether or not of the character hereinbefore defined, who shall willfully fail or refuse to make any report or furnish any information required by the Board in the administration of this

Act, or who shall knowingly make or cause to be made any false or fraudulent statement or report in response to any report or statement required to be made for the purpose of this Act, or who shall knowingly make or aid in making any false or fraudulent statement or claim for the purpose of causing an award or payment under this Act, shall be punished by a fine of not less than $100 nor more than $10,000 or by imprisonment not exceeding one year.

SEPARABILITY

Sec. 14. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act or application of such provision to other persons or circumstances shall not be affected thereby.

RAILROAD RETIREMENT ACCOUNT

Sec. 15. (a) There is hereby created an Account in the Treasury of the United States to be known as the "Railroad Retirement Account". There is hereby appropriated to the Account for each fiscal year, beginning with the fiscal year ending June 30, 1937, as an annual premium an amount sufficient, with a reasonable margin for contingencies, to provide for the payment of all annuities, pensions and death benefits in accordance with the provisions of this Act. Such amount shall be based on such tables of mortality as the Railroad Retirement Board shall from time to time adopt, and on an interest rate of 3 per centum per annum compounded annually. The Railroad Retirement Board shall submit annually to the Bureau of the Budget an estimate of the appropriation to be made to the Account.

(b) At the request and direction of the Board, it shall be the duty of the Secretary of the Treasury to invest such portion of the amounts credited to the Account as, in the judgment of the Board, is not immediately required for the payment of annuities, pensions and death benefits in accordance with the provisions of this Act in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purpose such obligations may be acquired on original issue at par or by purchase of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of special obligations exclusively to the Account. Such special obligations shall bear interest at the rate of 3 per centum per annum. Obligations other than such special obligations may be acquired for the Account only on such terms as to provide an investment yield of not less than 3 per centum per annum. It shall be the duty of the Secretary of the Treasury to sell and dispose of obligations in the Account if it shall be in the interest of the Account so to do. Any obligations acquired by the Account, except special obligations issued exclusively to the Account, may be sold at the market price. Special obligations issued exclusively to the Account shall, at the request of the Board, be redeemed at par plus accrued interest. The Board shall include in its annual report the status of the Account. All amounts credited to the Account shall be available for the payment of all annuities, pensions and death benefits in accordance with the provisions of this Act.

A 16435-20

APPROPRIATION FOR ADMINISTRATIVE EXPENSES

Sec. 16. There is hereby authorized to be appropriated from time to time such sums as may be necessary to provide for the expenses of the Board in administering the provisions of this Act.

SOCIAL SECURITY ACT

Sec. 17. The term "employment," as defined in subsection (b) of Section 210 of Title II of the Social Security Act, shall not include service performed by an employee of an employer as defined in Section 1 (a) of this Act or service performed for an organization of employees by a representative who is an employee within the meaning of Section 1 (b) of this Act.

Sec. 18. It shall not be unlawful for carriers by railroad subject to this Act to furnish free transportation to persons receiving annuities or pensions under this Act in the same manner as such transportation is furnished to employees in their service.

SHORT TITLE

Sec. 19. This Act may be cited as the "Railroad Retirement Act of 1935".

A 16435-21

PART II

The claims of persons who, prior to the passage of this amendatory Act, shall have relinquished all rights to return to employer service and become eligible for annuities and the claims of the spouses and dependent next of kin of such persons shall be adjudicated by the Board in the same manner and with the same effect as if this amendatory Act had not been passed, except that (1) the annuity of a person who would not have qualified for an annuity except by virtue of the provisions of this amendatory Act may not begin prior to the date of passage of this Act and (2) no reduction shall be made in any annuity certified after the passage of this amendatory Act because of continuance in service after age seventy or after age sixty-five without filing with the Board an agreement to continue in employment and (3) service rendered prior to the day on which the Railroad Retirement Act of 1935 was enacted to an employer which was subject to that Act on the day it was enacted shall be included in the service period in connection with any annuity certified in whole or in part by the Board after the passage of this amendatory Act, irrespective of whether at the time such service was rendered the employer was an employer as defined in Section 1(a) of that Act. The present membership of the Railroad Retirement Board and their terms of office shall be unaffected by the provisions of this Act.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 13, 1937, noon.

NO.: 478

FROM COCHRAN.

This morning I returned from Basel, where yesterday the meeting of the BIS directors was held. Decision was reached by the Board to recommend to shareholders payment on the old gold franc basis of the customary 6% dividend for fiscal year 1936-1937. The Board further decided to abolish the rule which has heretofore required that 40% of BIS shares which were originally subscribed to by American banking group be retained in the United States; these shares may all be sold to purchasers outside of the United States, if it is desired to do so, but the voting rights are retained by the original subscribing banks. Weldon is being sent by the First National Bank of New York to represent this group at the annual meeting on May 3 of the directors. Trip was reelected by the Directors as the Dutch member of the Board for three more years. Governor Rooth of the Swedish Reichsbank was also elected for three years. Governor Rooth had previously served one term on the Board which ended in March 1933.

When I visited Basel in March Beyen was ill. He inquired yesterday about my January visit to the United States, and in particular, about the likelihood of Ameri-

can

can participation in the BIS, and about our gold rules. He told me that one of his technical assistants had been grumbling because of a recent cablegram ...

END SECTION ONE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION TWO, TELEGRAM NO. 478 of April 13, 1937, from Paris.

received through the Federal Reserve Bank of New York requesting full information as to ownership of a possible deposit of gold to be made in New York by the BIS. The remark was made that it was not in accordance with the spirit of professional banking secrecy to disclose the identity of the owners of gold deposits by the BIS. I called to Beyen's attention the arrangements which have been made so far between the countries enjoying the privileges of the Tripartite Agreement, and suggested that the BIS be entirely frank when explaining details of any transaction, and refrain from posing hypothetical questions to the Federal Reserve Bank of New York. As for London, Beyen admitted that it had also shown a tendency lately to withhold gold buying privileges from certain prospective purchasers, saying guardedly that "the available supply" would determine whether they could fill the orders.

At the May meeting nothing will be done by the BIS towards seeking unofficial American participation, and no amendment to the statutes will be suggested with the idea of interesting official American participation. It is possible that some time during the year Beyen will visit our country just to get acquainted, as he has never been in the United States. He may at that time consider the question of

engaging

engaging a young economist from the United States. As long as we were not officially represented on the Board, I told him, we were not disposed to name anyone officially.

END SECTION TWO.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION THREE OF NO. 478 of APRIL 13, 1937, from PARIS.

It is my sincere hope that Beyen may visit both Washington and New York, since it is desirable that the resident head of the BIS have a better personal understanding of the American situation in view of the fact that there is no American on its staff.

On Sunday and Monday the two topics principally discussed at Basel (and at Badenweiler on Sunday, where Schacht entertained the BIS officials and their wives) were the American gold scare, and Van Zeeland's commission by France and Great Britain to investigate the possibilities of lowering barriers to trade.

The nervousness of the past week, President Trip said, due to the gold rumor, had shown that the gold bloc's breaking up had not in itself made the monetary situation of the world anything like safe. The idea of frequent resort to alteration of the gold content of a currency for adjustment to economic situations is opposed by Trip. He expressed the hope that if the United States eventually changes the gold buying price, it may be done in such a manner as to give a very definite impression of being final.

It is Trip's own idea that international agreement on production of gold would be better than having individual countries take separate action to adjust the gold value of their respective currencies. Should a new price for buying

gold

gold be established, Trip (and many others with whom I spoke) stressed the importance of consultation between the countries already grouped together, and of widening a call for consulations to include other important monetary powers.

END SECTION THREE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTIONS FOUR TO TWELVE, INCLUSIVE
OF TELEGRAM NO. 478 of April 13, 1937.

More gold was coming into the Netherlands than was desirable, Trip said, but since September 25, the Government had been successful in restricting the price rise to approximately 1 1/2 percent. Trip remains definitely pessimistic about the French situation. He feels that the franc will continue to weaken and no solid financial and monetary conditions can be achieved while power is held by the present Government as now constituted and supported by the Communists.

The Swiss National Bank President, Bachmann, insisted that Switzerland had fixed a definite price for gold, and they would be reluctant to change it. President Bachmann expressed a view similar to that of Trip, that countries should avoid frequent alteration of the gold price to meet economic conditions. Governor Norman, he said, had talked with him earlier in the day, and the Governor insisted that too high a price for gold was being paid by Switzerland and the United States.

President Bachmann told me that during the past few days he had sold gold in the United States against dollars, and he was entirely satisfied with the technical operations with the American authorities. He expressed the view that the gold scare emphasized that so long as a "day to day" policy is followed, bankers who engage in gold arbitrage ordinarily

ordinarily, in troubled times will not have sufficient confidence as to receiving the legal price for gold current at the date shipments are to be made from abroad. He said he would like to see some guarantee given shippers, so that if the official gold price changed during transit time, the shippers would suffer no loss.

It seemed to me that Schacht was in better spirits. He told me personally that lately he thought there had been some improvement in the world outlook. German export trade, in particular the heavy industries, was continually better, he was happy to tell me. He said he was going to visit Brussels, where today and tomorrow he would see Belgian officials, including Premier Van Zeeland. Van Zeeland stands in very well with the Germans, according to Schacht. He thought Van Zeeland's selection by the British and French authorities to begin investigation of trade barriers was a move in the right direction which should be received with welcome. Schacht expressed sincere hope that in the studies and plans to be undertaken there would be no tendency to differentiate between democracies and dictatorships. Economics and politics should not be mixed, in his opinion; he thought the opposite policy was responsible for many of the failures of the League of Nations. He said he hoped that it would be possible for the United States and Great Britain to reach a reciprocal trade agreement, as this should

be

be helpful toward general expansion of international trade. The recent speech by Secretary Hull on trade and peace was warmly indorsed by Schacht. Dieckhoff, he believed, would do much to improve relations between Germany and America.

Schacht insisted to me (as he has previously) that criticism of the German Government and its policies by foreigners, official or private, will not change the situation but will only make more difficult the problem of international relations. He did not think it would be possible for a country which is sharply critical of the governmental institutions of other nations to be considered an entirely neutral and disinterested leader should an attempt toward convoking a world disarmament conference be made. On the fourth of May Schacht will come to Paris for the German Exposition Building dedication.

I spoke with Sir Otto Niemeyer, who visited the United States in January and February. He is not disposed to agree with some of his banker friends of New York, who expressed the opinion that the present Administration would not strive for a balanced budget, but would continue to run up a tremendous deficit. The American outlook is hopeful, in his opinion. But he thinks that even if we have to take some risks, the most reasonable solution of our gold problem is to start lending abroad.

I

I had a talk with Governor Norman, and asked him whether the move to have Van Zeeland investigate trade barriers was merely an eledtion help, or whether it was a serious affair. He said that he hoped there might be serious results from such an investigation. He knows that our country is interested in procuring a trade agreement with Great Britain, and confidentially he expressed considerable concern over the trade policies of Great Britain. However, until after the Empire Conference in May, no one can tell just what British policy will be.

I gained the very definite impression from talks with Governor Norman and other British representatives and various officials at Basel, that the (omission) situation is less clearly seen by the Britishers themselves than has been the case previously. Armaments is the principal cause of the uncertainty. Niemeyer particularly stressed the point that expenditures for armaments have barely begun, so no one can even imagine what will be the whole effect of the program. The export trade of Great Britain undoubtedly is of concern to the British. They realize that during the rearmament process it may shrink further, with rising prices and increased domestic consumption of raw materials. The suggestion was made to Governor Norman by one of my friends that the best way for Great Britain to recover its export trade would be to follow the policies through which

England

England achieved success in selling abroad - i.e., by having few trade restrictions, active international lending, and a stable currency. The reply of Norman was that the political aspects of the situation had not been considered by my friend.

Norman told me, with regard to the American gold rumor, that he was pleased this "trial balloon" had been put out, as he thought it had led to some serious thinking and public discussion which had really been beneficial. The American gold price should be changed, in his opinion, as the law of supply and demand was one law of nature over which the United States could not legislate successfully.

Governor Norman expressed annoyance over the publication through a series of articles in the REVUE DES DEUX MONDES of memoirs of former Governor Moreau of the Bank of France dealing with confidential negotiations with the Bank of England in particular, and with other central banks.

The resident BIS officer, Marcel Van Zeeland, and the Belgian directors, were elated over the outstanding ~~mf~~ victory of the Belgian Prime Minister (Marcel's brother Paul) in the election on Sunday. They look now for even greater success in domestic and foreign affairs on the part of the Belgian Government.

I

I was approached by Nathan of the Italian delegation on the subject of war debts. He said he thought that Italy might be able to pay something to us out of the proceeds of dollar securities which the Government had requisitioned. Nathan said he would like to see some money raised in our country for Ethiopian development. The Spanish situation was a sensitive one for the Italian officials, particularly the recent bad luck of Italian troops in the Army of Franco. At Basel the prevailing impression was that Germany was inclined to withdraw as cautiously and as quickly as possible from the Spanish situation, leaving the Italians the whole field. It seemed that the Germans were convinced there was no real issue associated with Nazi doctrines at stake in Spain, and that this was only one more civil war not different from earlier conflicts in Spain which the Spaniards themselves should handle. The Italians, incidentally, have become annoyed to see so many ablebodied Spaniards living or visiting in Rome, and at the readiness of the Spanish nationalists to leave the serious fighting to their Italian friends. Furthermore, it is said that Germany learned an impressive lesson in Spain, namely that a country can be badly demolished by aeroplanes, trucks, and tanks, but such weapons of offense cannot capture and hold a country. Germany is inclined to be more pacific, taking into consideration this and other factors - in particularly the small

navy

navy which they have, and the high cost of increasing armaments due to the rise in imported raw materials. There was one story current to the effect that Schacht, in recently accepting the presidency of the Reichsbank for a further year, had imposed definite conditions, particularly along the lines of working toward freer trade, and retrenching in military expenditures.

The French general manager, Quesnay, thought that the French franc should be allowed to fluctuate between 110 and 112 to the pound. This would afford little chance for speculation in the forward franc, and at the same time France would have the benefit of the cheapest monetary unit possible under the legislation of October 1, and capital repatriation would be encouraged.

Quesnay and the other officials while at Basel were not yet familiar with the interview given to the FINANCIAL NEWS of London by Auriol, Minister of Finance, in which he indicated that the franc would be allowed to find its normal level within the limits prescribed by the legislation of October. In this interview he also said he favored early stabilization of the three important currencies, and he sought further international agreements to avoid tax evasion. I will mail a full report of this interview.

Quesnay told me a story about the mission of Van Zeeland, which in most part agreed with information which

two

two other BIS officers furnished me. Van Zeeland had sought for the benefit of Belgium and his own election cause, incidentally, to get a very definite declaration respecting Belgium's neutrality from Great Britain. An alternative was sought when, in spite of the King's visit, that declaration could not be obtained. The Tripartite Agreement, it was recalled, favored moves toward lowering of barriers to trade. At the subsequent meeting of the League of Nations last autumn, a recommendation had been made that trade barriers be investigated, and the naming of Van Zeeland therefor had been mentioned. This suggestion was therefore revived, and France and Great Britain approved it, even though so much publicity made Baldwin somewhat unhappy. Quesnay anticipates no startling or early results from this move, although he thinks it is in the right direction. The Belgian monetary expoert formerly with the Austrian National Bank, Frere, passed through Basel on his way from Italy a few days ago. Frere had been on holiday in Italy when he received a telegram from the Prime Minister to come to Brussels at once - on the same day that the Van Zeeland proposition was made public. I am informed that Frere was entirely unaware of the Van Zeeland plans until he was called to Brussels, although in the press the impression is given that he was studying the plans for the past two months.

The

The Swedish BIS economist, Jacobsson, is definitely convinced that it is essential that the American gold price be lowered. The process of sterilization of gold will prove more costly than effective, in his opinion. Jacobsson was in agreement with Norman and several others of my friends that since the question has once arisen as to the possibility that the gold price of the United States will be changed, there will now be an increased purchase of dollars by foreigners, and above all, an accelerated shipment of gold, with particular activity by the Soviets.

The BIS economist estimates that between $250,000,000 and $300,000,000 worth of gold is the current year's production for the Soviets.

Jacobsson thinks that our problem regarding the influx of gold would not even be solved if sterling and the franc should decline below the parities envisaged by the Tripartite arrangement of last Fall. He thinks, in other words, that it will be incumbent upon us to change our price for gold to perhaps around $30 an ounce, and then permit a readjustment of other currencies accordingly. He said in particular he would like to see the old sterling dollar relationship of 4.85 pegged, even though we could not achieve definite legal stabilization.

As for the question of revaluing the Swedish crown, upwards, this is by no means dead, according to Jacobsson.

The

The desirability of consultation with foreign countries by the United States in any revaluation move was stressed by Jacobsson. He again commended the spirit in which the original tripartite arrangement was brought about. In his opinion the changing of the American gold buying price would be a new and important step toward solving the monetary problems of the world.

Jacobsson expressed hope that the inquiry by Van Zeeland may lead to a more general reduction of barriers to trade. Van Zeeland, he believes, or his representative, should draw up a definite plan of action in the trade field and submit it to the various powers, rather than solicit the opinions of the different countries and then try to work out a plan on which they all could act.

The BIS economist said he appreciates the importance of an understanding between Great Britain and the United States on trade matters. But he does not believe we should be too insistent upon demanding that the Government which Neville Chamberlain will soon head should discard the policy of Imperial Preference which his father so strongly fostered. In Jacobsson's view, we should respect the British idea on this just as European countries must now come to respect the American feeling on the war debt situation, as revealed in the official attitude toward the recent ~~move~~ by France, and press comment in America on this move.

END MESSAGE.

EA:LWW

BULLITT.

April 13, 1937.
12:31 p.m.

Operator: Hello

H.M.Jr: Hello

O: Governor Harrison.

H.M.Jr: Hello

Harrison: Hello - Henry?

H.M.Jr: Hello - George?

H: Yes sir.

H.M.Jr: Ah - you want to talk to me?

H: Well I just called you - ah - as long as Burgess is absent.......

H.M.Jr: Yes.

H: ......I thought I'd let you know what was going on here - you probably get it anyway.

H.M.Jr: Well we get it - ah - I don't know whether you've been doing anything in bonds or not.

H: No we haven't - only because - all everybody thought we oughtn't to - even the dealer fellows said that it was so absolutely quiet........

H.M.Jr: Yes.

H: ....and inactive.......

H.M.Jr: Yes.

H: ....that if we began to buy it would establish really fourth levels downward rather than to - ah - keep out they thought would be better and just leave it inactive.

H.M.Jr: Well that's all right.

H: And it went off on the average about 4/32d's.......

H.M.Jr: Yes.

H: .....and then improved to two or 3/32d's so that the last that I saw was about two under last night......

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

H: .....but with no transactions at all and we thought that we couldn't say it was disorderly in any respect and - ah -

H.M.Jr: Couldn't say it was disorderly.

H: What?

H.M.Jr: Do you say orderly?

H: I say we could not say it was disorderly.

H.M.Jr: That's right.

H: And we do have bids, of course, in - ah - under on the board in case anything should happen there.....

H.M.Jr: Yes.

H: ....but we haven't bought anything the last that I heard.

H.M.Jr: O.K.

H: I think it's very quiet and - ah - I - I think a little disappointment that the President's statement is to be put off until next week.

H.M.Jr: Yes - well........

H: Because I think that might count for what little he's in arrears.

H.M.Jr: Well we - we just - it's impossible to have it ready.

H: Yes, well I gathered there was some........

H.M.Jr: I mean it normally takes two months to do that.......

H: Yes.

H.M.Jr: ....and I had to ask them to give us another two or three days. We just can't - I mean we can't afford to make a mistake.

H: No you're quite right.

H.M.Jr: And the whole thing is - is, if anybody should ask you, is simply a question of getting the statistics.

H: I see.

H.M.Jr: Yes.

H: Well I assumed it was that.

H.M.Jr: It normally takes us two months and we've got two weeks to do it in.

H: Yes. Well there's - there's nothing in the market here to be at all upset or concerned about, I think.

H.M.Jr: Well that's good. Well, thank you.

H: All right.

H.M.Jr: Thank you.

H: Goodbye.

H.M.Jr: Goodbye.

MEMORANDUM

April 13, 1937 *Nb*

To: Secretary Morgenthau

From: Dr. Burgess

Treasury bond market opened slightly lower and quiet but quotations tended to rise with a fair amount of activity in the afternoon. Treasury bonds closed at their highs of the day, with the long maturities 4/32 to 9/32 better than yesterday and with the remainder of the list unchanged to 8/32 better. Guaranteed bonds were firm and rather active, the F.F.M.C. bonds showing gains of 2/32 to 5/32 and the H.O.L.C. bonds gains of 3/32 to 7/32. The turnover of government bonds on the board totaled $1,432,000 against $317,000 yesterday. The note market was firm all day and some buying was reported. The 1939 - 1941 issues closed generally 2/32 to 4/32 up from yesterday; other maturities were unchanged to 1/32 better.

Domestic bonds, both high and second grade, were moderately firmer today as some buying interest appeared, and both groups were up fractionally at the close. Convertibles were strong.

Foreign bonds were quiet and mostly unchanged in price. Italians made fractional gains and Danish bonds were mixed.

No purchases today for Treasury.

April 13, 1937

For the Secretary:

Governor Schaller: Governor Schaller and the Reserve bank people think that the government bond situation has settled down and that the banks are much less jittery than they have been. A good bit of the selling that the Chicago and Illinois banks did for over the tax date of April first has been reversed and Chicago banks have been buying some. The country banks in the district are almost entirely out of the Government bond market --- neither selling nor buying, and as long as the quotations stay about where they are, they will be satisfied. If the market goes up much, there will be some selling, it is thought. Schaller and Young were over in Detroit last week visiting the banks there, and find them disposed to be satisfied if the Government bond market does not go off again decidedly. The banks report a gradual increase in commercial loans. They are very much worried about the strike situation, and jittery about other things than Government bonds. It is said here that New York is blaming Michigan banks for the first selling wave of Governments. The industrial situation is regarded there as much more acute than the bond market. Schaller and the reserve bank people are inclined to think that there should be no attempt at pushing the market up nor of pegging it, but maintain it about where it is if not too expensive, letting it slide off to a three per cent yield gradually. Commercial loans throughout the district are picking up some; much of the district depends upon crops and the coming agricultural season will tell how things will develop in this region. Chicago is more or less in between the Wall Street attitude of New York and the farmer attitude of the reserve bank cities farther West. Chicago bank feels pretty much out of touch with the Reserve Board, maintaining they have no direct contact since removed from the open market committee. Apparently their only information as to purchases for System account are from the newspapers, except for weekly summaries.

Walter J. Cummings: Says that Governments must be pushed back up to par -- that the Treasury cannot stand by and see bonds it has just issued go below par. Suggests the Federal Reserve cancel the May 1 increase in reserves, and buy heavily in the market. Thinks easy money still highly essential. Country banks quiet because they expect the Federal Reserve to do this. Wonders what the Treasury is going to do about June financing and what it is going to do about incoming gold. More inclined to ask questions than to talk. Some others here say that heavy overinvestment in long term Governments is reason he takes attitude that quotations must be raised. If they went up much, could expect to see Continental sell, it is said.

John Hogan: This vice president of the Continental wants two things --- cheap money continuance so far as reflected in high prices for Government bonds, and higher yields on almost everything else. He seems to share the Wall Street idea that interest levels and prices must get to their natural levels, but, probably with Walter Cummings in mind, also talks in favor of supporting the Government market. Says the market for commercial paper is going dead. Not too helpful.

Mr. Abbott: This bond man for the Continental thinks that the March first and May first reserve increases flanking the March 15 tax date a pretty heavy dose. Thinks Reserve System might do well to cancel the May 1 increase. Thinks it essential that the Governments all be pushed back above par. Says the Reserve System would not put increase in effect now if the choice remained. Says the excess reserves that are left after May 1, while in excess of a half billion, and so greater than in 1929 should not be compared to 1929 balances, because city banks now use the reserve system for wire transfers where they used to use their correspondents, and therefore it is only natural that they will maintain working balances with the reserve banks in excess of their reserve requirements. Thinks the financial community was misled the early part of the year by two matters. The New York banks were letting their Treasury bills run off to get in funds for country bank withdrawals and other needs, and thus the Treasury bill rate went up artificially, but was thought by many to be rising in response to natural causes. The other matter was the flotation on March 11 by the bankers for the ~~xxxxxx~~ Philadelphia Electric of $130,000,000 3 1/2's at 102 1/2. They did not go very well at that price, and bankers saw in this recognition of higher yields having arrived. They were wrong, in Abbott's opinion --- the offering did not go well because it was badly timed. The Eccles statement of March 16 also did harm. It was correct and it was courageous, but badly timed. Mr. Abbott thinks a balanced budget coupled with open market purchases to the extent of a quarter of a billion would put everything all right. Very much interested in what financing the Treasury is going to do.

~~xxxxxx~~

General Dawes: Came out of a conference for a few minutes chat, which aside from facetiousness, was to the effect that the Treasury was well run, and that we were now pursuing the proper course, neither letting the market go to Hell nor trying to restore it to par. kepp it up along those lines.

Ned Brown: Was tied up when I went in but said he wanted to talk to me so I asked him to the reserve bank for lunch along with the officers of the bank. He has sold no bonds and does not need to because he has a properly constructed bond account and because he has built up reserves and amortized his accounts. He does not think the Treasury and Federal Reserve can keep the bonds where they are, thinks they will go lower naturally, thinks a three per cent yield is inevitable, and would let the bonds slide off gradually to their natural level. To do otherwise is no only to attempt to support the whole Government market, but the market for other bonds as well, and perhaps the whole capital and money market. Thinks it more important to be thinking about keeping down the spiral of prices and wages than to be thinking about the price of Government bonds. He doubts that the banks will sell in quantities any more, but thinks they will attempt to unload on rises in the market, if it rises. Thinks Government should take vigorous action in strikes, etc. Wonders what is going to be done about gold coming in.

A variety of opinion, based partly on inherent attitudes and partly on personal interest. No unaminity, but generally steer a middle course, don't let bonds goo too far either way.

Have to catch a train. May say more about Chicago later.

Upm

RB

PLAIN

London

Dated April 13, 1937

Rec'd 3:35 p. m.

Secretary of State

Washington.

RUSH.

232, April 13, 8 p. m.

FOR TREASURY FROM BUTTERWORTH.

In the House of Commons this afternoon the Chancellor of the Exchequer was asked to allay public anxiety by giving an assurance that the British Government had no intention of taking action to check the rise in commodities by raising the price of sterling in terms of gold in view of the inflationary effect it would have. Mr. Chamberlain replied: "It is not at present part of the policy of the Government to maintain a fixed price for gold in terms of sterling. The price of gold is one of the factors to be taken into account in determining monetary policy from time to time. The Government are fully alive to the undesirability of interfering with the flow of business towards recovery." Asked whether the maintenance of cheap money remained a fundamental objective of the Government's policy the Chancellor of the Exchequer referred to an

answer

RB -2-#212, April 13, 8 p. m. from London

answer given yesterday which is noteworthy for its evasiveness: "Cheap money is not an object in itself, but a means adopted for securing the improvement of trade activity and employment. I am satisfied that the policy actually followed has given a maximum stimulus to economic recovery in the United Kingdom and the Empire with a minimum of undesirable repercussion; I cannot make any statement as to the future since the measures to be taken at any time will depend on the course of events".

The Chancellor was also asked whether he was satisfied with the working of the tripartite currency agreement between the United States, France and Great Britain and whether this agreement precluded any alteration of the gold value of its currency by the governments of any of these countries without prior consultation with the other parties to it. Chamberlain replied that the answer to the first part of the question was in the affirmative; dealing with the second part he said: "The purpose of the agreement is to maintain the greatest possible equilibrium in a system of international exchange, to avoid to the fullest extent any disturbance of that system by monetary action on the part of any of the governments concerned. There is no expressed reference to the gold value of the several currencies".

currencies".

Asked if he was contemplating any negotiations with the United States and France for an economic agreement covering a wider field and of a more permanent nature, he replied: "I am not contemplating it at the present time". Questioned further by the leader of the liberal opposition that since it was said when the currency agreement was entered into that the Government then contemplated an economic agreement of a wider character between America, France and Britain when will the Government cease to contemplate such an agreement by acting? Chamberlain replied: "What I said is not at all inconsistent with that. We did say at the time the agreement was made we hoped it might be followed by further measures with a view to lowering the restrictions in the way of international trade. The question I am asked now is whether I contemplate entering into negotiations and to that I reply in the negative". Asked "how can the Chancellor of the Exchequer expect that his hopes will be fulfilled if he is not prepared to do anything about it?" Chamberlain replied: "I do not say I am not prepared. I am not contemplating it. It depends upon when circumstances

are

RB -4- #212, April 13, 8 p. m. from London

are favorable."

The market took all the gold at fixing and absorbed fairly large offerings after fixing and in general showed signs of "settling down". Arrangements have now been completed for making Russian gold good delivery in London.

BINGHAM

KLP

April 14, 1937.
10:35 a.m.

H.M.Jr: Hello

Operator: Governor Harrison.

Harrison: Hello

H.M.Jr: Golly, George, I didn't know you'd run up a bond market so fast on us.

H: Gosh, how do you like it?

H.M.Jr: Terrible.

H: Well, I told Matty (evidently meaning Madison) just a little while ago to - ah - with these dealers scrambling around to get some to let them have some bonds......

H.M.Jr: Ah-ha.

H: ......and I haven't yet heard whether he has done so or not.

H.M.Jr: Ah-ha.

H: And one reason I'm anxious to do it - I wanted to get your reaction - ......

H.M.Jr: Yes

H: ......is this: You see we showed an increase last week in our account of 29 million.

H.M.Jr: Yes.

H: A lot of people thought that was pretty heavy.

H.M.Jr: Yes.

H: Now this week we haven't bought a thing.....

H.M.Jr: Yes.

H: ....since April 8th......

H.M.Jr: Yes.

H: ....and we sold something in the meantime.....

H.M.Jr: Yes.

H: .....but April 8th was Thursday.....

H.M.Jr: Yes.

H: .....but we did buy 13 million last Wednesday and were delivered the next day in this statement week.

H.M.Jr: I see.

H: So that with what was bought on Wednesday and Thursday...

H.M.Jr: Yes

H: ......would show an increase of 31 million dollars more than last week.

H.M.Jr: Gosh.

H: And I think that's bad.

H.M.Jr: Oh it's just - the world will think you the most reckless people they ever knew.

H: No, but I think it's bad to show more of an increase...

H.M.Jr: Oh.

H: .....than last week and I think as long as the market has been so on its dwn ever since last Thursday.....

H.M.Jr: Yes.

H: .....that we don't want to give the impression that it's been artificial.......

H.M.Jr: Ah-ha.

H: ......then we can get away with it.

H.M.Jr: Yes.

H: So that if we can sell something to-day I'm very glad of the opportunity to do it.

H.M.Jr: Good. Did you find out who bought the five million last Saturday?

H: Ah - it was a New York City bank.

H.M.Jr: New York - New York City bank.

H: A big New York City bank.

H.M.Jr: Well, that must have been the Central, wasn't?

H: And I didn't find out which one it was.

H.M.Jr: But it was a bank - that's all that - that's good enough.

H: And the buying yesterday - ah - was largely for the New York City banks.

H.M.Jr: Well I'm just interested in what kind of buying it is - whether it's banks, insurance companies or where they are - that's all I want to know.

H: Yes - well it was - it was New York City banks yesterday.

H.M.Jr: Good.

H: Largely.

H.M.Jr: All right, George.

H: Now - now the thing has run up here to - ah - 1/8th of a quarter of a point better.....

H.M.Jr: Yes.

H: ....than yesterday's close already.

H.M.Jr: Yes.

H: Now you don't see any objection to our letting some of these go rather than to have this run this way.

H.M.Jr: No - no that's all right.

H: Because I think there's every advantage in it.

H.M.Jr: As long as you just sell on the bulges, it's all right.

H: Yes, well that's the only time we're doing it. The only other day we did it was on April 10th when we had that very rapid rise and we had an opportunity - it was on

Saturday - we had the opportunity to let four million seven go to a dealer who had to fill an order - that's that one I was telling you about.

H.M.Jr: Well now tell your man there he could sell some of our bills and we'll keep the money and - until the market goes down again - we've given him an order to sell 10-1/2 million of - of notes maturing - the September notes - see - and he's only sold a million of them, see?

H: Yes.

H.M.Jr: I'd like to sell a million or two of those to-day if we could, see, and then we'll keep the money and wait until we need it.

H: Yes - September notes?

H.M.Jr: Yes.

H: Out of what account is that, Henry?

H.M.Jr: Postal Savings.

H: Yes.

H.M.Jr: I want to ------

H: That - that - that order is in, is it not?

H.M.Jr: That's in - been in for about a week.

H: Yes.

H.M.Jr: No - it's been in since Monday.

H: Yes.

H.M.Jr: But to - to sell those and buy 2-7/8's - well if he's got a good chance let him sell some of those and we'll - we'll hold the cash and you can keep it there as a nest egg and when the market goes down again....

H: Yes.

H.M.Jr: ......when somebody - when the Federal Reserve makes a speech.

H: (Laughs) (This line completely lost as Harrison croaks like a large frog - simply can't make out a word he says)

H.M.Jr: Well, talk to Madison about that, will you?

H: Yes I will - I'll talk to him right away.

H.M.Jr: Well I'm glad it's behaving the way it is.

H: Well I - I agree with you though - I don't think you want to see it run up too fast.

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

H: I think all the talk in the papers this morning about the orders on economy is probably what helped it.

H.M.Jr: That's right.

H: I was afraid that might work the other way. (Laughs)

H.M.Jr: No it's all right.

H: But it's working all right.

H.M.Jr: All right, George.

H: All right, sir.

H.M.Jr: Goodbye.

April 14, 1937.
11:43 a.m.

H.M.Jr: Hello

Operator: Governor Harrison

H.M.Jr: Hello

O: Go ahead

H.M.Jr: Hello - hello.

Harrison: Yes Henry.

H.M.Jr: George, do you know what your people have been doing this morning in bonds? Have you heard? I - I don't know what they're doing.

H: Well I - I - I

H.M.Jr: I mean the volume - whether they sold - or how much or anything.

H: Oh well we - we disposed of four million of the 2-3/4's 51-54 to - at a point - ah - nine points above last night's close......

H.M.Jr: Yes.

H: .....and that's all we've done.

H.M.Jr: You've done four million.

H: Yes.

H.M.Jr: At nine points above last night's close.

H: Yes.

H.M.Jr: Well that's all I wanted to know.

H: Ah - last night - yesterday afternoon on Treasury bills we did some things you might be interested in.

H.M.Jr: Yes.

H: Of the 39 million of Treasury bills bid for in New York on Monday......

H.M.Jr: Yes.

H: ......30 million were awarded to dealers.

H.M.Jr: Yes.

H: Now of that 30 million we took five million against our maturity.....

H.M.Jr: Yes.

H: .....and also an additional 16 million.....

H.M.Jr: Yes.

H: .....of the nine months bill.....

H.M.Jr: Yes.

H: ....against shorter bills on .

H.M.Jr: Yes.

H: We do that because there's apparently no demand for the new nine months bill by either banks or others....

H.M.Jr: Yes.

H: ....and it enabled us to clean out the dealers of the bills that were sticking and give them the shorter bills that they could move.

H.M.Jr: Ah-ha.

H: So that that bill market thing is much better. Last night the - ah - all the dealers together had only 20 millions of bills and some of that is a fixed investment in bills by the Discount Corporation which they use as collateral for loans.

H.M.Jr: I see.

H: So that we really cleaned up the bill thing pretty well by taking over the nine months bill. I mention that because for some same reason - two or three weeks ago - you know -

H.M.Jr: Yes.

H: - There wasn't much difference on the rates between the short and the long bill.

H.M.Jr: Yes.

H: But apparently - ah - the dealers have been talking to me lately and - ah - from all the facts that I can gather the nine months bill doesn't move very well and the short bills are moving easily and at prices.

H.M.Jr: They are doing what?

H: They are moving very easily and at higher and higher prices.

H.M.Jr: I see. Well, we're thinking of announcing - ah - for Monday that we're going to start - ah - selling another 50 million into September.

H: Well I think that that's important to do whether you do it this week or the next week - I don't know.

H.M.Jr: Well -

H: I should think it would be all right this week.

H.M.Jr: You do. Well I mean - it would be for next Monday.

H: Yes. That's what I mean.

H.M.Jr: Yes, you think it would be all right.

H: I think the only thing they don't like is the nine months bill and I really believe that if this thing continues now.....

H.M.Jr: Yes.

H: .....and it might continue after this increased reserve requirements becomes effective.....

H.M.Jr: Yes.

H: ....you might have to give another study to the question of the nine months bill, Henry.

H.M.Jr: But - ah - not this week.

H: Well - they - they - they're not going well.

H.M.Jr: They're not.

H: No, they're not at all and, for instance, I just got a pencil memorandum that came in last night and it only confirmed what Mills, of the Discount Corporation, told me on Monday that they just couldn't get buyers for the nine months bills. As to why they don't know and I asked him why. He said, well they want short bills and I said, "Well hell just two weeks ago they gave the rates pretty near the same on both of them." I said, "How can we guess you fellows?" He said, "Well, that was true," he said, "but suddenly something had turned and they want the short bill - not the long one."

H.M.Jr: Well do you think there's any reason why we can't offer on Monday 50 million of nine and 50 million into September?

H: I think you'll have some trouble with your nine as I see it to-day but I......

H.M.Jr: Well do you - do you think it's a mistake to do it?

H: I think you run - I'd like to go into this a little more because I haven't talked to dealers myself this morning - let me talk to Sproul who did.....

H.M.Jr: Yes.

H: ....and then I'll call you back.

H.M.Jr: Could you call me back.....

H: Yes.

H.M.Jr: ......by - before 12:30.

H: Yes, I'll do that right away.

H.M.Jr: Please.

H: All right, sir.

H.M.Jr: Well, of course, we've got to make up our mind to-day.

H: Yes, I know and I - it's funny I was just talking to Eccles about it when you called me now.

H.M.Jr: Ah-ha.

H: Giving him the story on the bill market.

H.M.Jr: Ah-ha.

H: But I'll - I'll look into it again and see what these dealer fellows said this morning and see if I've got anything new on it and then I'll call you back. Certainly if you do any additional ones they should be in September.

H.M.Jr: You mean - well - you mean over and above the 50?

H: Yes.

H.M.Jr: Yes, but.....

H: And - ah - if you did only 50 and put it all in September I think it would go best.

H.M.Jr: Well we need more money; that's the point.

H: Yes.

H.M.Jr: I mean if this thing won't go we'll have to get out a regular issue.

H: Yes, well let me - let me call you back, Henry.

H.M.Jr: Because I mean (laughs) I'm not going to let New York run this market - I mean these dealers - I mean four or five dealers will run the whole government - I'm not going to let them do it.

H: Well I don't think that's quite the way to put it because what those fellows are doing - they'll - they'll buy anything they can sell - they're - they're traders.

H.M.Jr: Well -

H: And if they can sell the bills they'll - they'll buy them.

H.M.Jr: Well the rate - the nine months bill ought to sell. We haven't - we don't try to control the rate they bid for them.

H: Well, of course, you know I - I made a speech to you once, when we were discussing this question of the nine months bill and reducing the total aggregate of bills, advocating reducing it beginning by reducing it to six months......

H.M.Jr: Yes.

H: ....and the reason that I gave them, and I still feel is true, that when you get a more normal money market where excess reserves are down around - getting around to zero again some day - the nine months bill won't be a popular bill; it never has been; it doesn't work in England and they had to stop it and the market usage on short money - short funds - temporary funds has always been a ninety day bill. And then we went through a period of very exceptional times of huge excess reserves and they would buy anything and your nine months bill went very well. Now you're getting back to that - we'll call it the pre-war time - when you haven't got that same pressure to buy anything and they're becoming more discriminating and, therefore, they want to do what's the usual thing, banking easy and putting surplus funds in ninety day stuff. I don't think it's unusual and I don't think it's anything to be wondered at. It's a thing I really believe that you'll have to study all over again in the light of new conditions.

H.M.Jr: Well now, do you suppose between now and 12:30 you can find out something and let me know?

H: (Laughs) Well I'll do my best. I've got a better chance if I don't talk too long to you now.

H.M.Jr: Well that suits me.

H: (Laughs) All right.

H.M.Jr: All right.

H! Goodbye.

MEETING RE OPEN MARKET OPERATIONS

April 14, 1937
12:00 Noon

Present: Mr. Taylor
Mr. Bell
Mr. Haas
Mr. Eccles
Mr. Goldenweiser

H.M.Jr: I'm not going to tell him (Governor Harrison) not to sell. He tells me a few minutes ago we can't sell any more nine months stuff. I think it's just...

Eccles: He told me that. I said, "Well, hell, George, last week they didn't want any short term stuff; all they wanted was long term. Now this week they want the opposite." I said, "I can't understand the thing."

H.M.Jr: Well, I'm not running this thing, but they do so much swapping and switching and this business and that business, and they fixed it now so we can't sell a nine months. So I said, "You're telling me that the five New York dealers tell you to tell me I can't sell a nine months?" "That's what it amounts to."

Now, if we're going to sit here and let five dealers tell us how to run this thing, all right, but it's just.... It's all right; it was all right up to six weeks now. But if I'm - Mills and the Discount can call up George Harrison and say it can't be done, and that answers it.

Eccles: I don't understand...

H.M.Jr: Why the hell, if the market goes up an eighth on the statement we're going to cut expenses, should George Harrison immediately dump a bunch of bonds? What are they trying to do?

Eccles: I suppose he didn't want the market to go up too fast.

H.M.Jr: Well, for Christ's sake.....

Bell: Ought to work both ways.

H.M.Jr: ...it's gone down five or six points.

Taylor: Why in Christ's name should five million in bonds make the difference of showing a change of policy in the Federal Reserve Board?

Eccles: It won't make any difference, because the statement won't show it.

Taylor: Except that they are sellers in the market.

Eccles: No, the statement comes out today and the statement today will show an increase of about 30 million over last week. Now, they can't reduce - they can't show on the statement any reduction from statement date to statement date. Between statement dates, of course, they have always shown shifting, but they can show no reduction. Now, the statement last week showed an increase of 29 million; this week it will show an increase of 60 some odd million, so that there will be no decrease at all. Next week the statement can't show less than it does this week.

Taylor: But the dealers know.

H.M.Jr: There are five dealers in New York running the whole Government bond market right now, and it's not being done by the Federal Reserve or the Open Market.

Eccles: Well, of course, the market, as I understand, is pretty strong this morning. He said there was - I talked to George and he said there was really a dearth or scarcity of bonds.

(Secretary has conversation with Governor Harrison, recorded on dictaphone at 12:05) Transcript of conversation follows this page)

H.M.Jr: What does it look like, Dan? If we start getting the extra fifty now and raised 300 million for six weeks - I mean when would that end?

Bell: That would be beginning the 21st.

H.M.Jr: Of what?

Bell: This month.

H.M.Jr: No.

Bell: Yes.

April 14, 1937.
12:05 p.m.

H.M.Jr: Hello

Operator: Governor Harrison calling.

HM Jr: Thank you

O: Go ahead

Harrison: Hello

H.M.Jr: Hello

H: Well Henry I've just made a quick conference with the men here in the bank; I haven't gone outside at all.

H.M.Jr: Yes.

H: And they say that the facts remain, as I told you, that the nine months is - ah - is sticky. There is some damand for the shorter bills.

H.M.Jr: Yes.

H: Madison's guess is that the nine months bills - ah - this next week might go for around 70 to 75 - at least higher than last time........

H.M.Jr: Yes.

H: But, of course, I don't know exactly how pressing your needs are and how much or how rapidly you need the funds but my suggestion would be if you could afford it I'd go only 50 millions this week and I'd make them the September bills.

H.M.Jr: No, I won't do that.

H: And - well then the - ah - ah - ah - the six months bills - I mean the nine months bills will go but they'll probably go at a little higher price because they've become unpopular. A lot of banks have been talking about it and they - apparently what's happening is this - that they are preferring to go into your shorter notes or some of your notes - at 1-1/4 we'll say.

H.M.Jr: Yes.

H: Then to take a nine months bill at 70.

H.M.Jr: Well I've - I've adjusted myself, since last November with the Federal Reserve so they could get ready and do this increased reserve requirements. I let my balances go down from a billion to around five - six hundred million. I'm through adjusting myself to the Federal Reserve; I'm going to run the Treasury the way I always ran it.

H: Yes? Well I'm not asking you to adjust yourself to the Federal Reserve.

H.M.Jr, No, well I'm not going to .

H: Well I'm not suggesting that.

H.M.Jr: No, but I mean this suggestion that I - I should not take a hundred million next week when we need it.

H: No, now wait a minute - ah - you asked me a few minutes ago to call you back as to what my advice was.

H.M.Jr: Yes.

H: And I said, without knowing what your requirements were, I think the best thing would be 50.......

H.M.Jr: Yes.

H: .....but if you need more then I say you'll have to pay probably around 75 for your nine months bills.

H.M.Jr: Well -

H: Now that's just a guess - we may be all wrong.

H.M.Jr: Yes.

H: But I'm not - I'm not - I'm not urging you - ah - not to do - raise the money that you need at all. I don't know that.

H.M.Jr: Well we need it.

H: Well then if you need it then I think that your nine months bill will - will go but it will go at a little higher price than it did this last week.

H.M.Jr: Yes, well the main thing is that it goes.

H: Yes.

H.M.Jr: Ah - for the time being - I mean the rate thing is out of my hand - I can't control and never.......

H: You wouldn't consider a six months bill there.

H.M.Jr: Well I don't think - I don't - we'd have to take three or four days or a week to think it over........

H: Ah-ha.

H.M.Jr: .....and before we'd make a move like that I'd ask Eccles to bring down the Open Market Committee.

H: Yes. Well I really think that that would be a good thing to do pretty soon anyway.

H.M.Jr: Well I'm perfectly willing to talk about it but between now and 5 o'clock we've got to get our wires out......

H: Yes.

H.M.Jr: .....and the first that I knew that these nine months were sticky was when I talked to you about twenty minutes ago. I mean I didn't know that they were sticky - to-day is Wednesday - I didn't know anything about it.......

H: Yes.

H.M.Jr: .....and I'm not going to change my policy in an hour. I mean I want to give it careful consideration and if we're going to have trouble with bills maybe I'd come out with a regular issue.

H: Yes, but we don't have to do that.

H.M.Jr: Well I mean I'm (laughs) I'm - I'm - from now on I'm going to take the money I need and I'm going to go back and be comfortable. I'm not going to be worring about week to week whether I can raise 50 million or a hundred million dollars. I mean I should have let the balances go down; I did it to help out and I'm not going to do it again.

H: Yes.

H.M.Jr: I mean from now on I'm going to.......

H: Well don't - don't misunderstand me now I'm not asking you to do anything; you asked me what I thought about it.

H.M.Jr: I know but I mean I made a mistake and I realize it now. I mean I always had enough money so I didn't have to finance for three months and I'm going to put the Treasury back in that position so that we're money easy.

H: Yes.

H.M.Jr: And it's the first time I've ever gotten myself where - so that I've got to move and move - ah - due to the conditions in New York and I'm going to get myself out of that position.

H: Ah-ha.

H.M.Jr: And.....

H: Well I think - you - you can tell them that you - that you'll probably have to pay more.

H.M.Jr: Well that's - I'll - I'll pay whatever I have to.

H: Yes.

H.M.Jr: And if it's 75 it's 75.

H: But I do - I do think it's worth a review again sometime.

H.M.Jr: I think we ought to - I'm going to ask Eccles f he'll get his crowd together next Tuesday or Wednesday.

H: Yes, I think that would be a good idea just stating the new set of circumstances when you've got May one out of the way.

H.M.Jr: All right, George.

H: All right, Henry.

H.M.Jr: Thank you.

H: All right.

H.M.Jr: Oh, you mean starting.

Bell: Yes.

Eccles: Yes, run six weeks.

Bell: That would run it to the end of May.

H.M.Jr: Would you clean up in May?

Bell: Yes, we'd clean up in May.

H.M.Jr: You want to count?

Bell: Well, you got two the 21st and the 28th in April, and four in May.

H.M.Jr: And we'd be out....

Eccles: Yes, before the first of June. That would be your September three hundred maturing.

H.M.Jr: I mean do you think on anhour's notice that I should....

Eccles: I wouldn't change it. George talked to me just before I came over here, in fact just before you talked to him, and he said that the long term bills were not moving. I said, "What in the name of God....?" I said, "Last week it was the short that wouldn't move." "Now," I said, "this week they want the short and they don't want the long." I said, "They've got excess reserves of nearly a billion and a half, and with the increased reserves going into effect, they'll have between seven and eight hundred million of excess reserves." I said, "Now, your bond market is strong, your note market is strong, and the long term bill market is weak, just because they've got - they're issuing long term bills." I'll be damned; I can't understand it.

Bell: Did the System unload a lot of bills?

Eccles: No, they bought bills. What they did - you see, they had five million of their bills maturing, so they took five million to replace those. The dealers took thirty million bills and they took that five million. And then they let some short bills, because they were in demand - they had some of last week's short bills, see, and they were in strong demand, so they switched; they exchanged some of those short bills for the nine months bills that were put out, so as to clear the market of the nine months bills, because they wanted the short bills and we'd just as soon have the long bills. We took, I think, about 15 million of the long bills.

Taylor: Did you pay them a profit on it?

Eccles: Well, I don't know, Wayne. It would be very small if it was; it would be just a - the fraction, of course. That damn bill prevented us from taking them direct and we've got to take them through the dealers. But I'm sure we wouldn't pay more than just a fraction to what we usually pay on any of those transactions.

Bell: You bought them at the market price.

Eccles: Well, but the market on them was at about the offering price. I don't think they'd gone off. They were just holding them. The dealers, you see, had the bills and they were holding the bills at what they had bought them for; they weren't selling them at a discount. Now the dealers are pretty well cleaned up of bills.

H.M.Jr: Oh sure, they always take care of them down there. I mean they're more interested in taking care of the dealers than in taking care of us. Any time the dealers have got a little load, all they've got to do is call up Harrison and he'll take off what they've got. They always know they can go dump them. But when it comes to helping out... I mean those five concerns, they've just - when things are bad they just can dictate and write the ticket.

Haas: It seems to me that - and I thought this was the way they were going to operate, take this open market operation - I may be wrong on this, but it seems to me that they have no effect in improving this market at all unless they increase excess reserves. Using the open market operations, buying and selling, just to peg, I think, rather than strengthening might weaken the situation. And if their objective was to put some more excess reserves in - I thought that was it, and you wanted to change the underlying situation.

Eccles: There were two reasons, George. One was the psychology of the thing - that out through the banks, a lot of banks, little fellows that simply just figured there wasn't any market, and they were subjected to the propaganda of these dealers and fellows that were left to run the market. So that the psychology of the announcement that the Reserve System was going to do that without question tended to have an influence.

Haas: I think that was good. But then, you watch it operate and see it operate. For instance, your objective was to increase 300 or 500 million excess reserves. See a day when the market - the bottom just drops out, and you buy some bonds; and then, when the market stiffens up a little, they sell. The psychology that would create is terrific.

Eccles: Of course, you don't want a market to go up too fast so that others start selling. I mean you don't - for instance, if the market goes up a half or three quarters of a point here and there are practically no offerings, there of course is a danger of a lot of others who have got a profit in the bonds starting to sell. You don't want them to break it either.

H.M.Jr: But what's-his-name won't give them a chance. Let me ask you what is your position today. How much have you increased your portfolio? Do you know?

Eccles: Yes, about - yesterday it was around 69 million.

H.M.Jr: Net?

Eccles: Yes.

Haas: I would have sworn before the thing was started that if that's the way it was to be done, it wouldn't have any effect at all.

Eccles: Of course, it has had an effect, George, because your market today is more than a point above where it was and it's strong. There's more buyers. The market is very orderly, and the selling is practically dried up. Now, you take - before we acted there was just selling all over the lot, with no takers. The whole market was just in a state of hysteria almost. Now, today the psychology has completely changed, and there's more bids in the market for securities by far than there are sellers. They are just practically - selling has dried up, has completely dried up. So that the market is in an excellent condition at the moment so far as confidence in Government bonds. It's entirely changed, and it is extremely orderly. And I think it would be bad if it went up too fast, because it would just mean a reaction again, and you don't want that. I'd sooner see the market work up slowly back and forth, but on the upside right along, than to see it go up and then get the darn thing started down again.

H.M.Jr: No argument about that.

Eccles: It's in good shape at the present time. Don't you think it is, Wayne?

Taylor: Well, I don't get this play of selling out bonds at this point, frankly. I mean if there is a demand for bonds, why, let's find out.

Eccles: Now, as I understand - I talked to Harrison; he called me up before he did you - the first I knew of what had been done. He said that the market had gone up in this particular issue more than half a point above last night's close, and last night's close was - I don't know - seven or eight thirty-seconds above the opening; so that it was about a three quarters of a point rise.

H.M.Jr: From what, from yesterday?

Eccles: Yes, from yesterday's opening - about three quarters of a point up. And that this particular issue - that there were just no bonds in the market, that they couldn't find any.

H.M.Jr: Now, what I - what these boys are getting at is this. Let's say that the market for the next ten days continues to rise. Are you going to let these New York fellows sell off the 69 million and get it right back to the position of the portfolio, where it was before, or do you want another couple hundred million in there? That's what we're interested in. We're not - I've told George Harrison - I'm on record. He told me he sold five million when the market went up on Saturday. I have no objections to that if there is a real shortage, a technical shortage in the market. It's all right - I mean for him to supply a few to take care of it.

But the whole argument and the thing that I thought we were all arguing was - the reason that you were talking to us about putting more gold back was that we felt that five hundred million dollars wasn't enough of excess reserves, and that you wanted a couple hundred million more.

Eccles: That's right.

H.M.Jr: Now, the way he's going, knowing that he's opposed to what we're doing, we feel here if he gets the opportunity he'll sell the 69 million and get right back to where he was before.

Golden.: No, that is not permitted.

Eccles: He's not permitted to do that.

H.M.Jr: How much can he sell?

Eccles: He can't sell any. For instance, when this statement will be out today - now, he can't reduce that amount at all.

H.M.Jr: You mean if it shows 69 million....

Eccles: That's right, he can't reduce it. In other words, we freeze it each week.

Golden.: Can't reduce from one statement to the next.

H.M.Jr: Well, that's what we're thinking about here, aren't we?

Taylor: Well, partly.

H.M.Jr: Well, say your (Taylor) piece. Say what you said to me.

Taylor: Well, I think that this selling when it goes up a half point is just God damn foolish. When it dropped over a point in one day, that was supposed to be an orderly market.

Eccles: No, it wasn't orderly.

Taylor: Well, it was what we were talking in terms of.

Eccles: Of course, when they went down on Thursday they bought about 30 million on the way down.

Taylor: Fine, add to your portfolio.

Eccles: Now, on the way up I'm not for selling except where you get a condition that an order can't be filled.

Taylor: Well look, Marriner, let it go and they'll switch to another bond. That's just exactly what you want.

Eccles: Your idea is that no matter how strong, how fast a particular issue - how fast the bond market goes up, that you ought to go up even if it reacts again.

Taylor: I mean this business of an individual issue - they always even out. If one of them goes out of line, switch to another year.

Haas: That's how the whole list goes up, Marriner.

Eccles: Of course, I don't want to reduce the portfolio at all, and as a matter of fact I would like to see the portfolio, if the market shows any weakness at all, increased; that was the intent of the open market operation.

Now, when May first comes, then I think it's going to be a lot easier to decide where we are, because everybody will know then what their position is. Today the banks up there don't know how much balances they're going to lose, and when that is settled then I think we can sit down and determine whether or not we need more reserves in the picture, whether or not the situation is such as to warrant a satisfactory basis of financing. That's all I ask for, and if at that time the situation isn't sufficiently easy to carry out whatever Government financing is necessary, then either the Reserve System should increase its portfolio or the Treasury should - an arrangement should be made where they may deposit some gold in the System. Now, all I ask for is that we get over to the May first period, and then we can - our judgment will be much more accurate.

H.M.Jr: Well, this is, as I say, in the room here, and we want you to know - I mean the shock I got this morning was the idea of George telling me that I couldn't sell any nine months bills. That's practically what he told me.

Now, I want to ask you, is it agreeable to you that we go ahead and offer 50 million nine months and 50 million into September on Monday?

Eccles: Yes, I don't see that you can do anything else. I don't think that - I am certainly not in a position to say to you that you should adopt some other program at this stage. I think it would be a mistake to shift from your usual program of a turnover of a nine months bill, except in relationship to a whole program.

H.M.Jr: Now, will you bring your boys, the Executive Committee, down next Tuesday and let's talk about it?

Eccles: All right. Let's see, Tuesday?

H.M.Jr: Is that all right?

Eccles: That will be several days before the offering the following week.

Bell: Wednesday.

H.M.Jr: When do you send the wires out, Wednesday night?

Bell: Yes.

Eccles: So what you'd do today is offer....

H.M.Jr: ...for Monday.

Eccles: Next Tuesday, if you came and met, then we'd have for the...

Bell: For the 28th - in payment for the 28th; your bids have come in on the 26th.

H.M.Jr: As Wayne says, if you've got a pistol at your head and decide....

Eccles: Well, Tuesday - make it Monday if you want.

H.M.Jr: No, by Tuesday we'll have the result of Monday's, and by Tuesday we'll have the President's budget message.

Eccles: When do you want, Tuesday morning or afternoon?

H.M.Jr: Well, would you want to meet in the morning and come over here at, say, three o'clock Tuesday afternoon?

Eccles: You mean you want us to meet with you at three?

H.M.Jr: If you would.

Eccles: All right, that'll be fine.

H.M.Jr: That will be after the close of the market and that will be after the budget message is out. We'll have a day's experience, the whole picture; the budget message will be out. And if you do a little work on it, George - maybe Dr. Goldenweiser do a little work - you (Bell) might have something. We'll take a look at it.

But I'm not going to have New York tell me that in one hour I've got to stop this thing. I'm not going to stand for it. I mean I'm perfectly willing to sit down and talk things over and think it through. But to suddenly say I can't - and then he changed and said I can sell it at three quarters.

Eccles: I say why in the hell can't....

H.M.Jr: Supposing we paid one percent.

Eccles: One percent is too high.

H.M.Jr: No, but I just say at a price in order to go.

Eccles: Don't worry about not being able to sell it. All they want is a little higher price.

H.M.Jr: He never told me....

Eccles: No, but that's what it is; I know it. What they want is .75. What they want is three quarters, and I don't think there is the slightest question but what they'll sell a nine months bill at three quarters. I've contended that I thought three quarters was a little too high, that it ought to be around .65.

Taylor: Well, they'll sell them to you at .65.

Eccles: That's what I figure that they ought to be. But the question of one issue - it isn't very important. But I do feel that...

H.M.Jr: Well, you can't tell. After all, these fellows aren't going to bid either; they'll have the President's budget message on Monday.

Eccles: When will his message go up, Monday or Tuesday?

H.M.Jr: I think, if we are lucky, Monday noon.

Bell: Uh-huh.

H.M.Jr: Is that right?

Bell: Monday, 12 o'clock, it ought to go. Now, these bids have to be in by 2 o'clock Monday.

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

Eccles: Well, if his message goes up in the morning, it will still maybe have an influence on the bidding.

H.M.Jr: One week - I don't want to be on a week-to-week basis. I mean if I have to, supposing it's three quarters of a percent for one time. That isn't going to kill us. I mean I wouldn't want to - I'd hate to do it permanently.

But I mean it would be good all around to have you all down.

Eccles: If we can mark time to May first, then we can sit down and program the thing, because we'll know and every bank will know exactly where it is. Today they - naturally there is a certain amount of guessing on it.

Golden.: It looks as though excess reserves were going to be rather larger than we expected anyway, because currency isn't going out as much.

H.M.Jr: What do you think it will be?

Golden.: Might be 750 million.

Eccles: In the meantime, there's no capital market.

Taylor: Marriner, this appearing on two sides of that market at the present time - I mean it's not called for. In the first place, you've got to get strength in your Government market before you're going to have strength enough in your corporate market so they can resume refunding.

Eccles: That's right. The Government market is out of line now with the corporate market.

Taylor: And you've got to get over the shell-shock that the market had. The only way you can get it over with is to have a reasonably strong Government market for a little while here.

Eccles: Well, you've got - the market is waiting for the President's message too.

Taylor: Well, it's anticipating that it's going to be a good message.

Eccles: His statement yesterday was the thing that helped to influence the market this morning. His attitude in telling everybody to cut expenses was reflected on that thing immediately.

Haas: Of course, you can neutralize it all, though, if they sell.

MEMORANDUM

April 14, 1937

To: Secretary Morgenthau

From: Dr. Burgess

Treasury bonds showed opening gains of up to 1/4 of a point, and aside from a brief reaction in the middle of the forenoon the market tended higher most of the day on sizeable volume. Treasury bonds closed approximately at their highs, generally 1/8 to 3/8ths above yesterday. Gains in the guaranteed list ranged somewhat smaller. Board turnover of Treasury and guaranteed bonds was $3,847,000 compared with $1,432,000 yesterday. The note market was firm all day and closing quotations showed gains of from 1/32 to 8/32.

Domestic bonds were higher and quite active at the opening, prices advancing further during the forenoon. At the close the market was slightly off from its highs. Gains in second grade bonds averaged about 1 point; high grade bonds were up on the day about 1/2 point.

Foreign bonds were quiet and steady. Japanese issues showed fractional losses; Polish bonds were fractionally better.

Sold today $3,000,000 3 1/4% Treasury notes due September 15 for account of the Postal Savings System.

April 14, 1937.
12:44 p.m.

H.M.Jr: How are you?

Alfred A. Cohn: Fine, thank you, and you?

H.M.Jr: I'm pretty well. I wondered if you could do something for me - ah - personally - hello

C: Yes indeed.

H.M.Jr: Ah - I'm thinking confidentially of taking my family to Hawaii the end of July and staying there for the month of August. Now I notice that one week they sail from Los Angeles - another week they sail from San Francisco - the Matson Line.

C: Yes.

H.M.Jr: Do you know the people on the Matson Lines?

C: Yes very well.

H.M.Jr: You do. Well I wonder if you could talk to them and tell them confidentially it's for me - hello

C: Yes.

H.M.Jr: And that I'd like to have reservations for the end of July for - to go to Hawaii, stay there a month and then come back, you see?

C: Well you'd want to go on the Lurline, wouldn't you?

H.M.Jr: Well isn't that the Matson Line?

C: Yes, they have the Lurline and the Malola that run to Honolulu.

H.M.Jr: Yes.

C: The Lurline is the better ship of the two........

H.M.Jr: Well I don't know just when.....

C: ......and that sails from here.

H.M.Jr: Pardon me?

C: And that sails from here.

H.M.Jr: Yes well I've got the thing in front of me. She goes - the Loline goes July 23d.

C: Yes.

H.M.Jr: That would be just about when we want to go.

C: Ah-ha.

H.M.Jr: And - ah - ah - let's see - July 23d - is that the best boat ?

C: That is by far the best.

H.M.Jr: Well now let's see - if we went on July 23d and the Lurline leaves - ah - there August 28th that would be just about right - leaving Honolulu on August 28th.

C: Yes.

H.M.Jr: You see? That would be just about right.

C: That would be just right.

H.M.Jr: Leaving, say, on the 23d from Los Angeles - does she go up to San Francisco then or not?

C: No I think that sails direct from here.

H.M.Jr: Ah-ha - well you could look it up.

C: Yes but I'm sure of that.

H.M.Jr: Yes that would - and then leaving - ah - ah - Honolulu on the 24th - on the 28th.

C: Yes.

H.M.Jr: The Loline - is that the best boat?

C: Oh it's (fade out for about two lines)

H.M.Jr: So I suppose we'd need three cabins - hello

C: Yes.

H.M.Jr: Now would you - could you find out for me and tell them I - I don't want - I want to keep it a secret because I don't know yet whether I can go or not, see? Would you mind handling it for me?

C: My dear, what sort of an accommodation would you want?

H.M.Jr: Well I want the best they've got.

C: Yes.

H.M.Jr: I mean I'm going personally - I mean I'm - the government's not paying it - I'm paying it.

C: Yes.

H.M.Jr: So I'd like whatever they've got.

C: Well I'll tell you - I'll get on that right away because I know they're pretty well booked up all summer.

H.M.Jr: Ah-ha.

C: And I'll let you know .

H.M.Jr: Ah - you send me a letter air mail.

C: I'll do that. I'll let you know sometime to-day.

H.M.Jr: What do you do - well I'll leave it to you and if you'd send me a letter air mail - I mean

C: What is it? Is it your wife and.....

H.M.Jr: My wife - ah - I have two boys - my daughter - she most likely will have a companion, you see?

C: I see. Well it's just your family then.

H.M.Jr:	It's - oh yes, just my family.
C:	Ah-ha. Then you'd want accommodations for yourself and wife and two boys and a girl and a companion for the girl.
H.M.Jr:	That's right.
C:	Well I think we can fix that up.
H.M.Jr:	And, as I say, I don't know - well you talk to them and see what they've got and then if they'd mark the accommodations on a - on a map of the steamer, you see....
C:	Yes.
H.M.Jr:	.......and - ah - send it to me.
C:	Yes, I'll get that for you, Mr. Secretary.
H.M.Jr:	Well then we'd sail from Los Angeles?
C:	Yes.
H.M.Jr:	I'd appreciate it.
C:	I'll get after it right away.
H.M.Jr:	How is everything else?
C:	Oh fine, thank you, we're doing a terrific business out here.
H.M.Jr:	Good. I knew you wouldn't mind doing it for me.
C:	Oh not at all. It's a pleasure to do it.
H.M.Jr:	Thank you.
C:	All right, goodbye.

HMJ April 14, 1937 HMJr 348

For the Secretary:

I spent the morning with the President of the Federal Reserve Bank here in Minneapolis. He has seven or eight officers who spend a good deal of their time travelling throughout the district calling on the member banks. They all came in and discussed for an hour the information and the impressions they get on these recent trips. The President and the First Vice President and I had an extended luncheon conversation. In the afternoon I spent more than an hour with Wakefield of the First National Bank. The rest of the afternoon was spent with the President and the Secretary of the Minnesota Independent Bankers Assoication, country bankers who happened in the Reserve Bank. The Secretary is the man whom Leo Crowley told me to be sure to see out here. Tomorrow I am going with one of the Reserve Bank officers on an authmobile trip to visit ten or twelve country bankers West of Minneapolis.

There appears to be very little apprehension among the bankers, large or small in this district, about the market for Government bonds. There has been very little panic selling. There has been some smart selling beginning back in December. There has been some selling to get reserves for the May increase. There would be some buying if the yield got to three per cent. One or two are fairly fearful of real difficulties ahead and see the possibilities of a bank panic, but are far from jittery about it. They have felt all along throughout the district and have talked it that Governments were too high and that they would have to come down. They are surprised that it did not come sooner. They do not see in the bond market any indication that the credit of the Government is failing, but most of them do feel that the point has just about been reached where there must be a reversal of Government spending. They are pretty uniformly of the opinion that it is essential that the budget be balanced and that Government deficits be ended.

There is very great dissatisfaction with the Supreme Court proposal, it being reported to me that almost no one, bankers or others, favors the action proposed by the President. There is the greatest dissatisfaction and criticism of WPA and relief generally, much more so than when I was here two or three years ago. No one fails to talk about the laughable projects, the loafing that is done on WPA, how difficult it is to get people off, how they are coming to depend on the Government for better wages than they ever had and better than many working men are getting. While it is admitted that relief is always difficult of administration and isolated examples of abuse can be given, even some of the enthusiastic New Dealers say that the situation is disgraceful.

It is said that soil conservation is doing some good out in the Western part of the district, but that in Minnesota especialit and to some estent in South Dakota, it is a joke, and openly joked about by the farmers themselves. The farmers, for instance who have always been good farmers and rotated alfalfa for the good of the soil, get no benefits, but the farmers who have not done so, the poor farmers, are getting paid now for putting in alfalfa as they should have done long ago. In some communities the farmers are getting more than they expected and in some less. Where they get more they talk about Santa Claus, and where they get less, they complain about Santa Claus. There is very little belief in efforts in aid of tenant farmers or work by Resettlement. A farmer of the best sort has to work hard to break even let alone make any money. Yet the Resettlement comes in and gives the very worst sort of farmer machinery, animals, and seed, with which he is usually unable to even make a living. There are not so many to defend the Government as two years ago, even the beneficiaries being ungrateful or convinced that the Government policy is disastrous. Ben DuBois, the Sauk Centre independent banker and postmaster puts up the defense that there would have been revolution if the Government had not acted, and that people cannot be allowed to starve. There is a very widespread feeling that the President has done a great deal of harm with too free talk about the abundant life and better things for everybody, and that he has gotten the poeple in the frame of mind that these things are theirs by right and that they must and can have them and that the Government will pay for them. Even those who agree that the President has done great things and that his objective was all right , are now of the opinion that there must be a movement in the other direction. They feel this very strongly apparently.

The bankers to whom I talk seem convinced, as they did in Chicago, that the price of gold is too high, that the stimulated new production is causing an upset in the plans of Professor Warren, even if they had worked otherwise. There is much talk about us getting all the gold and others abandoning it. Some man from the Bank of E ngland has been all through here preaching a lower price for gold and indicating that all Europe is for it. It is difficult to make them believe that there will not be a reduction in the price. They regard it as inevitable, whether Washington yet knows that it must come or not.

There is very much praise of both the Treasury and the Federal Reserve System for the way the financing and credit control has been handled to date. The country bankers seem impressed and disturbed by the increase in the number of statements and conflicting statements that come out of Washington. They would like to see fewer of them, and get the impression that all Washington is jittery and that no one knows quite what to do or quite what he is doing. By statements they mean reported quotations dna attributed statements by Treasury officials and Reserve offècials. Some suggest that there be no such things as press conferences or press statements. At the same time they praise very highly the March 16 statement of Eccles, agree with it, say it took courage to come out with it at that time, that it should have been done sooner, and that they hope it has an effect. Many of the banks have written their bonds down to levels lower than those now prevailing in the market, and would not worry to see them lower. Even those that have not been so conservative seem willing to carry their to maturity, and not seal in panic even on lower quotations.

The federal reserve bank in this district is losing some members, and very few of the banks which are not members are remitting at par. That seems to be a very live issue at the present time. The banks are very much opposed to the postal savings system, and would like to see the Government permit the System to accept no more deposits. On the other hand, they are very favorable to the United States Savings Bonds, and would like to see the $10,000 yearly limit raised. They feel that a bond with a such a yield but which cannot be sold or transferred and so for which there are no markets and no quotations is a very good one for the investor and for the Government.

Minnesota is pretty radical politically and sort of overshadows the Federal Government in local thinking just now. There is very great resentment over the Roosevelt alliance with the peanut politicians of the Farmer Labor party. The recent excesses of the Peoples Lobby and its condonement by Governor Benson are arousing great indignation. Governor Benson seems to have very harsh ideas about taxation to get the money for his program, and it is said many industries are leaving the state. There is not so much complaint about the burden of Federal taxesas such, but the combination of Federal state and local is causing a lot of complaint. Evidences are cited of suppressed business and individual initiative, and the shortage of income taxes in March is attributed by some to overtaxation.

There is considerable interest in the activities of Congressman Patman, and I am questioned about the chances of his proposal to buy the reserve banks. The bankers are for the most part in favor of an independent central banking system. No one out here seems to feel that the Treasury should be concerned at all that a March 15 bond issued over par is now selling below. There seems to be no feeling at all that the Government owes any duty to support the market or keep that issue from sliding off. They take the attitude that there could have been no looking ahead on March 15 to the series of events that caused the slump, that the risk and responsibility was the buyers just as in the case of any other buyer, that there is no analogy to the flotations of securities by investment syndicates, and that the bonds should be allowed to seek their natutal level. There is some feeling that there should be no investment funds in the Treasury and that their existence has kept the market level higher than it should have been maintained. The almost universal view out here is that we are sure to have a three per cent yield and the Treasury and the Reserve System might as well recognize it, and not try to prevent it. At the same time there seems no resentment about sliding bond prices, and no panic. The wonder is that they did not slide earlier and have not slid lower.

There is some amusement in Minneapolis over the fact that on the day Governments slid two points below par, the Comptroller of the Currency made a speech in this city stating that Governments could not go below par, and stating futher that the reserve banks are required by law always to lend par on them. Both statements are of course incorrect.

I am repeatedly asked where the Treasury gets its economic advice, and if Professor Warren is still a Treasury adviser.

After being in the field visiting c ountry banks tomorrow, I shall do some more Minneapolis and St. Paul visiting Friday. Mr. Peyton has a group of men from Twin City banks who regularly visit country banks coming in for lunch Friday.

Upm

April 14,1937

This is Bell's #1 draft of the Budget Message.

Apr 14/37 Draft I. Wid. P. 354.

In my budget message of last January I stated that I planned to transmit at a later date an estimate of appropriation for work relief during the fiscal year 1938. In connection with the transmission today of this estimate it is important to review the budget situation for the fiscal years ending June 30, 1937 and June 30, 1938, in the light of the March 1937 tax returns and the actual expenditures for the first nine months of the present fiscal year.

Fiscal Year 1937

Receipts.-- The estimates of revenue for the fiscal year 1937 were necessarily based to a large extent on the Revenue Act of 1936. This Act made material revisions in the tax structure because of which there was no adequate experience which could be used as a satisfactory guide in formulating the estimate of income taxes. The analysis of returns received in March 1937 indicates that income taxes will produce

$2,105,700,000 in 1937, or $267,200,000 less than the estimate for that year in the 1938 Budget.

Based on collections for the first nine months of this fiscal year it is now estimated that other revenues will amount to $3,100,800,000, or $354,500,000 less than the estimate, which reduction is due in large part to pending litigation.

The net reduction in revenue estimate for the fiscal year 1937 will therefore amount to $621,700,000.

Expenditures— In view of this reduction in revenue it became apparent that every effort should be made to offset this loss as far as possible by a reduction in expenditures. To this end I addressed a letter to the heads of various Government activities directing them to make a careful examination of their expenditure requirements for the last three months of the present fiscal year with a view to making substantial savings by eliminating or deferring all expenditures not absolutely necessary during this period. Information thus far available indicates that expenditures for the year, exclusive of statutory debt retirement, can probably be reduced $280,000,000 below the estimate contained in the 1938 Budget.

Deficit.-- The amount of the net deficit for the fiscal year is estimated at $2,588,252,300, an increase of $340,123,526 over the estimate contained in the 1938 Budget.

Fiscal Year 1938

Receipts.-- For the fiscal year 1938 it is now estimated that there will be receipts of $6,874,200,000, or $419,400,000 less than was anticipated last January. Of this loss $410,000,000 represents a reduction in the estimate of income taxes.

Expenditures.-- In advance of the enactment of the 1938 appropriation bills it has been impossible to make any material revision of the estimates of expenditures for that fiscal year, other than those for statutory debt retirement, and for recovery and relief.

In my message of today on the latter subject I am recommending an appropriation of $1,000,000,000 to provide for the continuation of the work relief program from July 1, 1937, to March 1, 1938. Prior to this latter date I propose to review the unemployment situation to determine the additional amount required to carry the work relief program for the last four months of the fiscal year. My present opinion is that the additional amount required for this purpose for the balance of the year will not exceed $500,000,000.

Deficit-- While the revised estimates of receipts and expenditures for the fiscal year 1938 as here presented indicate an estimated net surplus of $67,215,000, the probable expenditure of an additional amount of $500,000,000 for recovery and relief would result in a net deficit of $432,785,000, unless other contemplated expenditures are reduced or additional revenue is provided.

Debt Retirement

In the revised tables of expenditures, providion has been made for the expenditure of only $100,000,000 in each of the fiscal years 1937 and 1938 for statutory debt retirement. As long as expenditures exceed receipts by more than the amount for debt retirement, the expenditure of funds for this purpose has no effect on the total public debt. For the fiscal year 1939, however, we should provide for a completely balanced budget, including provisions to meet the statutory debt retirement liabilities accruing in that year. It should be possible, moreover, to begin in that year the reduction of the debt retirement liabilities that have accrued during the preceding three years.

Future Fiscal Policy

I wish to emphasize here what I said in January of this year with respect to our future policy:

"Expenditures must be planned with a view to the national needs; and no expansion of Government activities should be authorized unless the necessity for such expansion has been definitely determined and funds are available to defray the cost. In other words, if new legislation imposes any substantial increase in expenditures either in the expansion of existing or the creation of new activities, it becomes a matter of sound policy simultaneously to provide new revenue sufficient to meet the additional cost."

Bills being pressed for enactment during the present Congress would commit the Government to early expenditures of more than $5,000,000,000. About $3,000,000,000 of these authorizations are for the construction of additional public works, even though there are existing authorizations of almost $2,000,000,000 for this purpose. In the Budget for the past three years I have set up a program for general public works and I have announced that I propose to keep such a program within the limit of $500,000,000 a year. An annual program of this size should meet all normal needs for highways, flood control, rivers and harbors, reclamation, Federal buildings, and other public works.

I recognize the need for the development of a program for flood prevention and control but it should be realized that it would be impracticable for the Federal treasury to finance such immediate expenditures as are contemplated by the majority of the flood control bills now pending in Congress.

Bills involving additional authorizations of more than $500,000,000 for highways have been introduced despite the fact that expenditures for this purpose during the last four years have exceeded one billion dollars and that there are existing authorizations for expenditures during the next two years of nearly $~~500~~ 450,000,000.

Another major class of pending authorizations is that providing grants and aids to States or to certain ~~classes~~ groups of citizens without any thought of increasing the revenues therefor. Principal among these bills is one providing for educational aid to States ~~for the improvement of schools~~. This bill commits the Government to enter a new field of expenditure heretofore reserved exclusively to the States, at a cost of $100,000,000 for the first year and an annually increasing cost until within a few years $300,000,000 will be paid to the States each year for this purpose. There is no companion bill increasing the revenues of the Government in the same amount.

Bills to aid agriculture are pending in Congress which would add $~~300~~ 150,000,000 to the 1938 expenditures of the Federal Government despite the fact that the Government will spend in 1938 for the benefit of the farmer more than $600,000,000, aside from the benefits he derives from the construction of additional highways.

Numerous bills have been introduced for the purpose of providing additional compensation to veterans and their dependents. In the fiscal years 1936 and 1937 expenditures of nearly $3,500,000,000 were made for payment of adjusted compensation and other benefits to veterans.

The maintenance of a sound fiscal policy requires the careful planning of authorizations as well as appropriations. It is impossible to maintain the proper balance between revenues and expenditures unless there is a control and restraint exercised by the Legislature with respect to authorizations of appropriations. It is a matter of concern to all of us who are working for a balanced budget that organizations, associations, and other groups persist in their efforts to bring about increases in the Government expenditures. These pressure groups pay little attention to the fact that the budget, as submitted, represents a coordinated fiscal program and that material departures therefrom destroy the whole purpose of the program. If we are to avoid a continuation of deficits, Congress must resist these importunities or provide the necessary revenues to meet the increasing costs.

~~Recommendation~~ — out

It has become apparent that there is an immediate need for a careful survey by the Congress of the present tax structure with a view to preventing loss of revenue through such loopholes as may now exist as well as simplifying the present tax laws. The Congress should also give careful consideration to new or additional taxes necessary to meet any deficiencies in the revenue-producing power of the present levies. This study should be undertaken sufficiently in advance of the presentation of next year's budget, say November, in order that revenue measures may be considered in connection with the appropriations to be provided for the fiscal year 1939.

draft #1.
by Bell

Thursday P.M.
White House

In my budget message of last January I stated that I planned to transmit at a later date an estimate of appropriation for work relief during the fiscal year 1938. In connection with the transmission today of this estimate it is important to review the budget situation for the fiscal years ending June 30, 1937, and June 30, 1938, in the light of the March 1937 tax returns and the actual expenditures for the first nine months of the present fiscal year.

Fiscal Year 1937

Receipts.-- The estimates of revenue for the fiscal year 1937 were necessarily based to a large extent on the Revenue Act of 1936. This Act made material revisions in the tax structure and for this reason there was no adequate experience which could be used as a satisfactory guide in forecasting the estimate of income taxes. The analysis of returns received in March 1937 indicates that income taxes will produce

$2,105,700,000 in 1937, or $267,200,000 less than the estimate for that year in the 1938 Budget.

Based on collections for the first nine months of this fiscal year it is now estimated that other revenues will amount to $3,100,800,000, or $354,500,000 less than the estimate, which reduction is due in large part to pending litigation.

The reduction in revenue estimates for the fiscal year 1937 will therefore amount to $621,700,000.

Expenditures-- In view of the reduction in revenue it became apparent that every effort should be made to offset this loss as far as possible, by a reduction in expenditures. To this end I addressed a letter to the heads of various Government activities directing them to make a careful examination of their expenditure requirements for the last three months of the present fiscal year with a view to making substantial savings by eliminating or deferring all expenditures not absolutely necessary during this period. Information thus far available indicates that expenditures for the year, ~~exclusive of statutory debt retirement~~, can probably be reduced $280,000,000 below the estimate contained in the 1938 Budget.

Deficit.-- The amount of the net deficit for the fiscal year is therefore estimated at $2,588,252,300, an increase of $340,123,526 over the estimate contained in the 1938 Budget.

Fiscal Year 1938

Receipts.-- For the fiscal year 1938 it is now estimated that there will be receipts of $6,874,200,000, or $419,400,000 less than was anticipated last January. Of this loss $410,000,000 represents a reduction in the estimate of income taxes.

Expenditures.-- Pending the enactment of the 1938 appropriation bills it has been impossible to make any material revision of the estimates of expenditures for that fiscal year, other than those for statutory debt retirement and for recovery and relief.

In my message of today on the latter subject I am recommending an appropriation of $1,000,000,000 to provide for the continuation of the work relief program from July 1, 1937, to March 1, 1938. Prior to this latter date I propose to review the unemployment situation to determine the additional amount required to carry the work relief program for the last four months of the fiscal year. My present opinion is that the additional amount required for this purpose for the balance of the year will not exceed $500,000,000.

Deficit.-- While the revised estimates of receipts and expenditures for the fiscal year 1938 as here presented indicate an estimated net surplus of $67,215,000, the probable expenditure of an additional amount of $500,000,000 for recovery and relief would result in a net deficit of $432,785,000. I propose to use every means at my command to eliminate this deficit. I expect to accomplish this by taking definite action at the beginning of the next fiscal year to withhold from apportionment for expenditure a substantial percentage of the funds available for that year and to increase the receipts of the treasury through the liquidation of assets of certain of the emergency agencies.

Debt Retirement

In the revised tables of expenditures, provision has been made for the expenditure of only $100,000,000 in each of the fiscal years 1937 and 1938 for statutory debt retirement. These amounts are included to cover payment of Treasury bonds and Treasury notes presented for redemption in cash during these years. As long as expenditures exceed receipts by more than the amount for debt retirement, the expenditure of funds for this purpose has no effect on the total public debt. For the fiscal year 1939, however, we should provide for a completely balanced budget, including provisions to meet the statutory debt retirement liabilities accruing in that year. It should be possible, moreover, to begin in that year the reduction of the debt retirement liabilities that have accrued during the preceding three years.

Public Debt

I wish to emphasize here what I said last January with respect to our future fiscal policy:

> "Expenditures must be planned with a view to the national needs; and no expansion of Government activities should be authorized unless the necessity for such expansion has been definitely determined and funds are available to defray the cost. In other words, if new legislation imposes any substantial increase in expenditures either in the expansion of existing or the creation of new activities, it becomes a matter of sound policy simultaneously to provide new revenue sufficient to meet the additional cost."

<u>Control of Legislative Authorizations</u>-- Bills being pressed for enactment during the present Congress would commit the Government to early expenditures of more than $5,000,000,000. About $3,000,000,000 of these authorizations are for the construction of additional public works, even though there are existing authorizations of almost $2,000,000,000 for this purpose. In the Budget for the past three years I have set up a program for general public works and have announced that I propose to keep such a program within the limit of $500,000,000 a year. An annual program of this size should meet normal needs for highway, flood

control, rivers and harbors, reclamation, Federal buildings, and other public works.

I recognize the need for flood prevention and control but it should be realized that to finance such large immediate expenditures as are contemplated by the majority of the flood control bills now pending in Congress would impose an unjustifiable burden upon the Federal Treasury.

Bills involving additional authorizations of more than \$500,000,000 for highways have been introduced despite the fact that expenditures for this purpose during the last four years have exceeded one billion dollars and that there are existing authorizations for expenditures during the next two years of nearly \$450,000,000.

Another major class of pending authorizations is that providing grants and aids to States or to certain groups of citizens without any thought of increasing the revenues therefor.

Principal among these bills is one providing for grants to States for educational purposes. This bill would commit the Government to a new field of expenditure heretofore occupied exclusively by the States, at a cost of $100,000,000 for the first year and increasing annually to $300,000,000.

Bills to aid agriculture are pending in Congress which would add $200,000,000 to the 1938 expenditures of the Federal Government despite the fact that the Government will spend in 1938 for the benefit of the farmer more than $600,000,000, aside from the benefits he derives from the construction of highways.

Numerous bills have been introduced for the purpose of providing additional compensation to veterans and their dependents. In the fiscal years 1936 and 1937 total expenditures of nearly $3,500,000,000 were made for payment of adjusted compensation and other benefits to veterans.

The maintenance of a sound fiscal policy requires the careful planning of authorizations as well as appropriations. It is impossible to maintain the proper balance between revenues and expenditures unless restraint is exercised by the Legislature with respect to authorizations of appropriations. It is a matter of concern to all of us who are working for a balanced budget that organizations, associations, and other groups exert the strongest pressure to bring about increases in Government expenditures. These pressure groups pay little attention to the fact that the budget, as submitted, represents a coordinated fiscal program and that material departures therefrom destroy the whole purpose of the program. If we are to avoid a continuation of deficits, Congress must resist these importunities or provide the necessary revenues to meet the increasing costs.

<u>Tax Study</u>— It has become apparent that there is an immediate need for a careful survey by the Congress of the present tax structure with a view to preventing loss of revenue through such loopholes as may now exist as well as simplifying the present tax laws. The Congress should also give careful consideration to new or additional taxes necessary to meet any deficiencies in the revenue-producing power of the present levies. This study should be undertaken sufficiently in advance of the presentation of next year's budget, say November, in order that revenue measures may be considered in connection with the appropriations to be provided for the fiscal year 1939.

Treasury Department
D[illegible]sion of Research and Statistics

Date April 14 1937

To: Secretary Morgenthau

From: Mr. Haas

DISTRIBUTION OF FEDERAL EXPENDITURES

By Fiscal Years on basis of daily Treasury statements

(In millions of dollars)

	1933	1934	1935	1936	1937 July 1 to Mar. 31	1937 April 1 to June 30	1937 Total	1938 Budget Estimate
Emer. Conservation work	-	331.9	435.5	486.3	282.8	85.2	368.0 1/	330.0
Public highways	178.2	267.9	317.4	243.9	294.7	71.2	365.9	289.9
Public buildings	105.9	78.7	58.1	67.9	58.4	26.0	84.4	52.1
Rivers and harbors	118.4	150.8	203.0	223.7	184.9	46.0	230.9	178.3
Reclamation projects	25.2	24.7	40.9	49.8	39.0	28.7	67.7	57.6
Civil Works Adm.	-	805.1	11.3	.7	.2	.3	.5	-
Public Works Adm.	-	156.2	224.9	94.4	218.7	87.3	306.0	214.0
Works Progress Adm.	-	-	-	1,263.7	1,468.1	431.9	1,900.0 2/	1,500.0
Agricultural payments	-	290.2	823.6	545.6	361.4	121.7	483.1	498.9
Resettlement Adm. (including subsistence homesteads)	-	2.4	5.4	138.0	136.1	16.8	152.9	30.9
Tennessee Valley Authority	-	11.0	36.1	48.8	31.6	16.4	48.0	49.0
Federal Emer. Rel. Adm.	37.9	707.3	1,821.0	495.6	10.9	.1	11.0	-
Social Security Act - Grants to States	-	-	-	27.8	122.2	31.5	153.7	272.2
Commodity Credit Corporation	-	164.3	a 60.1	129.7	a 76.4	a 48.6	a 125.0	a 30.0
Other	34.8	27.8	118.6	a 14.0	2.2	6.6	8.8	a 5.0
Sub-total	500.4	3,018.3	4,035.7	3,801.9	3,134.8	921.1	4,055.9	3,434.9
Departmental	497.5	339.1	354.6	437.8	378.0	180.7	558.7	563.0
Postal deficiency	117.4	52.0	64.0	86.0	32.6	17.7	50.3	30.8
Social Security Act - Old Age Reserve Account	-	-	-	-	135.0	90.0	225.0	540.0
National defense:								
Army	318.3	205.3	212.2	373.0	269.3	108.3	377.6	393.5
Navy	349.6	274.4	321.4	391.4	358.1	152.2	510.3	587.3
Veterans' pensions and benefits								
Veterans' Adm.	763.2	506.9	555.6	576.0	433.0	155.8	588.8	587.5
Adj. Ser. Ctf. Fund	100.0	50.0	50.0	1,773.5	56.0	507.5	563.5	-
Debt charges:								
Retirements	461.6	359.9	573.6	403.2	79.2	325.3	404.5	401.5
Interest	689.4	756.6	820.9	749.4	595.7	239.3	835.0	860.0
Refunds of receipts	70.3	62.7	45.2	44.2	33.4	14.8	48.2	52.9
Federal land banks	a .2	47.6	48.0	60.6	46.9	23.0	69.9	24.0
Home loan system	44.0	192.2	75.7	37.4	20.7	4.7	25.4	—
Federal Housing Adm.	-	-	15.0	14.5	13.1	1.9	15.0	16.0
Reconstruction Finance Corp.	1,121.4	584.6	a 141.9	a 238.7	a 334.0	a 91.0	a 425.0	a 150.0
Public Works - Recovery and Relief	-	123.6	280.0	327.1	228.5	35.8	264.3	48.7
Other	110.0	532.3	64.8	52.5	40.7	272.7	313.4	267.9
Sub-total	4,642.5	4,086.8	3,340.1	5,077.9	2,386.2	2,038.7	4,424.9	4,223.1
GRAND TOTAL	5,142.9	7,105.1	7,375.8	8,879.8	5,521.0	2,959.8	8,480.8	7,658.0 3/
Recoverables	943.0	1,620.0	237.0	a 94.0	a 347.0	a 79.2	a 426.2	a 122.2
NET	4,199.9	5,485.1	7,138.8	8,973.8	5,868.0	3,039.0	8,907.0	7,780.2

a Excess credits, deduct.
1/ Includes $60M from supplemental items.
2/ Includes $500M from supplemental items.
3/ Includes $1,500M for Works Progress Administration not included in the Budget.

ACCOUNTS AND DEPOSITS
April 13, 1937

April 14, 1937.
12:05 p.m.

H.M.Jr: Hello

Operator: Governor Harrison calling.

H.M.Jr: Thank you.

O: Go ahead.

Harrison: Hello

H.M.Jr: Hello

H: Well Henry I've just made a quick conference with the men here in the bank; I haven't gone outside at all.

H.M.Jr: Yes.

H: And they say that the facts remain, as I told you, that the nine months is - ah - is sticky. There is some demand for the shorter bills.

H.M.Jr: Yes.

H: Madison's guess is that the nine months bills - ah - this next week might go for around 70 to 75 - at least higher than last time.......

H.M.Jr: Yes.

H: But, of course, I don't know exactly how pressing your needs are and how much or how rapidly you need the funds, but my suggestion would be if you could afford it I'd go only 50 millions this week and I'd make them the September bills.

H.M.Jr: No, I won't do that.

H: And - well then, the - ah - ah - ah - the six months bills - I mean the nine months bills will go but they'll probably go at a little higher price because they've become unpopular. A lot of banks have been talking about it and they - apparently, what's happening is this - that they are preferring to go into your shorter notes or some of your notes - at 1-1/4 we'll say.

H.M.Jr: Yes.

H: Then to take a nine months bill at 70.

H.M.Jr: Well I've - I've adjusted myself, since last November with the Federal Reserve so they could get ready and do this increased reserve requirements. I let my balances go down from a billion to around five - six hundred million. I'm through adjusting myself to the Federal Reserve; I'm going to run the Treasury the way I always ran it.

H: Yes? Well I'm not asking you to adjust yourself to the Federal Reserve.

H.M.Jr: No, well I'm not going to.

H: Well I'm not suggesting that.

H.M.Jr: No, but I mean this suggestion that I - I should not take a hundred million next week when we need it.

H: No, now wait a minute - ah - you asked me a few minutes ago to call you back as to what my advice was.

H.M.Jr: Yes.

H: And I said, without knowing what your requirements were, I think the best thing would be 50......

H.M.Jr: Yes.

H: .....but if you need more then I say you'll have to pay probably around 75 for your nine months bills.

H.M.Jr: Well -

H: Now that's just a guess - we may be all wrong.

H.M.Jr: Yes

H: But I'm not - I'm not - I'm not urging you - ah - not to do - raise the money that you need at all. I don't know that.

H.M.Jr: Well we need it.

H: Well then if you need it then I think that your nine months bill will - will go but it will go at a little higher price than it did this last week.

H.M.Jr: Yes, well the main thing is that it goes.

H: Yes.

H.M.Jr: Ah - for the time being - I mean the rate thing is out of my hand - I can't control and never.......

H: You wouldn't consider a six months bill there.

H.M.Jr: Well I don't think - I don't - we'd have to take three or four days or a week to think it over.....

H: Ah-ha.

H.M.Jr: ....and before we'd make a move like that I'd ask Eccles to bring down the Open Market Committee.

H: Yes. Well I really think that that would be a good thing to do pretty soon anyway.

H.M.Jr: Well I'm perfectly willing to talk about it but between now and 5 o'clock we've got to get our wires out....

H: Yes.

H.M.Jr: ....and the first that I knew that these nine months were sticky was when I talked to you about twenty minutes ago. I mean I didn't know that they were sticky - to-day is Wednesday - I didn't know anything about it......

H: Yes.

H.M.Jr: .....and I'm not going to change my policy in an hour. I mean I want to give it careful consideration and if we're going to have trouble with bills maybe I'd come out with a regular issue.

H: Yes, but we don't have to do that.

H.M.Jr: Well I mean I'm (laughs) I'm - I'm - from now on I'm going to take the money I need and I'm going to go back and be comfortable. I'm not going to be worrying about week to week whether I can raise 50 million or a hundred million dollars. I mean I never should have let the balances go down; I did it to help out and I'm not going to do it again.

H: Yes.

H.M.Jr: I mean from now on I'm going to........

H: Well don't - don't misunderstand me; now I'm not asking you to do anything; you asked me what I thought about it.

H.M.Jr: I know but I mean I made a mistake and I realize it now. I mean I always had enough money so I didn't have to finance for three months and I'm going to put the Treasury back in that position so that we're money easy.

H: Yes.

H.M.Jr: And it's the first time I've ever gotten myself where - so that I've got to move and move - ah - due to the conditions in New York and I'm going to get myself out of that position.

H: Ah-ha.

H.M.Jr: And.......

H: Well I think you - you can tell them that you - that you'll probably have to pay more.

H.M.Jr: Well that's - I'll - I'll pay whatever I have to.

H: Yes.

H.M.Jr: And if it's 75 it's 75.

H: But I do - I do think it's worth a review again sometime.

H.M.Jr: I think we ought to - I'm going to ask Eccles if he'll get his crowd together next Tuesday or Wednesday.

H: Yes, I think that would be a good idea just stating the new set of circumstances when you've got May one out of the way.

H.M.Jr: All right, George.

H: All right, Henry.

H.M.Jr: Thank you.

H: All right.

JR

GRAY

Paris

Dated April 14, 1937

Rec'd 3:18 p.m.

Secretary of State,

Washington.

482. April 14, 6 p.m.

FROM COCHRAN.

Paris exchange market somewhat nervous yesterday and again today. French control yielded a fair amount of sterling and belgas yesterday and a smaller quantity today. Rentes and French shares weak while internationals are sought. Paris-American bankers have not resumed gold arbitrage operations with New York. Rumors of labor and social troubles for opening of Paris Exposition cause uneasiness. Disappointment also evident over expensive terms of new loan which City of Paris opens April 15.

The city of Paris loan is a lottery issue for 900,000,000 francs. Proceeds of the loan are to be devoted to public works to the deficits of the 1935 and 1936 budgets (a total of 437,000,000 francs) and to the reimbursement of short term notes issue in 1935 and 1936 to provide for the unemployment fund. Loan will be priced at 910 francs for each 1000 franc bond nominal value, interest rate (END SECTION ONE).

BULLITT

HPD

RB

GRAY
Paris
Dated April 14, 1937
Rec'd 4:05 p. m.

Secretary of State
Washington.

482, April 14, 6 p. m. (SECTION TWO)
will be 5½% and the bonds will be exempt from the tax on securities, the lottery tax and the 10% reduction ordained by the decree law of 1935. The loan will be reimbursed in 1987 at the latest. Referring to the notice given abroad to project attributed to the French General Confederation of Labor envisaging a "forced" loan through nationalization of credit to finance public works French Financial Press Association points out that such proposals should not be taken too seriously as they would never be accepted by Parliament and that the Government would collapse if it favored such a plan. In this respect AGENCE ECONOMIQUE recalls the recent assurance of the Minister of Finance that there is no question of issuing any other loan than the recent national defense issues and that the Treasury will cover its requirements up to the end of the year through short term borrowing.

AGENCE

RB -2-#482, April 14, 6 p. m. from Paris (SECTION TWO)

AGENCE ECONOMIQUE carries a telegram from its New York correspondent to the effect that the reduction since Saturday of approximately $11,000,000 gold ear marked in the United States for the account of foreign central banks was due to fear of a reduction in the gold price.

French press giving much attention to Chamberlain's remarks on British monetary policy and especially to Schacht's visit to Brussels. My Italian friends hope press will not try to attach too much importance to the event if they learn that Governor Azzolini of the Bank of Italy will visit Schacht in Berlin this week. Azzolini is taking his wife who was not with him at Basel to various cities in Germany which country she had never seen but I am not aware of any international significance to the trip to Berlin. (END MESSAGE)

BULLITT

SMS

RB

GRAY

Paris

Dated April 15, 1937

Rec'd 5:10 p. m.

Secretary of State

Washington.

484, April 15, 5 p. m.

FROM COCHRAN.

French control yielded a fair amount of sterling at 110.05 but franc strengthened slightly to 110.01 in late trading. Rentes and French shares improved slightly after uncertain opening. Money was fairly easy for mid month settlement at 4½ as compared with 5½ per cent fortnight ago Forward franc discount widened.

Bank of France statement as of April 9 showed increase of 3½ billion francs in Treasury deposits and decline of two billion 431 million francs in current creditor deposits. this alteration resulting from payment for new issue of national defense bonds from bank deposits. Reimbursement of a foreign credit permitted reduction by 62 million francs of advances to Treasury under articles one and two. Coverage 54.96 versus 55.23 following increase in deposits.

AGENCE ECONOMIQUE today printed following in reference to its item on possibility of forced loan mentioned my 482 April 14, 6 p. m.: (END SECTION ONE)

BULLITT

CSB

RB

GRAY

Paris

Dated April 15, 1937

Rec'd 5:19 p. m.

Secretary of State

Washington.

484, April 15, 5 p. m. (SECTION TWO).

"We brought to the attention of the Minister of Finance the articles in the English press indicating that the Government might be led under pressure of syndical organizations to issue a forced loan of ten billions to finance a program of extensive works. Certain of these newspapers have even published the probable conditions of this issuance. M Vincent Auriol kindly gave to us on this subject the following declaration:

'I wish first of all to repeat that it is advisable to finish once for all and at the earliest possible moment with a series of disturbances and misunderstandings, better yet with unfounded rumors. All citizens, organizations, or groups, whatever they may be, have every right in a country of liberty to set forth ideas, formulate programs, draft propositions and to submit them for public discussion and even for study by the Government. As for the Government

its duty

LS 2-#484, April 15, 5 p. m., from Paris, Sec. 2.

Its duty, after study of the situation, propositions, and above all object and possibilities, is to establish a precise program of action and, this program once established, to hold to it. That is what we did on March 5 following the declarations we made during the discussion itself of the budget. In examining the possibilities of the financial market we said that there would be this year but one long term loan -- that of the National Defense. I can only expressly confirm this declaration. There can therefore be no question of a loan of ten billions and, a fortiori, of any forced loan whatsoever. If propositions of this order were made in Parliament we would give the reasons for our position and our attitude. For the time being I ask that these declarations be taken into consideration and that nothing further be added thereto.'"

END OF MESSAGE.

BULLITT

EMB:EDA

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 14, 1937

TO Secretary Morganthau

FROM Mr. Magill

Re: Railroad Retirement Legislation.

Senator Harrison called this morning regarding his proposition to alter the rate schedule to an initial rate of 5½ percent of the payrolls, increasing in three years to 6 percent and then ½ percent additional every three years until the final rate of 7½ percent is reached in 1949. This rate schedule would be the equivalent of a flat rate of a little over 7 percent.

I told the Senator that I talked to you and that your position was that the matter was now out of the Treasury's hands and up to the Congressional leaders. The Treasury is willing to accept either of the two sets of rates proposed by the actuaries in their letter.

The Senator said he understood our position and thought we were right but he believed that his proposed schedule of rates would be more acceptable to the railroads than the flat 7 percent. He said he would call Mr. Doughton and make the proposal to him.

The Senator asked me to give him, as soon as possible, the provision for a periodical report on the rates. I said we had drafted the provision and would let him have it this morning.

RM

388

DEPUTY GOVERNOR'S MEMORANDUM

April 14, 1937

TO: Governor Myers

FROM: Mr. Hill

SUBJECT: Government aid to agriculture, fiscal years 1934-1937

In accordance with your request, I have assembled such information as is readily available relative to the amount of Government aid to agriculture during the fiscal years 1934-1937. The data are given in the attached table.

It isimpossible in the time available to make a careful analysis of the figures going to make up the individual items. For example, under the heading of "Other Expenditures" for the Farm Credit Administration, you will note that the items shown are somewhat less than the amount actually spent for administrative expenses. This is because a part of the administrative expenses, particularly during the earlier years, were paid from crop loan and funds other than general appropriations for administrative purposes. It follows that the figures shown should be increased and the figures given as to emergency crop, feed and drought loans should be correspondingly reduced. It is also probable that the latter figures contain additional items which should be classified elsewhere. Similar inaccuracies undoubtedly obtain in connection with the data given for other agencies with whose operations I am not familiar.

It is my opinion, however, that inaccuracies of the type referred to above are not sufficiently serious to influence any general conclusions to be drawn from the data as presented.

Attachment

[illegible] AID TO AGRICULTURE, FISCAL YEARS 1934-1937 1/

	Fiscal Year 1937 (To 3-31-37)	1936	1935	1934	Total
Subsidies					
AAA Program 2/	$ 361.1	$ 542.6	$ 743.0	$ 290.3	$1,937.0
Resettlement - grants, adm., other	127.7	64.1	0.1	-	191.9
Federal Surplus Commodities Corporation	2.8	8.2	76.6	40.1	127.7
FERA-Loans and Relief in Stricken Agric.Areas (Transfer to FERA, Grants to States) 1934 & 1935	-	-	90.6	90.6	181.1
Department of Agriculture, Relief	0.3	2.9	80.5	-	83.7
Interest Reduction - FLB borrowers	24.9	29.1	12.6	7.0	73.5
Total	$516.8	$ 646.9	$1,003.3	$ 427.9	$2,594.9
Loans (net) 3/					
FCA - Emergency Crop, Feed & Drouth Loans	5.1 a/	29.8 a/	99.4	81.6 a/	17.1 a/
Resettlement - Loans	8.4	73.8	1.6	-	83.8
FERA-Grants to States for Rural Rehabilitation	-	-	78.6	-	78.6
Commodity Credit Corporation	76.5 a/	139.7	60.1 a/	164.3	157.4
Rural Electrification	5.2	0.7	-	-	5.9
Total	$ 68.0 a/	$ 174.4	$ 119.5	$ 82.7	$ 308.6
Capital Subscriptions					
Paid-in Surplus: Federal land banks	23.3	32.5	33.6	40.9	130.3
Federal intermediate credit banks	-	-	15.0	25.0	40.0
Capital Stock: Federal Farm Mortgage Corp.	-	-	-	200.0	200.0
Production Credit Corporations	-	-	15.0	105.0	120.0
Banks for Cooperatives	-	20.0	15.0	110.0	145.0
Regional Agric. Credit Corps.	13.0 a/	19.5 a/	-	5.7	36.8 a/
Total	$ 10.3	$ 33.0	$ 78.6	$ 486.6	$ 608.5
Other Expenditures					
Department of Agriculture 4/	125.8	101.9	77.9	71.3	376.9
Farm Credit Administration	4.4	6.0	2.3	2.4	15.1
Total	$130.2	$ 107.9	$ 80.2	$ 73.7	$ 392.0

a/ Excess of credits, deduct.

1/ Data furnished by Bureau of Budget, basis of Daily Statement U.S.Treasury except FERA items which are from the report of The President's Committee on Crop Insurance (p.29). The FERA item of $181.1 under "Subsidies" was arbitrarily divided between fiscal years 1934 and 1935; the item of $78.6 was arbitrarily included under fiscal year 1935.

2/ Includes cotton loan operations.

3/ Loans and collections were reported as follows by the agencies indicated for the calendar years 1933-1936:

	Loans Made	Repayments	Balance
Farm Credit Administration			
Crop and Feed Loans	$ 169.3	$ 102.9 b/	$ 66.4
Drouth Relief Loans	72.0	11.6	60.4
Regional Agric. Credit Corporations	292.4 c/	267.1	25.3
Commodity Credit Corp.(to March 31, 1937)	609.0	451.5	157.5

b/ Does not include collections on loans made prior to 1933

c/ Exclusive of renewals.

4/ Other than AAA Program, Roads and "Loans and Relief".

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

April 14, 1937

Memorandum for the Secretary of the Treasury:

The personnel transferred from the Federal Emergency Relief Administration to the Treasury Department in August 1935 totalled 703 employees, consisting of 29 Purchasing Agents, 119 supervisory employees and 555 employees in lower ratings. Of the 29 Purchasing Agents who became State Procurement Officers, five have since been separated from the Treasury Department as unsatisfactory. Nineteen appointments of State Procurement Officers were made by the Treasury Department in those cases where the incumbents under the Federal Emergency Relief Administration were not recommended for appointment.

While the personnel in the State Procurement Offices was necessarily increased to meet the work loads imposed, during the past four months reductions in the force have amounted to 1,247 employees aggregating $1,673,536 per annum.

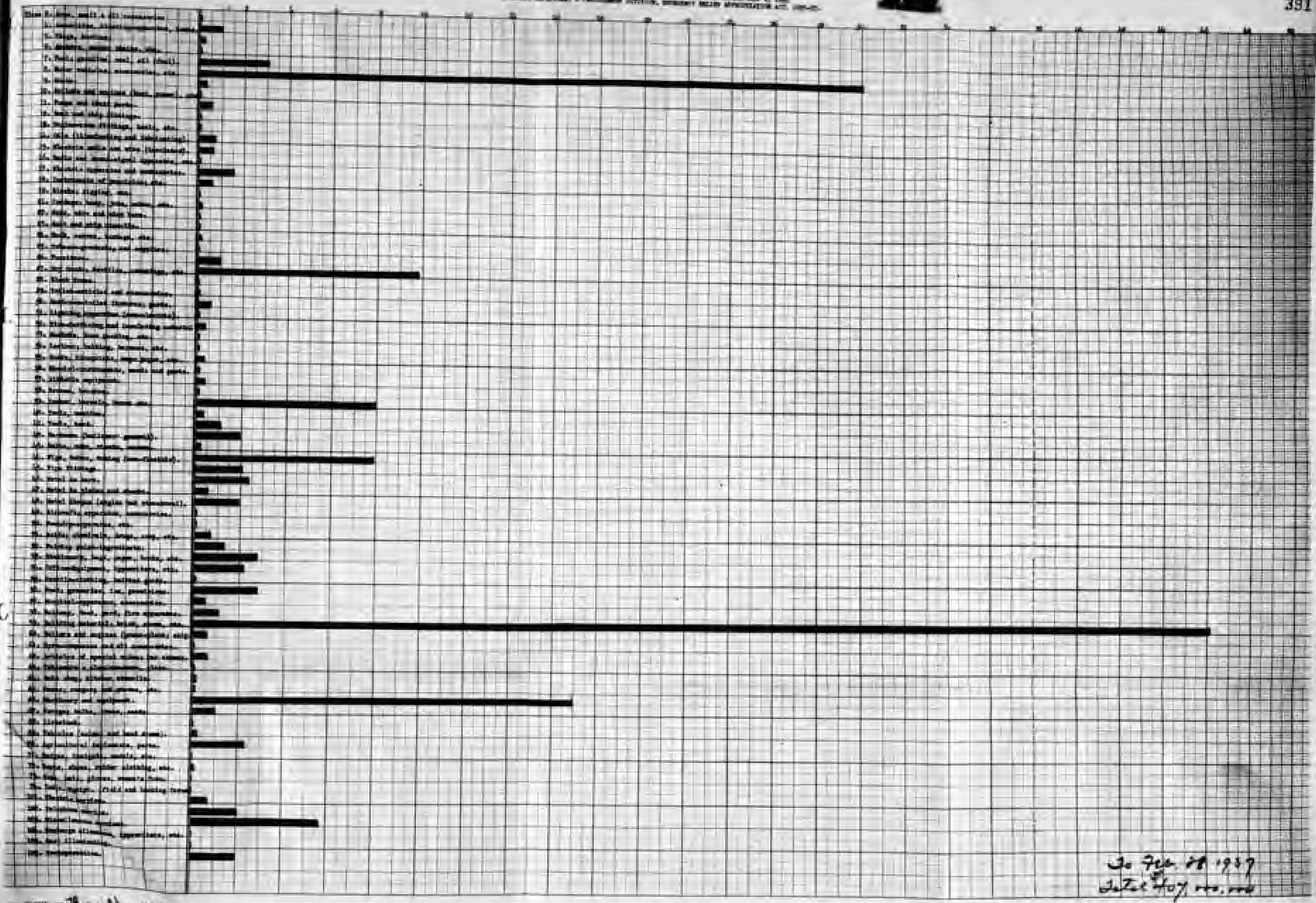
The total purchases of supplies, equipment and materials made by the Branch of Supply, Procurement Division and its State Procurement Offices upon requisitions submitted by the Works Progress Administration to carry out projects approved by them have amounted to:

	From August, 1935 to June 30, 1936	From July 1, 1936 to March 31, 1937	Total
Purchases	$244,974,275	$199,438,487.	$444,412,762
Number Requisitions	768,532	644,698	1,413,230
Number Purchase Orders	985,181	865,680	1,850,861

The Act appropriating Work Relief funds requires purchases over $300 in value to be made under Section 3709, Revised Statutes, after advertising for competitive bids. Awards and contracts are made with the lowest responsible bidder and are later reviewed by the General Accounting Office.

C. J. Peoples

Director of Procurement



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