

American Bankers' Association
New Banking Legislation

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Banking Legislation

Discussion of - 6/13/35.....

- a) H&R refers to fact that, unless there is additional legislation before 7/1, so-called permanent plan of deposit insurance (part of Banking Act of 1933) will go into effect.

General meeting - evening of 6/13/35.....

- a) Crowley says he is worried about possibility of losing 1000 banks and the effect on the fund and the banking structure of the country.
- b) O'Connor thinks Federal Deposit Insurance Corporation is in jam - no chance of getting bill passed by 6/30.

DIARY

Book 6

June 1 - June 15, 1935

- a) H&R thinks if not bill is not passed and permanent plan of deposit insurance, it is up to you. There should be a joint committee with respect to interest, Federal Reserve, Treasury Department, Comptroller, and perhaps the American Bankers' Association - check out in view of the banks.
- b) H&R quotes Tom H. Smith: "If H&R will agree to open Market Committee of 5 members of Federal Reserve Board and 5 Democrats, 1000 Banking Bill can be passed easily".
- c) H&R thinks F&R, H&R, and he should see Senator Glass concerning it. H&R thinks Glass, then F&R, should stay at least.
- d) Tom H. Smith joins group. H&R thinks if an agreement can be reached concerning 5-5 Open Market Committee and a 200 day or deposit insurance, they can get Banking Bill passed.
- e) H&R thinks in his duty, as Special Officer, to see that at least the above notice be sent to all persons concerning possibility of insurance on 7/1.
- f) H&R phones F&R who agrees to 5-5 Open Market Committee but not a 5-5 Committee. Tom H. Smith objects, H&R says he has in writing that F&R will accept 5-5 Committee.
- g) Tom H. Smith tells H&R American Bankers' Association asks for 5-5 membership of Open Market Committee 6/14/35.
- h) Appointment with Senator James V. Fletcher, chairman of Banking and Currency Committee, arranged by F&R present. H&R, Cullidge, West, Spahr, H&R is present 6/14/35.
- i) Fletcher and Byron depart. H&R is Glass' subcommittee. Think insurance of possibility significant about three articles.
- j) Upon called to phone and told by Robert Thornton Federal Reserve Board, in session, and when they would assign any statement to public.

American Bankers' Association
See Banking Legislation

Banking Legislation

Discussion of - 6/13/35..... VI 61

- a) HMJr refers to fact that, unless there is additional legislation before 7/1, so-called permanent plan of deposit insurance (part of Banking Act of 1933) will go into effect

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- a) Crowley says he is worried about possibility of losing 4000 banks and the effect on the fund and the banking structure of the country
- b) O'Connor thinks Federal Deposit Insurance Corporation is in jam - no chance of Banking Bill of 1935 being enacted by 6/30
- c) HMJr thinks if new bill is not passed and permanent plan of deposit insurance must go into effect 7/1, there should be a joint statement from Federal Reserve, Federal Deposit Insurance Corporation, Comptroller, and perhaps Reconstruction Finance Corporation - stockholder in many of the banks
- d) HMJr quotes Tom K. Smith: "If Eccles will agree to Open Market Committee of 6 members of Federal Reserve Board and 5 Governors, 1935 Banking Bill can be passed easily"
- e) HMJr thinks FDR, Eccles, and he should see Senator Glass concerning; if Eccles annoys Glass, then Eccles "could stay at home"
- f) Tom K. Smith joins group; says he thinks if an agreement can be reached concerning 6-5 Open Market Committee and a 25% top on deposit reserves, they can get Banking Bill passed
- g) HMJr thinks it his duty, as fiscal officer, to see that at least two weeks' notice be sent to all bankers concerning possibility of insurance on 7/1
- h) HMJr phones FDR who agrees to 6-4 Open Market Committee but not a 6-5 Committee; Tom K. Smith objects; Eccles says he has in writing that FDR will accept 8-5 Committee
- i) Tom K. Smith tells HMJr American Bankers' Association sticks for 6-5 membership of Open Market Committee 6/14/35 76

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2. Upham called to phone and told by Elliott Thurston Federal Reserve Board, in session, had voted unanimously against any statement to public

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Federal Alcohol Control Bill

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Last week in July borrow enough for August needs
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Earl Bailie thinks Treasury is in market too often; old policy of four times yearly best 6/12/35

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June 3d

H.M.Jr. called Secretary Hull and said that he would like to recommend a promotion for Mr. Cochran, who is the Second Secretary at the Embassy in Paris, as he had done a grand job.

H.M.Jr. read the following cable, No. 247 from the American Embassy in London:

"A few days ago Leith-Ross made occasion to tell me there was no ground in fact for the belief on the part of the Treasury of the United States that the activities of the United States equalization fund were being made known to either the Bank of England or the British Treasury. Leith-Ross added that it had been hoped that Bewley, who was attached to the British Embassy, Washington, might have been able to furnish such information to London, but that to date no such contact with the U. S. Treasury had been established by Bewley.

"Leith-Ross made it plain that he was making the above statement deliberately. In view of this fact, the Embassy asked him whether, in transmitting his observations, Leith-Ross desired to suggest a reciprocal exchange of information with Washington through this Embassy as to any or all of the British equalization fund activities. The answer to this by Leith-Ross was that this was a matter which had to be taken under official advisement. He said he would inform me later if I would agree to postpone action. I am submitting this preliminary statement to you for your information since up to the present I have had no further communication from Leith-Ross. I will report again when I hear from him."

(Signed) Bingham

H.M.Jr. asked Mr. Hull to tell Bingham not to pursue them any further; that if Leith-Ross wants to take this up again O.K. but to tell Bingham not to pursue them.

He also told Mr. Hull that he wants to ask the President to send for Bewley, owing to the fact that Leith-Ross is not telling the truth, because all the funds used in the British market are with the Bank of England and we can't make a move without their knowing it.

* * * * *

H.M.Jr. called the President and told him that everything was quiet; that the Francs are 6.60-11/10 and the pound is 4.91-3/8. Future Francs are recovering and some of the fellows who sold the Franc short are going to get a spanking. Switzerland is going to stay on gold. H.M.Jr. believes this whole thing will straighten itself out until next October.

* * * * *

H.M.Jr. called Cochran at 12 noon to-day. Cochran practically gave Mr. Morgenthau the information contained in the attached cable, which came the day after their conversation.

H.M.Jr. told Cochran that he spoke to Secretary Hull this morning and recommended him for a promotion and that Hull said he could do it after July 1st.

He also told him that if the Governor gets this vote of confidence tomorrow that H.M.Jr. would appreciate it if Cochran would have a personal talk with Cariguel and tell him that he thinks it would be a nice thing if the Bank of France would give out a statement explaining what the United States did last night at 10:30 to help them. They could say what a valued friend the United States government is. Tell him that it was not the Federal Reserve of New York who gave them this credit - that it was the Treasury.

* * * * *

I spoke to the President to-day about Ed Bruce and he told me that we can send word to him to the hospital that he will definitely get his \$500,000 for his art work.

H.M.Jr. called Mrs. Bruce and she said that this information would help bring him back to good health.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France
DATE: June 3, 1935, 3 p.m.
NO.: 461 FROM COCHRAN

At 12 noon Cariguel telephoned to me from the Bank of France to tell me that by 10:30 this afternoon the Bank of England had sold to the market 150,000,000 francs. The Bank of England had canceled the gold earmarking order for today of 170,000,000 francs which it had with the Bank of France. Calm exchange market, but busy, with this tendency to buy back francs, presumably on the part of speculators who last week had sought sterling and dollars. The technicians had now done their part with respect to protection of the franc, Cariguel said, and it was now up to the politicians to do what they could to protect it. It is Cariguel's opinion that extended powers will be granted the government, but demonstration of their use is anxiously awaited.

This afternoon I talked by telephone with the B.I.S. economic adviser. The Swiss had been surprised he said because the crisis referendum had been defeated by 140,000 votes when a majority of not more than 100,000 was anticipated. Swiss officials and banking circles were enheartened by this, and the Swiss franc rate underwent instant strengthening. My contact explained, however, that since the Swiss Government had not wanted any bank failures prior to the referendum considerable aid had been given to some of the weaker banks for several weeks prior to the vote. There may be an easing of the Swiss banking situation if return of funds to Switzerland

results from the more confident atmosphere now prevailing. If this does not happen, it may be necessary to declare a moratorium for one or more banks. The tourist trade of the present summer season should now help both Switzerland and France. My contact thinks that with this help, and with the French Government likely to procure special powers, and with the defeat of the Swiss referendum, for about three months the gold bloc may conceivably have a period of comparative calm.

The BIS economist was in London last week, where he found the French and American situations being closely watched by British officials, and with much interest on their part. In London the general opinion seemed to prevail that even if international agreement on stabilization might now be worked out, it was extremely doubtful whether the terms of such agreement could be maintained by the continental countries, particularly Germany and the gold bloc. The question now arises in the minds of British observers whether the wrecking of the NRA may lead to a lowering in costs in American competition on the world markets. These observers consider that the NRA was a factor in American economic planning which was chiefly responsible for the rise in prices. A policy of waiting, my contact said, is likely to be followed by the British until they are more certain about the outcome of recent developments in the United States, and until the European monetary situation is more settled. British people still insist that definite arrangements cannot yet be made because in these days there are too many surprises.

END SECTIONS ONE AND TWO.

STRAUS.

GRAY

PARIS

Dated June 3, 1935

Rec'd 1:17 p.m.

Secretary of State,
Washington.

461, June 3, 3 p.m. (SECTIONS THREE AND FOUR)

According to the press Cailloux, new Minister of Finance, has stated "I do not propose to hold the position of Minister of Finance any longer than it is necessary for me to take into account the exact situation and to take the first measures recognized as indispensable for the reestablishment of the finances. After this I shall resume the post of Minister of State which Premier Bouisson was good enough to offer me. But I wish to emphasize immediately that I am absolutely determined to defend the franc from all attacks from any quarter and to prevent its devalorization. I can assure you that the speculators all of them will realize that their path will be difficult; they realize this already, it is evident."

LE TEMPS quotes as previously from the address made at Rheims on June 2 by President Lebrun "The day when the nations finally weary of the common misery which surrounds all decide to return, in the financial, political

and economic and monetary domains to the sound practices which I believe assured their happiness prior to the great torment, no doubt the world will once more experience a period of prosperity. France has shown that she has worked towards this end with all her strength. She joins with the nations attached to peace in efforts to set up a system of collective security capable of dissipating the troubles and the anxieties which poison the distressed and hinder any resumption of confidence.

She vigorously defends the principle of monetary stability without which commercial transactions can not resume their former activity. France is ready to enter into conversations to revive commercial exchange which a tragic destiny reduces more and more each day. Let us hope that in the near future these meritorious efforts may be crowned with full success."

Talking yesterday at Lyon Herriot is said to have declared "A policy of devaluation would not be long in bringing rise of prices and upset of our export trade. I ask all thoughtful men to aid measures in the task I am undertaking to defend the franc against devaluation which could only bring about a temporary period of false prosperity."

PARTIAL TRANSMISSION OF
SECTION FIVE. No. 44 of June 4, 1961, from the American
Embassy Paris.

Jenny in LE TEMPS says it is not enough to fight
the speculators; budgetary problems must be solved and
constant borrowing avoided.

Mitzakis in L' INTRANSIGEANT after citing the manner
in which the Netherlands, France and Switzerland have
in turn repelled devaluation says that it is now for the
gold bloc to hold steady awaiting the time for construc-
tive negotiations with the United States and Great Britain.

Tomorrow morning new Ministry will discuss govern-
ment's declaration of policy which will be read before
Chamber and Senate in the afternoon. It is expected to
be short and to

(END SECTIONS THREE AND FOUR)

STRAUS

WSB

Device was notified today for shipment on the
ORDER OF 100,000,000 francs gold bars by the bank of
France to Federal.

PARTIAL PARAPHRASE OF SECTION FIVE. No. 461 of June 3, 1935, from the American Embassy Paris.

Champion defense of the franc, reestablishment of budgetary equilibrium, and regeneration of the national economy.

Tremendous business continues to be done by British control this afternoon in selling francs as cover is sought by short sellers. The estimate of one operator is that over £3,000,000 business was done by the control today. There is a steady belga; for the week ended May 29 a gain of 887,000,000 francs gold is reported by the National Bank of Belgium. As a result of the Swiss crisis referendum, the Swiss franc is stronger; loss in gold and gold exchange reported by Swiss National Bank for May 31st statement is only ten million francs. The current rumors of internal problems in the Netherlands have caused a weakening of the florin. Today a gain of from 2.50 to 4.30 is noted for French rentes. Heavy decline in international stocks. About 10 percent loss for Suez Canal. Gold eagles have fallen from 27.75 to 25.95, and gold sovereigns have fallen from 133 to 128.

Invoice was certified today for shipment on the CHAMPLAIN of 198,000,000 francs gold bars by the Bank of France to federal.

STRAUS

EA:LEW

June 3d

Mr. Morgenthau discussed the following memorandum, which Mr. Oliphant gave him to-day with the President.

"Apart from all other plans to deal with the situation created by the Schechter decision, there is no possible constitutional objection to legislation requiring the Treasury and all other governmental agencies to stipulate as a condition to eligibility to bid on contracts for work or supplies of any form for the Government or any of its agencies that the bidder shall agree to comply with those provisions of the Industrial Recovery Act and requirements developed thereunder which we want to continue. We can likewise require that the Government will not deal with these contractors unless they agree also to do business only with those firms who similarly agree to comply with the aforesaid provisions and requirements. By this method a very large sector of American industry will be covered.

This proposed legislation should cover not only all ordinary expenditures of the Government, but emergency expenditures, particularly those under the Relief Appropriation Act.

The foregoing is not merely an effective way to enforce proper standards, but will also put the Government in the forefront of the movement for voluntary compliance."

Admiral Peoples, Oliphant, Bell, McReynolds and Charlie West were appointed by Mr. Morgenthau to work out this plan for him.

JUNE 3RD

Ted Wallen, Chief of the Washington Bureau of the New York Herald Tribune called on Mr. Morgenthau today as a result of an appointment made at his request through Mr. Gaston. On Friday, May 24th, a signed story by Wallen had appeared in the New York Herald Tribune which was headed: "Long and Aid Banked Lump \$500,000 Sum, Agents Report. Treasury Investigators, Pushing 'Spare Nobody' Income Hunts, Allege Deposit was in St. Louis."

The first paragraph of the story read:

"Washington, May 23. -- Months of digging into Senator Huey P. Long's income sources have produced an official report purporting to show that Long and a friend, on one occasion, put \$500,000 in a St. Louis bank in a single deposit. The investigation is being pushed under Treasury instructions to 'make no exceptions.'"

Mr. Wallen thought that he had been unfairly treated in the Secretary's references to this story in the Press Conference of Monday, May 27th. The Secretary was asked at that conference whether the story was true. The Secretary had said that after reading the story through three times he had failed to find anything in it to justify the headlines and Mr. Gaston said at the conference that the Treasury had no such report. The Secretary also said that he had no idea where Wallen got the story and turning to Mr. Gaston asked: "He called you up didn't he?" Mr. Gaston's reply was: "He called me up and I told him that I had never heard of it. He certainly would not write it unless he had it from some source." Mr. Wallen's grievance was based on the belief that the implication of the Secretary's remarks was that a correspondent had no ethical right to write a story about the Treasury if he could not get it confirmed from a Treasury source.

In the talk with Mr. Wallen the Secretary said emphatically that he had not expressed any such idea, nor given grounds for any such implication. As to the point that Mr. Wallen was accused, before fellow newspaper men and in his absence, of unethical practices, the Secretary said he had no such intention, that he had not himself raised the question but merely answered a direct question by one of the reporters present and that what he said on the subject was all off the record. Mr. Wallen seemed entirely satisfied with the conference and parted from the Secretary in entire good humor.

FEDERAL RESERVE BANK
OF NEW YORK

11

OFFICE CORRESPONDENCE

Date June 3, 1935.

To CONFIDENTIAL FILES

Subject Telephone Conversation with

From L. W. Knoke

Mr. Cariguel of the Bank of France.

Cariguel called at 1:15 p. m. He stated that they had a busy time today principally in connection with the operations of the British Control which had sold francs in excess of 220,000,000. I asked Cariguel whether he expected a renewal of the unused balance of \$116,000,000 but he said it would not be necessary. I inquired guardedly what he thought the next step would be and he said that the only thing they had in mind was to fulfil the contract they had made with us and ship the gold as quickly as they could. I suggested that if later on he had any suggestions to make in connection with these gold operations, he let me know and he promised that he would talk to me very frankly.

In conclusion he requested that I tell Governor Harrison on behalf of Governor Tannery as well as on Cariguel's behalf how grateful they were for the cooperation they had received from us.

LWK:KMC

June 3, 1935

MEMORANDUM

Between January 15, 1935 and February 18, 1935, commercial banks refrained from engaging in gold shipments to the United States pending the decision of the Supreme Court on the gold case. In order to maintain the stability of the dollar the United States Treasury purchased in the Paris and London markets in this period 89 million dollars in gold. Subsequently, 11 million dollars of this amount was resold in the Paris market.

70 million dollars was shipped to the United States and 8 million dollars was retained in London. During the recent flurry in the London gold market this 8 million dollars was disposed of in London at slightly over \$35 per ounce. These sales resulted in a profit of \$200,000 accruing to the Stabilization Fund representing the saving of the expenses which have been set up to cover the cost of transporting this gold to the United States.

June 4, 1935

MEMORANDUM

In the period from January 26, 1935 to February 18, 1935, during the uncertainty which prevailed while the decision of the Supreme Court on the gold case was awaited, pound sterling to the equivalent of about \$28,000,000 was acquired by the Stabilization Fund in order to hold the sterling dollar rate steady. At one time this balance showed a book loss of about \$500,000, but as sterling recovered the balance was disposed of with the net result that this operation shows a profit of about \$25,000.

FEDERAL RESERVE BANK
OF NEW YORK

14

OFFICE CORRESPONDENCE

Date June 4, 1935.

To CONFIDENTIAL FILES

Subject Telephone Conversation with

From L. W. Knoke

Mr. Cariguel of the Bank of France.

Cariguel called at 4:45 p. m. He said that fortunately before leaving the office tonight he had given the Guaranty Trust Company an order for the New York market. I told him that I had just learned from the Guaranty that under this order they had so far bought about 20,000,000 francs, mostly on orders from Europe. Cariguel then stated that he had advised Mr. Cochran of the Embassy that the Bank of France would very much like to have an order as before. I replied that we were in touch with Washington and would send him a cable tonight giving an order if the Secretary renewed it. If not, I promised I would call him on the telephone. In case he did not hear from me by telephone, then he would know that a cable was on the way.

Cariguel thought that was all right.

I inquired how things were shaping now but he stated it was difficult for him to say since he had not seen anybody yet.

LWK:KMC

FEDERAL RESERVE BANK
OF NEW YORK

15

OFFICE CORRESPONDENCE

Date June 4, 1935.

To CONFIDENTIAL FILES

Subject Telephone Conversation with

From L. W. Knoke

Mr. Cariguel of the Bank of France

I called Mr. Cariguel at 8:15 p. m. I told him we were sending him a cable tonight advising that the Secretary had renewed the offer contained in our cable No. 83 of May 31 (that is to buy up to \$116,000,000 gold). I explained that although no mention of it was made in our cable the understanding was that, as heretofore, this offer was to be considered as a reserve offer to be used only in case the operations of the commercial banks were not sufficient to meet the demand for dollars. I then referred to our telephone conversation this morning in which I had requested him to ship no more than \$15,000,000 gold this week. I repeated that, as he knew, the reason for this request had been the desire of our friends if possible to sell some of the gold in Paris rather than have it all come over here. Inasmuch, however, as developments this afternoon had brought about such a complete change that it now looked as though we might instead of selling gold in Paris, buy some more, I was wondering whether he could renew his booking of space on the Manhattan and ship the total of about \$17,000,000 as originally planned by him. Cariguel assured me that he thoroughly understood my suggestion and he would be perfectly glad in the morning to do his best provided of course he could get the necessary insurance which might be difficult.

LWK:KMC

FEDERAL RESERVE BANK
OF NEW YORK

16

OFFICE CORRESPONDENCE

Date June 4, 1935.

To CONFIDENTIAL FILES

Subject Telephone Conversation with
Mr. Cariguel of the Bank of France.

From L. W. Knoke

I called Mr. Cariguel at 10:30 this morning and inquired whether there was anything new in their market. Cariguel replied "Nothing at all," that things were much quieter today but that the British Control had continued to buy sterling. He had not received the final figures yet but thought that the total of the operations was small even though sterling had turned a little stronger.

I told Cariguel that the purpose of my call was to request him to ship no more than \$15,000,000 of our gold this week and after this amount had been arranged not to do anything further until he heard from us again. I explained to him that our friends were now considering whether some of the gold in Paris could not be sold back in that market because they felt it would be more helpful not to have too much of the metal come over here. I added that I would discuss this matter with him further in a day or so and repeated my request of yesterday, that he let me have any suggestions that might occur to him in this connection. Cariguel replied he would.

LWK:KMG

June 4th

Conversation between Mr. Cochran and H.M.Jr. at 3:15 to-day after Mr. Morgenthau got word over the ticker that the French Government was defeated on its demands for full financial powers in the Chamber of Deputies to-day and that the Cabinet had resigned.

H.M.Jr: What is the matter over there?

Cochran: The government fell at 8 o'clock today.

H.M.Jr: What is going to happen now?

C: I was at the bank at 6 o'clock and at that time there was a rumor that the government didn't have a very good outlook.

H.M.Jr: What are we going to do? Go through the same performance again? Keep in touch with us and we will watch it very closely over here. I thought everything was fixed up. It looked that way yesterday.

C: Finance Minister Joseph Caillaux talked too much and talked very foolishly and they lost confidence in him. Now it looks as though Laval or Herriot will be Premier.

H.M.Jr: How do they stand on the Franc and on devaluation?

C: Both are for keeping it steady. Herriot had indicated that he would be willing to devalue only by international agreement.

C: In regard to our conversation of yesterday do you think it would be wise for the Bank of France to give out that publicity?

H.M.Jr: There is no use doing it until the French Cabinet is in existence for at least ten days. Don't figure on anything until you have a government.

June 4th

The following are statements received over the U P ticker:

At 9:34

"Premier Fernand Bouisson called on the French Parliament to-day for semi-dictatorial powers to save the Franc. In a governmental declaration read both to the Chamber of Deputies and the Senate, he outlined a comprehensive program for a "New Deal" in which he stressed the following points:

The war on speculations will be "brutal and decisive" in the drive to save the Franc and stop the drain of gold.

A balanced budget will be sought in an effort to restore the country's finances and economy.

An effort will be made to aid the farmers especially, but also merchants and industrialists. (There was a hint in this section of a move to keep up price levels.

Unemployment will be fought and the younger generation will be aided so it can face the future with confidence.

Externally, France will work for peace and international collaboration.

At 9:46

The Parliamentary group of the powerful radical socialist party decided to-day to refuse the full powers asked by Premier Fernand Bouisson. Edouard Herriot, President of the party, who favors granting full powers, resigned and then withdrew his resignation. Bouisson demanded that questions be shelved and asked for a vote of confidence on that demand.

At 10:15

The Chamber of Deputies voted confidence in the Cabinet of Premier Fernand Bouisson to-day, accepting his demand that interpellations by Deputies be shelved.

At 11:27

The Finance Committee approved, 19 to 18, the proposed full powers to the government to meet the monetary crisis.

At 2:22

The French government was defeated on its demand for full financial powers in the Chamber of Deputies to-day.

At 2:25

The Cabinet has resigned.

At 2:33 and to everybody's great surprise

The coalition government went down to defeat by a margin of two votes. The vote was so close that at first it was announced the government had been given full powers, but an official recount was demanded and the roll call showed the government beaten by 264 to 262.

June 4th

I saw Senator Key Pittman, explained to him what we had done Thursday and he seemed very much pleased. I asked him whether I should see McNary and he said, "yes by all means".

Senator McNary came in at 11 o'clock. I explained to him what we had done for Franc# and I seldom have seen a man so enthusiastic. He said, "what you have done is courageous and statesmanlike and I am proud to be able to call you friend".

MEMORANDUM

21

June 4, 1935

Shortly after the fall of the French Government was announced the Bank of France called the Federal Reserve Bank of New York and stated that they would very much like to have our order for the purchase of gold in Paris renewed, as irrespective of the political situation they wished to maintain the working of the gold standard. As up to the present the Bank of France had only used \$33,000,000 out of the original authorization of \$150,000,000, I authorized the Federal Reserve Bank of New York to renew this authorization to the Bank of France for the unused balance amounting to approximately \$116,000,000.

June 4, 1935.

22
Hans

FOR THE PRESS

Today's announcement follows:

In order to meet an immediate problem relating to the Executive Branch of the Government as a result of the Supreme Court decision, two steps have been discussed and agreed to by members of the Administration and leaders of Congress.

1. - (a) Passage by the House of Representatives of the Senate Joint Resolution extending the life of the National Recovery Administration to April 1, 1936. The President has made this recommendation to the Speaker, Chairman Doughton of the Ways and Means Committee and Chairman O'Connor of the Rules Committee this afternoon. This recommendation is based on the desirability of maintaining a comparatively small staff in Washington and in the more important centers of the country, in order to bring together and summarize the vast amount of information now in the possession of NRA, relating to the actual results of Code Administration and to collect information in regard to the effects on industry, both employers and employees, of the abandonment by the Government of Code enforcement or requirements. These latter refer to working conditions and to fair trade practices. This information will, it is believed, be of great value to the Congress, the Administration and the country as a whole.

(b) The other reason for continuing a skeleton organization of NRA is that such an organization will be useful in carrying out the proposed requirement that Government purchases and contracts be placed only with corporations or contractors who live up to certain minimum requirements.

(c) If the House of Representatives approves the Joint Resolution passed by the Senate, that portion of the Resolution which in effect relates to codes will, of course, be inoperative insofar as the old codes are concerned.

(d) The extension of the National Recovery Administration would mean, without question, a very large cut in the officers and employees now attached to NRA, but would mean the retention of a substantial number of them.

"In this connection", the President said, "I want to record my deep appreciation and that of the country for the unselfish work which thousands of men and women employed under or in conjunction with the National Recovery Administration, have done in the past two years. I extend to them my sincere thanks; and I regret the circumstances under which the retirement of many of them from Government service becomes obligatory."

It should not be assumed by any person that this proposed continuation of the National Recovery Administration, in skeletonized form, relates in any way to the enforcement of working conditions or fair trade practices formerly existing under the Codes. All such requirements were eliminated by the Supreme Court decision.

2. The other measure which, like the first, must be considered as only a very partial stop-gap relates to Government contracts. Only a very small portion -- probably not much over one per cent of the industrial production of the country--is used in Government work. Nevertheless, the President feels that even though the percentage be small, the Government should take a practical and definite step to show its good faith in maintaining the larger objectives sought by N.R.A. The proposed legislation would authorize a requirement in every Government purchase that all persons engaged in the production of the supplies or in the carrying out of the contract shall be paid in accordance with minimum wage and maximum hour standards and that no person under the age of sixteen years shall be employed. The same rule would apply to the use of Government loans or grants to States, municipalities or other local government agencies.

It is believed that this proposed bill carries out a moral responsibility of the Federal Government and it is hoped that such action will be followed as largely as possible by private industry in every one of its branches.

This proposed measure, however, like the first, does not make much progress toward obtaining the ultimate objectives of national standards for the working population of America nor for national standards which seek to protect honorable employers against the unfair practices of less honorable competitors.

3. The Supreme Court decision has affected a number of agencies which were set up in part or in whole under the authority of Title I of the National Industrial Recovery Act. A careful review of the effects of the Supreme Court decision has been made.

(a) New legislation would be necessary for the continuance of the Federal Alcoholic Control Administration, for the Electric Home and Farm Authority, for the Petroleum Administrative Board and the Central Statistical Board. Legislation to meet these four ends is now under consideration.

(b) Two agencies can be continued by amendments to Executive Orders: The National Emergency Council and the National Resources Board. Both of them relate to planning for and execution of work relief and can, therefore, be continued under the work relief act.

(c) Three agencies have completed their work and will be terminated as heretofore planned on June 16th -- the Committee on Economic Security, the Advisory Council on Economic Security and the Office of the Special Advisor to the President on Foreign Trade.

(d) Seven labor boards created under N.R.A. must terminate in their present capacity. They are: The National Labor Relations Board, The Petroleum Labor Relations Board, The Steel Labor Relations Board, The Textile Labor Relations Board, The Work Assignment Board for Cotton, The Work Assignment Board for Silk, and The Work Assignment Board for Wool.

The President has, however, sent to the Speaker of the House of Representatives a supplemental estimate of appropriations for the Department of Labor for the coming fiscal year in the sum of \$600,000. This will enable the Secretary of Labor to conduct additional mediation and conciliation activities and thus take over a small portion of the work of the boards which are abolished. It is worth noting, however, that the authority of the Department of Labor extends only to mediation and conciliation. The Wagner Labor Bill, if enacted, would set up new tribunals which would substantially cover the functions heretofore exercised by the various boards above mentioned.

June 4th

The following are notes made at a meeting at 2 P.M. to-day in Secretary Morgenthau's office. Those present were:

Mr. Oliphant
Admiral Peoples
Mr. Haas
Mr. Coolidge

Mr. Bell
Mr. McReynolds
Mrs. Klotz

Mr. Morgenthau to Mr. McReynolds: The Secretary of the Navy has ordered Sayles returned to Active Duty on July 1 in one of the new positions authorized for retired officers. I wish you would get in touch with Captain Sayles and notify him.

Mr. McReynolds: That is fine. I will take care of it.

Mr. Morgenthau: Homer Cummings has been designated by the President to carry the whole question of legislation with regard to Federal purchasing. The agreements to maintain wage standards, hours of duty and elimination of child labor are to extend to all individuals and agencies of any kind whatever that are accepting grants or loans from any government agency. He had an entire draft of a bill prepared by Stanley Reed. The Attorney General said he had only one copy of this draft. Inasmuch as the President asked 6 people I said, "Won't you please designate the Attorney General to be responsible for this legislation?" The President said he would.

Mr. McReynolds: We have stopped making contracts.

Mr. Oliphant: Practically, that means Reed.

Mr. Morgenthau: No - the Attorney General said it means himself.

Mr. Morgenthau: Now the big problem centered as to whether that should be extended to Loaning Agencies. Miss Perkins and I argued for that. The President said it would be extended.

Mr. Coolidge: Does that mean new loans?

Mr. Morgenthau: Everything. If Ickes loans \$10,000 on a \$25,000 schoolhouse it means that everything that goes into that schoolhouse will have to conform to the different rules and regulations the government sets down.

Mr. Oliphant: That includes grants and loans?

Mr. Morgenthau: Everything.

Mr. Coolidge: Will those rules be flexible?

Mr. Morgenthau: I can't answer Jeff. You will have to see the Attorney General. The thought is that it will go right straight down as far as it can. Perkins and I argued for it. The thing would spread from coast to coast. The thought is that they will try to make it just as effective as they can. The more Mr. Ickes argued against it the more he convinced me that it was right.

Mr. Coolidge: I think that is fine.

Mr. Morgenthau: From the President's standpoint the thing I argued was that we should not leave a stone unturned so no one could say the United States did not try in its own purchasing. Now if it works a hardship then it should be corrected. First the Army was against it. Then when he saw the picture he said, "that's right and I am for it."

Mr. McReynolds: What about the contracts we have now?

Mr. Morgenthau: Let me tell you what was discussed. The buying responsibility is Peoples'; the drafting of the Legislation is resting with the Attorney General and anything Reed has in his shop you (Oliphant) should get into with him. General Counsel of the Treasury advises Peoples. Anybody that has any ideas like Coolidge take them and throw them into the hopper. Coolidge is familiar with industry in New England.

Mr. Morgenthau: This is the funniest thing - the Attorney General had no idea we were working on this thing. Steve Early personally feels responsible for this.

Mr. Bell: He (Early) put it on me.

Mr. Morgenthau: On FACA the Attorney General had a complete draft. He hadn't seen ours. He very much wants to see ours.

Mr. Oliphant: Is he carrying the ball on that?

Mr. Morgenthau: No.

Mr. Morgenthau: The Attorney General would like to be kept up to date.

Mr. Morgenthau: The President is working on the following bills:

Social Security
 Banking Bill
 Wagner Bill
 Guffey Coal
 AAA Amendments
 Oil Bill
 T.V.A. - Utilities Bill
 Bill to extend N.R.A. - Administrative
 organization

Transportation - Could live another year
 if necessary

Taxes

They are pressing to keep it (NRA) going. 2000 people in Washington to watch it. We have a joint resolution pending before Congress. They think they can get that through very nicely.

Mr. Morgenthau: They all jumped on your (Oliphant's) suggestion when they read the word "license".

Mr. Morgenthau: Any questions?

Admiral Peoples: Will this new legislation be part of this bill for the extension of the NRA?

Mr. Morgenthau: You mean buying thing?

Admiral Peoples: No - legislation.

Mr. Morgenthau: I think it is a separate bill.

Mr. Oliphant: Then I will get in touch with the Attorney General and ask him to work with me on FACA.

Mr. Morgenthau: All right.

Mr. Oliphant: I will get in touch with him and keep Admiral Peoples advised.

Mr. Oliphant: I want your decision on this question of policy. Whenever the Attorney General gets started setting this up he is going to find that he has to provide an agency that will determine whether or not this person is qualified to receive a grant or loan and then he has to have agencies to see that they are complying. Will you use the old frame-work of the NRA?

- 4 -

Mr. Morgenthau: It is very difficult for all of us when ten people are pinned with the same thing. It gets down to where people know where they are going. I didn't know where I was going.

Mr. Morgenthau to Admiral Peoples: Do you know where you are going?

Admiral Peoples: I have one big problem before me now and Oliphant said he thought we should have a conference afterwards. There are literally thousands of cases all over the country where bids are submitted on the basis of codes. Where code is called illegal code cannot be written into new contracts. In other words, what should be put into those contracts so as to continue the business of the government until this legislation becomes effective?

Mr. Morgenthau: You people and the Attorney General will have to agree on that.

Mr. Morgenthau: I am tickled to death that the President gave this to the Attorney General because every time I am met on the street someone says I am charged with this responsibility. (Laughter)

Mr. Morgenthau: I am serious.

Mr. Morgenthau: Steve Early says he is charged with the responsibility of buying.

Mr. Morgenthau to Mr. Coolidge: Jeff, is there anything you want to bring up on this?

Mr. Coolidge: No.

Mr. Morgenthau: I think that covers the whole thing.

Admiral Peoples: Yes.

June 7, 1935.

27

CIRCULAR NOTICE

To the Heads of the various Executive Departments,
Independent Establishments and Agencies.

An important question of policy has arisen in connection with Federal contracts for supplies and for construction work of all kinds through the necessity for the elimination of the code compliance requirements as a result of the decision in the case of the Schechter Poultry Corporation, et. al., vs. United States.

It is understood that it is the intention of the President to submit to Congress at an early date legislation which would require provision to be made in every Government contract that all persons engaged in the production of the supplies, or in the carrying out of the contract, shall be paid in accordance with minimum wage and maximum hour standards, and that no person under the age of sixteen years shall be employed. The same law to apply to the use of Government loans or grants made by the United States, or any agency thereof, to any state, municipal government, local subdivision, person or corporation.

Until such time as the proposed legislation may be acted upon by Congress, the Director of Procurement recommends that in lieu of the code compliance requirements stipulated in paragraphs 1 to 4, inclusive, of Executive Order 8646 - temporarily suspended by Administrative Order G.C. No. 89, of May 30, 1935 - all invitations to bid for supplies, materials, or construction projects of any character include the following clause:

"Bids are requested on the basis that if subsequent legislation shall require observance of minimum wages and/or maximum hours of employment and/or limitation as to age of employees, in the performance of Government contracts any contract entered into shall be subject to modification to accord with such statutory requirements to the extent authorized or required by law." and contracts based thereon to be entered into accordingly.

It is further suggested that awards may be made on pending proposals if the bidder will agree to the inclusion in the contract of the stipulation above-quoted in lieu of the code compliance requirements; and, if the bidder does not agree, new proposals should be issued which include the above stipulation.

It is further recommended that each Executive Department, independent establishment, or other agency shall:

Defer action on all contracts, except contracts for services, supplies, or projects which are essential to the current conduct of the Government's business until Congress can declare its intention as to Federal contract requirements concerning hours, wages, and other conditions of performance.

G. J. PEOPLES
Director of Procurement

Approved _____ Secretary of the Treasury.

FEDERAL RESERVE BANK
OF NEW YORK

28

OFFICE CORRESPONDENCE

Date June 5, 1935.

To CONFIDENTIAL FILES

Subject Telephone Conversation with

From L. W. Knoke

Mr. Cariguel of Bank of France.

Mr. Cariguel called me at 12:10 p. m. He stated they had had a good day; Guaranty have had to sell about \$5,000,000 only which he thought was very satisfactory all things considered. I inquired as to the latest political news and he said Laval was reported still to be working on a cabinet and that Mr. Pietrie had been mentioned as a possible choice as Minister of Finance. I inquired whether there was any more talk of Rist taking that portfolio but he said no.

I asked him whether he had been able to do anything on the Manhattan shipment and he replied he thought they had closed for a total of 175,000,000 francs. With reference to further shipments, he stated they would continue making them as readily as possible until they heard from us again. I replied that would be in order.

LWK:KMC

FEDERAL RESERVE BANK
OF NEW YORK

29

OFFICE CORRESPONDENCE

Date June 5, 1935.

To CONFIDENTIAL FILES

Subject: Telephone Conversation with

From L. W. Knoke

Mr. Cariguel of the Bank of France

Mr. Cariguel called me again at 2 p. m. to say that towards the close dollars had been a little more in demand with the result that the Guaranty Trust had to sell a total for the day of \$9,000,000. In accordance with our understanding all of this will be applied under the facilities placed at Cariguel's disposal by Guaranty Trust Company. As explanation for the stronger tendency of the dollar Cariguel gave the fact that Laval had not succeeded in forming a cabinet; something else was being tried now but he understood from Governor Tannery that the plan was to give Laval later on another chance to try again.

If our friends in Washington saw their way clear to renew last night's offer, Cariguel said he would be most happy.

LWK:KMC

Note:

Mr. Crowell says he believes this is the first draft of the Deerfield speech and that the original copy was destroyed, there having been so many changes.

McH

June 26th

I am happy to have the opportunity to speak to the people of this old American community tonight and to you boys who have been living and growing here in body and mind. And I should like to add that since I have been in my present office this is the first time I have spoken except over the radio, so that fact at least tells you how much I wanted to come here and how glad I am to be with you.

As I have passed among these hills and valleys that you know so well and that have come to be another home for my two boys who have been here in this fine school, I have thought -- as all of you must often have thought -- of the events that have occurred here in a dozen generations. I have tried to picture the kinds of people who have lived here and of how they have acted toward each other. I have tried to picture their ideas of human cooperation and of government.

Each generation has seen a different world from that of the generation that preceded it. The difference has not been so much in the physical changes that have taken place. You have not had many or violent changes of that kind here. But these are not the important changes anywhere. Buildings, railroads, highways, dams -- all of these things are not so significant as the progress of knowledge in men's minds. It is that which fundamentally makes the differences between one generation and another -- the significant difference which creates the character of a civilization.

Do you remember Mark Twain's interesting fantasy of the Connecticut Yankee mechanic who was translated back to the time of King Arthur in England and how the knowledge he bore with him of the mechanical processes of our late nineteenth century was sufficient to build a modern community in ancient England -- even to cannons and rapid-firing guns. The process might be worked the other way. One could picture the people of a primitive civilization placed in the surroundings of today. Without instructors from our age they couldn't turn a wheel of our industry or make any of the products we regard as essential to our living. The factories and tall buildings would crumble and the wheels would rust and decay while the population went back to the bow and arrow hunting and crude agriculture to which they had been educated.

We have to fit ourselves today for a pretty complicated way of living. We have to acquire some of the essence of what it took many ages to discover. We have to acquire it because it is our education that will determine the character of the civilization of our particular America -- our particular world. The factories and tall buildings we inherit will not determine it.

But there is an essence of progress that is a thread running through all generations. It is in the energy and the curiosity and the will to learn new things. It has as its basis straight thinking and absolute intellectual integrity. In this Democratic country of ours we have found that this

spirit thrives in company with another principle -- the principles of social justice -- and that principle is just a simple rule of action as between man and man.

I want to give point to what I have to say about that principle by some incidents and situations that have come to my attention in public life. I might choose these incidents from those which you may associate as all important in connection with the Treasury, such as its monetary policy, or budget making, or major governmental financing, but I shall omit all of these important as they are, and talk to you today of certain things, which I believe to be more fundamental, and more vital than even the most perfect monetary machinery, because they deal with human beings, with our every day life, our every day conduct, and therefor have a direct bearing in our attitude toward our government.

I am going to talk to you about law enforcement, with which the Treasury has much to do in connection with its duty of collecting the revenue due to the government. In that work we have to deal both with those who don't want to pay and with the greater number who pay willingly. If there were a general conspiracy not to pay, then our job would be hopeless. But fortunately most people have a true understanding of the fact that government in this democratic country is a partnership and they pay what is due to their fellow citizens as a duty and even a privilege of citizenship.

They do it with pride -- and you should remember that they are in the overwhelming majority. Others seek ways to evade paying -- to cheat their government and their neighbors. Of this group of troublemakers there are two classes -- those who are in the upper world and think themselves worthy of respect, and those who are in the underworld and don't care whether they are respectable or not. I say they are the gangsters of both the upper and the lower world.

For instance: A man emerges from the obscurity of being a petty crook handy at all forms of comparatively safe crime to be the boss gangster of a community, a fairly big community in our country. He enjoys the fame of being an overlord of crime and vice and illegal trade and he makes an income that probably no man in lawful business in his city can equal. He is frankly of the underworld, but what of the bankers who handle his "dough", as he calls it? What of the lawyer who knows just what he is doing and yet "fronts" for him, helps him to dodge the law and cheat prosecution? What of the politicians who stand by and let him operate? And finally, when a Treasury enforcement unit does what local authorities have not been able to do and indicts him for a Federal penitentiary offense -- evading his income taxes -- What of the influential, respectable citizen who comes down to Washington with a message that the gangster is really quite a fine upstanding fellow who may have done a little technical

wrong but ought to be let down easy?

Or let us take another case, the case of the manager of a big industrial plant who did a favor for a group of men seeking a location for a business and a favor also to the corporation which had an idle plant to be rented. He introduced these business men to the banker with whom they deposited a large sum of money and to the agent of the idle factory. He did this same courteous service twice in two different communities for this particular group of business men. Did he know that their business was making alcohol on a large scale illegally? He said he didn't when our alcohol tax man caught up with him.

And again, there seems a difference of opinion about what is fair and right when one finds the most influential people in a community mustering every power to save from punishment a physician who for years has gathered a very large income by dispensing narcotics illegally to addicts. It is that sort of case that gives one real distress to contemplate.

Then there are those who sharpen their pencils and use trick devices to understate their income with the hope that they can impose on Treasury accountants and that at the worst after long delay they can obtain a compromise that will mean a clear gain to them -- at the expense of their fellow taxpayers. And there are those who advise them to do these things.

This is the dark side of the picture. But for every one of these there are thousands who scorn such tricks, who have a law of conduct -- the simple law that right is right and that

black is not white.

Our form of government is one that requires the cooperation of citizens. It is not a tyranny. It is not a dictatorship. So long as we co-operate in carrying out the laws which honestly seek to furnish revenue to our government, we help to uphold our democracy. When we seek to cheat and nullify and evade, and help others to evade, even though they do not come into open conflict with the law, we are in truth undermining the main foundations of our government.

When I entered on the duties of my present position there was a notable income tax investigation hanging fire. The men of the Bureau of Internal Revenue because of the implications of this case wanted authoritative word about what to do. I learned of their dilemma and sent for some of them. I didn't discuss the details of this particular case with them at all. I simply said: "Let's get this matter of policy straight and it will save us all a lot of trouble. If there is a case of law-breaking to be made against a man, make it. If there is a tax to be collected, collect it."

I didn't need to impart any special instructions about this case, nor did I need to get any. It is better to have one rule for all cases, and I had that rule. Five years of association in public life with Franklin D. Roosevelt had given me daily assurance that as long as I abided by that rule I would always be supported. The rule is simply that the

law is to be obeyed and that influence doesn't count. I can direct the work of 50,000 United States Treasury employees with the same confidence in the inviolability of that rule as in New York State I assured 150 game protectors that they needn't hesitate to arrest a politician who had shot a deer out of season. It is as simple as that.

It is in essence the simple rule that black is black and white is white. It is the rule of fair dealing by which all honorable business is conducted. It is the rule not to take advantage of the weak nor give special favors to the strong. There is no monopoly of it, no unique virtue that one can claim for practicing it. But it is a comfortable rule to follow. It smoothes out difficulties and makes and makes many tangled problems simple. It is the essential principle of which I have spoken, without which we cannot have good government in a democracy. This rule has consequences, a corollary, I think you would call it, which is expressed in the two words, "social justice".

One is unfortunate if he hasn't learned it early. I began to discern it as a boy when I sat in a corner of my father's office and saw it appear in business discussions. When, years later, I saw him laboring to protect the Armenians from annihilation, it was but the same rule in practice in a larger field. You, each one of you, could furnish your own recollections and instances of it. In spite of occasional exceptions and violations such as I have noted, it is a rule that is a part of the American spirit and character.

It is so much so that it is a password to a great brotherhood. When I voiced it to the men of the intelligence unit their faces lit with joy, and that was a tonic to me.

The pleasure that I get out of my present office is due chiefly to the fact that the men and women who serve their government, who serve you, serve well and with enthusiasm for doing a good job. There is nothing wrong with the morale of government workers. Any private company would be proud and happy to be served as faithfully as your government is served.

There are plenty of problems of government still to be solved. We are going to leave many of them to you boys who have been graduated today, and there will be others left for future graduating classes. But this I believe to be true; that there was never a time when so many able men and women were willing to give their services so freely to their government for its good rather than their own: never a time when the problems of government commanded such self-sacrificing labor as today.

You boys who have been graduated today will soon be working shoulder to shoulder with us, you will often be forging ahead of us, giving us of your strength, your character, your ambition. That I believe is something to give us renewed courage and renewed faith that our form of democratic government will and must prosper.

Note :

Mr. Crowell thinks this is the
2d draft of the Deenfield Speech.

McH

June 26th

Speech prepared by ^{29 H}
Gaston + corrected by
Mrs M.

I am happy to have the opportunity to speak to the people of this old American community tonight and to ^{you} these boys who have been living and growing here in body and mind. ^{I.} It may be of passing interest to you to know that I have not before spoken in the presence of a seeing and hearing audience since I have been Secretary of the Treasury. That fact at least tells you that I am glad to be here. change

to insert I am going to speak about what I regard as the first essential of good government in a Democratic country. What that essential I hope will appear plainly to you from some incidents in the life of a public official that I shall tell you.

As I have passed among these hills and valleys that you know so well and that have come to be another home for my two boys who have been here in this fine school, I have thought -- as all of you must often have thought -- of the events that have occurred here in a dozen generations. I have tried to picture the kinds of people who have lived here and of how they have acted toward each other. I have tried to picture their ideas of human cooperation and of government.

change Of one thing I feel sure; that they have advanced and have prospered in a real sense to the degree that they have observed that principles of government of which I want to speak. Each generation has seen a different world from that of the generation that preceded it. The difference has not been so much in the physical changes that have taken place. You have not had many

or violent changes of that kind here. But these are not the important changes anywhere. Buildings, railroads, highways, dams — all of these things are not so significant as the progress of knowledge in men's minds. It is that which fundamentally makes the difference between one generation and another — the significant difference which creates the character of the ~~the~~ civilization.

Do you remember Mark Twain's interesting fantasy of the Connecticut Yankee mechanic who was translated back to the time of King Arthur in England and how the knowledge he bore with him of the mechanical processes of our late nineteenth century was sufficient to build a modern community in ancient England — even to cannons and rapid-firing guns. The process might be worked the other way. One could picture the people of a primitive civilization placed in the surroundings of today. Without instructors from our age they couldn't turn a wheel of our industry or make any of the products we regard as essential to our living. The factories and tall buildings would crumble and the wheels would rust and decay while the population went back to the bow and arrow hunting and crude agriculture to which they had been educated.

We have to fit young men and women today for a pretty complicated way of living. ^{we} They have to acquire some of the essence of what it took many ages to discover. ^{we} They have to acquire ^{our} it because it is their education that will determine the character

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citizens as a duty and even a privilege of citizenship. They do it with pride -- and you should remember that they are in the overwhelming majority. Others seek ways to evade paying -- to cheat their government and their neighbors. Of this group of trouble-makers there are two classes -- those who are in the upper world and think themselves worthy of respect, and those who are in the underworld and don't care whether they are respectable or not. Of course, when a man doesn't care he isn't respectable. But those who want respect are not always respectable in your judgment or mine, either.

For instance: A man emerges from the obscurity of being a petty crook handy at all forms of comparatively safe crime to be the boss gangster of a community, a fairly big community in our country. He enjoys the fame of being an overlord of crime and vice and illegal trade ^{and he makes} as ~~well as~~ an income that probably no man in lawful business in his city ^{can} equals. ~~He is still~~ ^{H2 is Frankly} of the underworld, but what of the bankers who handle his "dough", as he calls it? What of the lawyer who knows just what he is doing and yet "fronts" for him, helps him to dodge the law and cheat prosecution? What of the politicians who stand by and let him operate? And finally, when a Treasury enforcement unit does what local authorities have not been able to do and indicts him for a Federal penitentiary offense -- evading his income taxes -- what of the influential, respectable citizen who comes down to Washington with a message

that the gangster is really quite a fine upstanding fellow who may have done a little technical wrong but ought to be let down easy?

another case

Or let us take the case of the manager of a big industrial plant who did a favor for a group of men seeking a location for a business and a favor also to the corporation which had an idle plant to be rented. He introduced these business men to the banker with whom they deposited a large sum of money and to the agent of the idle factory. He did this same courteous service twice in two different communities for this particular group of business men. Did he know that their business was making alcohol on a large scale illegally? He said he didn't when our alcohol tax man caught up with him.

And again There seems a difference of opinion about what is fair and right when one finds the most influential people in a community mustering every power to save from punishment a physician who for years has gathered a very large income by dispensing narcotics illegally to addicts. It is ~~the~~ ^{that} sort of case that gives one real distress to contemplate.

Then there are those who sharpen their pencils and use trick devices to understate their income with the hope that they can impose on Treasury accountants and that at the worst after long delay they can obtain a compromise that will mean a clear gain to them — at the expense of their fellow taxpayers. And there are those who advise them to do these things.

This is the back side^s of the picture

But for every one of these there are thousands who scorn such tricks, who have a law of conduct -- the simple law that right is right and that black is not white, and ~~for that reason don't have to bother their heads about the laws that send men to the penitentiary.~~

We hear a good deal about subversive influences in our National life, influences that are a peril to our form of government. Our form of government is one that requires the cooperation of citizens. It is not a tyranny. Are not those who refuse cooperation with the revenue laws which furnish our government its support, who seek to cheat and nullify and evade and help others to evade without coming into open conflict with the law really attacking the main pillars of our government? Are they not doing a good deal to promote tyranny as an alternative to popular government?

It has
been
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Dec 5-4

When I entered on the duties of my present position there was a notable income tax investigation hanging fire. The men of the Bureau of Internal Revenue because of the implications of this case wanted authoritative word about what to do. I learned of their dilemma and sent for some of them. I didn't discuss the details of this case with them at all. I simply said: "Let's get this matter of policy straight and it will save us all a lot of trouble. If there is a case of law-breaking to be made against a man, make it. If there is a tax to be collected, collect it."

I didn't need to impart any special instructions about this case, nor did I need to get any. It is better to have one rule for all cases, and I had that rule. Five years of association in public life with Franklin D. Roosevelt had given me daily assurance that as long as I abided by that rule I would always be supported. The rule is simply that the law is to be obeyed and that influence doesn't count. I can direct the work of 50,000 United States Treasury employees with the same confidence in the inviolability of that rule as in New York State I assured ¹⁵⁰ ~~a~~ game protector, ^{many} that ~~he~~ needn't hesitate to arrest a politician who had shot a deer out of season. *It is as simple as that.*

It is in essence the simple rule that black is black and white is white. It is the rule of fair dealing by which ^{all} honorable business is conducted. It is the rule not to take advantage of the weak nor give special favors to the strong. There is no monopoly of it, no unique virtue that one can claim for practicing it. But it is a comfortable rule to follow. It smoothes out difficulties and makes many tangled problems simple. It is the essential principle of which I have spoken, without which we cannot have good government in a democracy. This rule has consequences, a corollary, I think you would call it, which is expressed in the two words "social justice."

One is unfortunate if he hasn't learned it early. I began to discern it as a boy when I sat in a corner of my father's office

and saw it appear in business discussions. When, years later, I saw him laboring to protect the Armenians from annihilation, it was but the same rule in practice in a larger field. You, each of you, could furnish your own recollections and instances of it. In spite of occasional exceptions and violations such as I have noted it is a rule that is a part of the American spirit and character.

It is so much so that it is a password to a great brotherhood. When I voiced it to the men of the intelligence unit their faces lit with joy, and that was a tonic to me.

In spite of such instances as I have cited, I am able to turn away from the dark side of the picture to the bright face of events. I ^{get} ~~get~~ pleasure out of being Secretary of the Treasury as well as some worries and my pleasure is due chiefly to the fact that the men and women who serve their government, who serve you, ~~under my direction~~ serve well and with enthusiasm for doing a good job. There is nothing wrong with the morale of government workers. Any employer would be proud and happy to be served as faithfully as your government is served.

There are plenty of problems of government to be solved. We are going to leave many of them to ^{you} ~~these~~ boys who have been graduated today, and there will be others left for ^{future generations} ~~their children~~. But this I believe to be true; that there was never a time when so many able men and women were willing to give their services so freely to their government for its good rather than their own;

never a time when the problems of government commanded such self-sacrificing labor as today. // And I think there was never a time when the essential rule of good government that I have discussed has been so widely understood and supported. There are yet plenty of violations of it but the demand that it shall be uniformly applied, and the willingness of men to apply it in their own affairs, grow stronger daily.

That, I believe, is something to give us courage and new faith in government.

---oo00oo---

BY MORGENTHAU, JR.
COMMISSIONER
BERT E. GAYTON
DEPUTY COMMISSIONER
T. GIBBS
SECRETARY

STATE OF NEW YORK



DIVISION OF PARKS
DIVISION OF WATER POWER
AND CONTROL
DIVISION OF LANDS AND FORESTS
DIVISION OF FISH AND GAME

CONSERVATION DEPARTMENT
ALBANY

It is not a dictatorship. So long as
we co-operate in carrying out the
laws which honestly seek to increase
Revenue to our Govt, we help to
uphold our Democracy. When we seek to
obscure and nullify and evade, and
help others to evade, so far as they do
not come into open conflict with
the law, we are in truth ^{undermining} ~~attacking~~
the main ~~pillars~~ foundations of our
Govt. ~~We are helping to promote~~
~~training as an alternative to popular~~
~~Govt.~~

1. Had I should like to add that since I have been in my present office ~~there~~ ~~never spoken~~ ~~except~~ ~~on~~ ~~the~~ ~~Radio~~ This is the first time I have spoken ~~except~~ ~~on~~ ~~the~~ ~~Radio~~, so that fact at least tells you how much I wanted to come here ~~to~~ and how glad I am ~~to~~ be with you

2. * It has ^{as} its basis ~~is~~ straight thinking ~~is~~ and absolute intellectual integrity.

In this Democratic country of ours we have found that ~~alone~~ this spirit thrives in company with another principle - the principle of Social Justice - and that principle is just a simple Rule of action as between man & man

* 3 I might choose these incidents

from those which you may regard
as all important ~~in~~ in connection
with the Treasury, such as its monetary
policy, or budget making, or major
governmental financing, but I shall
omit all of these ~~and take my~~
~~examples from those~~ other
sources which are important as they
are, and talk to you, to day, of
certain things, which ^{in relation to the} are more
fundamental, and more vital
than those the most perfect modern

with human beings, ^{modernity}, because they ~~are~~ ^{are} ~~deals~~ ^{deals}

without any day life, our own
day conduct, and ~~that~~ ^{find} ~~the~~ ^{therefor}

have ~~an~~ ^{an} ~~effect~~ ^{effect} on our attitude toward
our government.

^{to our} ~~our~~ ^{attitude} ~~attitude~~ ^{to our} ~~govt~~ ^{govt} / am going to talk to you about Law
Enforcement

Our physical frontiers have
~~been~~ been crossed and conquered.
~~It took~~ ~~the time~~ ~~it~~ ~~took~~ ~~us~~ ~~great~~ ~~and~~ ~~strength~~
 and character to build this
 nation of ours

You boys who have been graduated
 to day will soon be working shoulder
 to shoulder with us, you will often
 be going ahead of us, giving us
 of your strength, your ^{character} ~~character~~
 your ambition, that I believe
 is something to give us ~~known~~
 courage and renewed faith
 that our form of ~~dem.~~ ~~govt~~
 will & must prosper

Speech delivered by Secretary Morgenthau
at Deerfield Academy on Wednesday
evening, June 5th, 1935, at 8 P.M.

SM

I am happy to have the opportunity to speak to the people of this old American community tonight and particularly to you boys who have been living and growing here in body and mind. And I should like to add that since I have been in the Treasury this is the first time I have spoken except over the radio, so that fact at least tells you how much I wanted to come here and how glad I am to be with you.

As I have passed among these hills and valleys that you know so well and that have come to be another home for my two boys who have been here in this fine school, I have thought -- as all of you must often have thought -- of the events that have occurred here in a dozen generations. I have tried to picture the kinds of people who have lived here and of how they have acted toward each other. I have tried to picture

their ideas of human cooperation and of government.

Each generation has seen a different world from that of the generation that preceded it. The difference has not been so much in the physical changes that have taken place. You have not had many or violent changes of that kind here. But these are not the important changes anywhere. Buildings, railroads, highways, dams -- all of these things are not so significant as the progress of knowledge in men's minds. It is that which fundamentally makes the differences between one generation and another -- the significant difference which creates the character of a civilization.

I am sure you remember Mark Twain's interesting fantasy of the Connecticut Yankee mechanic who was translated back to the time of King Arthur in England and how the knowledge he bore with him of the mechanical processes of our late nineteenth century was sufficient

to build a modern community in ancient England --
 even to cannons and rapid-firing guns. The process
 might be worked the other way. One could picture the
 people of a primitive civilization placed in the sur-
 roundings of today. Without instructors from our age
 they couldn't turn a wheel of our industry or make any
 of the products we regard as essential to our living.
 The factories and tall buildings would crumble and the
 wheels would rust and decay while the population went
back to the bow and arrow hunting and crude agriculture
to which they had been educated.

We have to fit ourselves today for a pretty com-
plicated way of living. We have to acquire some of the
essence of what it took many ages to discover. We have
 to acquire it because it is our education that will
determine the character of the civilization of our

particular America -- our particular world. The factories and tall buildings we inherit will not determine it.

But there is an essence of progress that is a thread running through all generations. It is in the energy and the curiosity and the will to learn new things. It has as its basis straight thinking and absolute intellectual integrity. In this Democratic country of ours we have found that this spirit thrives in company with another principle -- the principles of social justice -- and that principle is just a simple rule of action as between man and man.

I want to give point to what I have to say about that principle by some incidents and situations that have come to my attention in public life. I might choose these incidents from those which you may asso-

ciate as all important in connection with the Treasury, such as its monetary policy, or budget making, or major governmental financing. But I shall omit all of these, important as they are, and talk to you today of certain things which I believe to be more fundamental, and more vital than even the most perfect monetary machinery. They are more vital and fundamental because they deal with human beings, with our every day life, our every day conduct; and have a direct bearing on our attitude toward our government.

I am going to talk to you about law enforcement, with which the Treasury has much to do in connection with its duty of collecting the revenue due to the government. In that work we have to deal both with those who don't want to pay and with the greater number who pay willingly. If there were a general conspiracy

not to pay, then our job would be hopeless. But for-
tunately most people have a true understanding of the
fact that government in this country is a partnership
and they pay what is due to their fellow citizens as a
duty and even a privilege of citizenship. They do it
with pride -- and you should remember that they are in
the overwhelming majority. Others seek ways to evade
paying -- to cheat their government and their neighbors.
Of this group of troublemakers there are two classes --
those who are in the upper world and think themselves
worthy of respect, and those who are in the underworld
and don't care whether they are respectable or not. I
say they are the gangsters of both the upper and the
lower world.

For instance: A man emerges from the obscurity
of being a petty crook handy at all forms of comparatively

safe crime to be the boss gangster of a community, a fairly big community in our country. He enjoys the fame of being an overlord of crime and vice and illegal trade and he makes an income that probably no man in lawful business in his city can equal. He is frankly of the underworld, but what of the bankers who handle his "dough", as he calls it? What of the lawyer who knows just what he is doing and yet "fronts" for him, helps him to dodge the law and cheat prosecution? What of the politicians who stand by and let him operate? And finally, when a Treasury enforcement unit does what local authorities have not been able to do and indicts him for a Federal penitentiary offense -- evading his income taxes -- what of the influential, respectable citizen who comes down to Washington with a message that the gangster is really quite a fine upstanding fellow who may have done a little technical wrong but ought

to be let down easy?

Or let us take another case, the case of the manager of a big industrial plant who did a favor for a group of men seeking a location for a business and a favor also to the corporation which had an idle plant to be rented. He introduced these business men to the banker with whom they deposited a large sum of money and to the agent of the idle factory. He did this same courteous service twice in two different communities for this particular group of business men. Did he know that their business was making alcohol on a large scale illegally? He said he didn't when our alcohol tax man caught up with him.

And again, there seems a difference of opinion about what is fair and right when one finds the most influential people in a community mastering every power

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to save from punishment a physician who for years has gathered a very large income by dispensing narcotics illegally to addicts. It is that sort of case that fills me with disgust and wrath.

Then there are those who sharpen their pencils and use trick devices to understate their income with the hope that they can impose on Treasury accountants and that at the worst after long delay they can obtain a compromise that will mean a clear gain to them -- at the expense of their fellow taxpayers. And there are those who advise them to do these things.

This is the dark side of the picture. But for every one of these there are thousands who scorn such tricks, who have a law of conduct -- the simple law that right is right and that black is not white.

Our form of government is one that requires the

cooperation of citizens. It is not a tyranny. It is not a dictatorship. So long as we cooperate in carrying out the laws which honestly seek to furnish revenue to our government, we help to uphold our democracy. When we seek to cheat and nullify and evade, and help others to evade, even though they do not come into open conflict with the law, we are in truth undermining the main foundations of our government.

When I entered on the duties of my present position there was a notable income tax investigation hanging fire. The men of the Bureau of Internal Revenue because of the implications of this case wanted authoritative word about what to do. I learned of their dilemma and sent for some of them. I didn't discuss the details of this particular case with them at all. I simply said: "Let's get this matter of policy straight and it will save us

all a lot of trouble. If there is a case of law-breaking to be made against a man, make it. If there is a tax to be collected, collect it. Let the chips fall where they may."

I didn't need to impart any special instructions about this case, nor did I need to get any. It is better to have one rule for all cases, and I had that rule.

Twenty years of association with Franklin D. Roosevelt had given me daily assurance that as long as I abided by that rule I would always be supported. The rule is simply that the law is to be obeyed and that influence doesn't count. I can direct the work of 50,000 United States Treasury employees with the same confidence in the sanctity ~~inviolability~~ of that rule as in New York State while serving as Conservation Commissioner under Governor Roosevelt, I assured 150 game protectors that they needn't

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hesitate to arrest a prominent politician who had shot a deer out of season. It is as simple as that.

It is in essence the simple rule that black is black and white is white. It is the rule of fair dealing by which all honorable business is conducted. It is the rule not to take advantage of the weak nor give special favors to the strong. There is no monopoly of it, no unique virtue that one can claim for practicing it. But it is a comfortable rule to follow. It smoothes out difficulties and makes many tangled problems simple. It is the essential principle of which I have spoken, without which we cannot have good government in a democracy. This rule has consequences, a corollary, I think you would call it, which is expressed in the two words, "social justice".

One is unfortunate if he hasn't learned it early

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in life. I began to discern it as a boy when I sat in a corner of my father's office and saw it appear in business discussions. When, years later, I saw him laboring to protect the Armenians from ^{extinction} ~~annihilation~~, it was but the same rule in practice in a larger field. ~~You,~~ Each one of you, could furnish your own recollections and instances of it. In spite of occasional exceptions and violations such as I have noted, it is a rule that is a part of the American spirit and character.

It is so much so that it is a password to a great brotherhood. When I voiced it to the men of the Internal Revenue Intelligence Unit their faces lit with joy, and that was a tonic to me.

The pleasure that I get out of my present office is due chiefly to the fact that the men and women who serve their government, who serve you, serve well and with enthusiasm for doing a good job. There is nothing

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wrong with the morale of government workers. Any private company would be proud and happy to be served as faithfully as your government is served.

There are plenty of problems of government still to be solved. We are going to leave many of them to you boys who have been graduated today, and there will be plenty of others left for future graduating classes. But this I believe to be true; that there was never a time when so many able men and women were willing to give their services so freely to their government for its good rather than their own; never a time when the problems of government commanded such self-sacrificing labor as today.

You boys who have been graduated today will soon be working shoulder to shoulder with us, you will often be forging ahead of us, giving us of your strength, your character, your ambition. That I believe is something

to give us renewed courage and renewed faith that our
form of democratic government will and must prosper.

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TREASURY DEPARTMENT

See Page 7. 2966

Washington

1935
Following is the text of an address by Henry Morgenthau, Jr., Secretary of the Treasury, to be delivered at Deerfield, Mass., Wednesday, June 5, in connection with the graduation exercises of Deerfield Academy. It is for release upon delivery which is set for 8 P.M.

I am happy to have the opportunity to speak to the people of this old American community tonight and particularly to you boys who have been living and growing here in body and mind. And I should like to add that since I have been in the Treasury this is the first time I have spoken except over the radio, so that fact at least tells you how much I wanted to come here and how glad I am to be with you.

As I have passed among these hills and valleys that you know so well and that have come to be another home for my two boys who have been here in this fine school, I have thought — as all of you must often have thought — of the events that have occurred here in a dozen generations. I have tried to picture the kinds of people who have lived here and of how they have acted toward each other. I have tried to picture their ideas of human cooperation and of government.

Each generation has seen a different world from that of the generation that preceded it. The difference has not been so much in the physical changes that have taken place. You have not had many or violent changes of that kind here. But these are not the important changes anywhere. Buildings, railroads, highways, dams

-- all of these things are not so significant as the progress of knowledge in men's minds. It is that which fundamentally makes the differences between one generation and another -- the significant difference which creates the character of a civilization.

I am sure you remember Mark Twain's interesting fantasy of the Connecticut Yankee mechanic who was translated back to the time of King Arthur in England and how the knowledge he bore with him of the mechanical processes of our late nineteenth century was sufficient to build a modern community in ancient England -- even to cannons and rapid-firing guns. The process might be worked the other way. One could picture the people of a primitive civilization placed in the surroundings of today. Without instructors from our age they couldn't turn a wheel of our industry or make any of the products we regard as essential to our living. The factories and tall buildings would crumble and the wheels would rust and decay while the population went back to the bow and arrow hunting and crude agriculture to which they had been educated.

We have to fit ourselves today for a pretty complicated way of living. We have to acquire some of the essence of what it took many ages to discover. We have to acquire it because it is our education that will determine the character of the civilization of our particular America -- our particular world. The

factories and tall buildings we inherit will not determine it.

But there is an essence of progress that is a thread running through all generations. It is in the energy and the curiosity and the will to learn new things. It has as its basis straight thinking and absolute intellectual integrity. In this Democratic country of ours we have found that this spirit thrives in company with another principle -- the principles of social justice -- and that principle is just a simple rule of action as between man and man.

I want to give point to what I have to say about that principle by some incidents and situations that have come to my attention in public life. I might choose these incidents from those which you may associate as all important in connection with the Treasury, such as its monetary policy, or budget making, or major governmental financing. But I shall omit all of these, important as they are, and talk to you today of certain things which I believe to be more fundamental, and more vital than even the most perfect monetary machinery. They are more vital and fundamental because they deal with human beings, with our every day life, our every day conduct; and have a direct bearing on our attitude toward our government.

I am going to talk to you about law enforcement, with which the Treasury has much to do in connection with its duty of collecting the revenue due to the government. In that work we have to deal both with those who don't want to pay and with the greater number who pay willingly. If there were a general conspiracy not to pay, then our job would be hopeless. But fortunately most people have a true understanding of the fact that government in this country is a partnership and they pay what is due to their fellow citizens as a duty and even a privilege of citizenship. They do it with pride -- and you should remember that they are in the overwhelming majority. Others seek ways to evade paying -- to cheat their government and their neighbors. Of this group of troublemakers there are two classes -- those who are in the upper world and think themselves worthy of respect, and those who are in the underworld and don't care whether they are respectable or not. I say they are the gangsters of both the upper and the lower world.

For instance: A man emerges from the obscurity of being a petty crook handy at all forms of comparatively safe crime to be the boss gangster of a community, a fairly big community in our country. He enjoys the fame of being an overlord of crime and vice and illegal trade and he makes an income that probably no man in lawful business in his city can equal. He is frankly

of the underworld, but what of the bankers who handle his "dough", as he calls it? What of the lawyer who knows just what he is doing and yet "fronts" for him, helps him to dodge the law and cheat prosecution? What of the politicians who stand by and let him operate? And finally, when a Treasury enforcement unit does what local authorities have not been able to do and indicts him for a Federal penitentiary offense — evading his income taxes — what of the influential, respectable citizen who comes down to Washington with a message that the gangster is really quite a fine upstanding fellow who may have done a little technical wrong but ought to be let down easy?

Or let us take another case, the case of the manager of a big industrial plant who did a favor for a group of men seeking a location for a business and a favor also to the corporation which had an idle plant to be rented. He introduced these business men to the banker with whom they deposited a large sum of money and to the agent of the idle factory. He did this same courteous service twice in two different communities for this particular group of business men. Did he know that their business was making alcohol on a large scale illegally? He said he didn't when our alcohol tax man caught up with him.

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Then there are those who sharpen their pencils and use trick devices to understate their income with the hope that they can impose on Treasury accountants and that at the worst after long delay they can obtain a compromise that will mean a clear gain to them -- at the expense of their fellow taxpayers. And there are those who advise them to do these things.

This is the dark side of the picture. But for every one of these there are thousands who scorn such tricks, who have a law of conduct -- the simple law that right is right and that black is not white.

Our form of government is one that requires the cooperation of citizens. It is not a tyranny. It is not a dictatorship. So long as we cooperate in carrying out the laws which honestly seek to furnish revenue to our government, we help to uphold our democracy. When we seek to cheat and mullify and evade, and help others to evade, even though they do not come into open conflict with the law, we are in truth undermining the main foundations of our government.

When I entered on the duties of my present position there was a notable income tax investigation hanging fire. The men of the Bureau of Internal Revenue because of the implications of this case wanted authoritative word about what to do. I learned of their dilemma and sent for some of them. I didn't discuss the details of this particular case with them at all. I simply said: "Let's get this matter of policy straight and it will save us all a lot of trouble. If there is a case of law-breaking to be made against a man, make it. If there is a tax to be collected, collect it. Let the chips fall where they may."

I didn't need to impart any special instructions about this case, nor did I need to get any. It is better to have one rule for all cases, and I had that rule. Twenty years of association with Franklin D. Roosevelt had given me daily assurance that as long as I abided by that rule I would always be supported. The rule is simply that the law is to be obeyed and that influence doesn't count. I can direct the work of 50,000 United States Treasury employees with the same confidence in the inviolability of that rule as in New York State while serving as Conservation Commissioner under Governor Roosevelt, I assured 150 game protectors that they needn't hesitate to arrest a prominent politician who had shot a deer out of season. It is as simple as that.

It is in essence the simple rule that black is black and white is white. It is the rule of fair dealing by which all honorable business is conducted. It is the rule not to take advantage of the weak nor give special favors to the strong. There is no monopoly of it, no unique virtue that one can claim for practicing it. But it is a comfortable rule to follow. It smooths out difficulties and makes many tangled problems simple. It is the essential principle of which I have spoken, without which we cannot have good government in a democracy. This rule has consequences, a corollary, I think you would call it, which is expressed in the two words, "social justice".

One is unfortunate if he hasn't learned it early in life. I began to discern it as a boy when I sat in a corner of my father's office and saw it appear in business discussions. When, years later, I saw him laboring to protect the Armenians from annihilation, it was but the same rule in practice in a larger field. You, each one of you, could furnish your own recollections and instances of it. In spite of occasional exceptions and violations such as I have noted, it is a rule that is a part of the American spirit and character.

It is so much so that it is a password to a great brotherhood. When I voiced it to the men of the Internal Revenue Intelligence Unit their faces lit with joy, and that was a tonic to me.

The pleasure that I get out of my present office is due chiefly to the fact that the men and women who serve their government, who serve you, serve well and with enthusiasm for doing a good job. There is nothing wrong with the morale of government workers. Any private company would be proud and happy to be served as faithfully as your government is served.

There are plenty of problems of government still to be solved. We are going to leave many of them to you boys who have been graduated today, and there will be plenty of others left for future graduating classes. But this I believe to be true; that there was never a time when so many able men and women were willing to give their services so freely to their government for its good rather than their own; never a time when the problems of government commanded such self-sacrificing labor as today.

You boys who have been graduated today will soon be working shoulder to shoulder with us, you will often be forging ahead of us, giving us of your strength, your character, your ambition. That I believe is something to give us renewed courage and renewed faith that our form of democratic government will and must prosper.

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TREASURY DEPARTMENT

Washington

The following text of an address by Henry Morgenthau, Jr., Secretary of the Treasury, before the Tax Revision Council in Washington, D.C. at 10:30 A.M. Friday, June 7, is for release upon delivery.

I appreciate the invitation to take part in this discussion of the problem of conflicting and overlapping taxation.

It is an old problem and not confined to the United States, but it grows more complicated, more difficult, and more acute with the years. At present we find it so acute in our country that it must be faced, and the fact that we are facing it raises the hope that we shall soon be taking important steps to solve it.

The depression has brought this problem into prominence by impairing the usual sources of revenue, thus causing our various governmental units to compete with each other for new sources and for greater yield from the old sources. This competition has produced numerous unfortunate results. For example, certain states have discovered that their taxes drove business into neighboring states; others have revised their tax laws primarily to attract business. Tax evasion, in all of its forms, has been increased by the fact that our machinery for the levying of taxes is out of equilibrium. We find some states imposing taxes previously levied solely by the Federal government, and therefore having to set up duplicate administrative machinery. The Federal Government has also tapped sources of revenue previously regarded as for the states alone. The conflicts between local and state governments in the field of taxation are too numerous even to be catalogued during the few minutes I shall address you. Every phase of this problem bristles with thorny details.

The principal contribution that I should like to make to your deliberations on this subject is a definition of the basic problem. With the definition in mind we are ready to divide the problem into its many parts, and take them up in detail. The basic problem, as I see it, is to be just to the tax-payer. Independent levying of taxes by all of the various taxing authorities, without due consideration for the tax structure as a whole, has often resulted in unfair and uneconomic distribution of the burden. This is unjust, and therefore, affects the very foundations of government. It touches the welfare of the citizen in his daily task of earning a living. I think the problem should be approached with this point of view. Duplicate taxes cause waste, but that is a detail. The greater problem is to restore equilibrium in the tax structure as a whole, in order, primarily, to be fair and just. The waste is not as important as the injustice. It is entirely possible that we could attack the problem of waste and solve it without removing injustice. If we considered the matter solely from the point of view of the efficient tax gatherer it would become a technical problem. You could summarize it as a question of how to get the most money with the least expense. Stated in those terms the problem of this democratic government would be no different from that of any ancient tyrant. He had to raise money to support his government and he tried to get as much as he could with the least possible expense. A considerable part of the oppression which characterized tyranny was a direct result of taxation for revenue only, without regard to justice.

We must remember that, to the individual citizen, taxes are taxes, and that it makes no difference to him which agency is most at fault for any injustice he suffers. The tax structure should be sound, and the responsibility for making it so, rests upon every part of our government. When each taxing authority is guided only by its own immediate needs, and levies regardless of

the existence of identical or similar taxes imposed by other government units, the structure cannot be sound.

The problem of how to be fair in levying taxes is not easy, and perfection is out of the question; but the very complexity of the question makes it necessary for us to be striving constantly toward perfection because of the never-ending drift in the opposite direction.

We must be careful to guard against injustices as between geographic sections of the country, as between commodities, and industries, no less than as between individuals. An unjust distribution of the tax burden immediately creates artificial obstacles, and their disturbing influence is injected into the economic life of the nation.

I think it would be a great mistake, therefore, to think of our problem as limited to the removal of such administrative conflicts as now exist between the Federal, State, and local governments with respect to taxes. Certain types of new taxes which have been adopted as emergency measures might well be left to their administrative difficulties, in the hope that they will be discontinued. It would be a mistake, in my opinion, to accept as our main problem the task of making it easier to collect and administer all taxes.

What, then, should be our immediate approach to the problem? We may as well forego at the outset, the approach that would disregard the historical development of our political institutions, and attempt to recast our whole Government from top to bottom in such fashion that all governmental functions would be redistributed between Federal, State, and local units according to some ideal pattern. The practical objection to setting up such an ideal system of taxation, based upon a thorough redistribution of all governmental functions, is that we would be forced to spend the rest of our lives contemplating the impossibility of putting it into effect. To be practical, in this

connection, we must do our utmost to correct grave abuses without attempting to recast our whole machinery.

On the other hand, I don't believe that it would be wise to go to the other extreme; that is, to make a list of all of the specific types and cases of conflicts and overlapping, and attempt to take them up one by one. That type of piecemeal tinkering is very slow and rarely effective. Moreover, it is subject to the danger that each piecemeal solution, adopted without due reference to fundamental principles, might produce new inconsistencies. And a series of such piecemeal solutions could easily result in a badly distorted and unjust total tax structure.

The best approach would be the fundamental one of considering the entire problem from the standpoint of the individual taxpayer. The first step, in my opinion, is to make a careful survey and analysis of the total tax structure of the country to determine just how the burden of our governmental expenses is now distributed. Next, I would note what practicable changes in the combined tax structure of the country would produce a sound and more equitable distribution of the total burden. In the third place, I would concentrate upon a few important and workable means of eliminating conflicts and overlapping in a manner consistent with our analysis of what constitutes a fundamentally desirable tax structure. Finally, having arrived at a few important possibilities which we know to be fundamentally sound, we can then attempt to put them into effect. Each progressive step that we succeed in achieving along this line would not be a compromise that might create new conflicts, but would complete part of our task. Each fundamental step completed would provide a stopping-stone to make the next part of our program easier to achieve.

Wherever the problem has been attacked in this manner real progress has resulted. Several of the states are excellent examples but I am most familiar with what was done in New York State when Franklin D. Roosevelt was Governor. At his direction, the problem of equalizing the tax burden was studied by experts, and their reports are among the most valuable we have on this subject. In the rural areas of New York State, tax reforms of great social value were put into effect, and remain as beacon-lights to direct our course.

Mr. Roosevelt's interest in this problem has been intensified since he became President of the United States. At his direction the Treasury is undertaking a new study of overlapping taxes. This will supplement and carry further the excellent work on the problem of double taxation done by the staff of the Joint Committee on Taxation of the Congress for the Ways and Means Committee in 1932.

In proceeding along the course I have outlined, guided at every step by the basic principle of fairness, we should be careful not to assume that the revenue needs of our various governmental units are now fixed for all time. That assumption would lead us into new difficulties.

Our attack upon the problem of conflicting and overlapping taxation must be so basic that the solutions we arrive at are sufficiently flexible to provide for changing needs.

In the case of some taxes, it is entirely possible that we shall find it desirable to make a rigid separation of sources between Federal, State, and local governments. In other cases, we might find that certain taxes now levied by numerous governmental units could be best administered by the Federal Government, and the proceeds shared with the States. It is also possible that the states might handle certain of the taxes more easily than the Federal Government.

It would be highly desirable to center considerable attention upon the principles that should govern the allocation of such revenue.

In conclusion, I strongly urge that the technical details of tax-gathering, and even the essential matter of supporting the government, be considered secondary in importance in your deliberations, and that first consideration be given to the vital question of justice to the tax-payer. That course simplifies the task and leads directly to the goal.

TAXPAYERS FIRST

An address delivered before the Tax Revision Council urging that prime consideration be given to the vital question of justice to the taxpayer.

By HENRY MORGENTHAU, JR.

*Secretary of the Treasury
Chairman of the Tax Revision Council*

CONFLICTING and overlapping taxation is an old problem, not confined to the United States, which grows more complicated, more difficult, and more acute with the years. It has now become so acute in this country that it must be faced squarely. The fact that we are facing it gives rise to the hope that we shall soon be taking important steps to solve it.

The problem has recently been brought into prominence by depression decreases in the usual sources of governmental revenue which have forced our various governmental units to compete with each other for new sources of tax income and for greater yield from the old sources. This competition has produced numerous unfortunate results. Some states have discovered that their taxes drive business into neighboring states; others have revised their tax laws primarily to attract business. All forms of tax evasion have been increased by the fact that our tax machinery is out of equilibrium. Some states, imposing taxes previously levied solely by the federal government, have had to set up duplicate administrative machinery. The conflicts between local taxes and state taxes are too numerous for me to catalogue. Every phase of this problem bristles with thorny details.

The contribution which I should like to make to these deliberations is a definition of the basic problem. With a definition in mind we can proceed to divide the problem into its many parts, and take them up in detail. The basic problem, as I see it, is to be just to the taxpayer. Independent levying of taxes by all of the vari-

ous taxing authorities, without due consideration for the tax structure as a whole, results in unfair and uneconomic distribution of the burden, affecting the very foundations of government. It touches on the welfare of the citizen in his daily task of earning a living. Duplicate taxes cause waste, but that is a detail. The greater problem is to restore equilibrium in the tax structure as a whole, in order, primarily, to be fair and just to every class of taxpayer.

It is entirely possible that we could attack the problem of waste and solve it without removing injustice. If we considered the matter solely from the point of view of the efficient tax gatherer it would become a technical problem which could be summarized as a question

of how to raise the most tax revenue with the least administrative expense. Stated in those terms the problem of this democratic government would be no different from that of any ancient tyrant who had to raise money to support his government and who tried to get as much as he could with the least possible expense. A considerable part of the oppression which characterized tyranny was a direct result of taxation for revenue, without regard to justice.

The problem of how to be fair in levying taxes is not easily solved. Perfection is out of the question; but the very complexity of the question makes it necessary for us to strive constantly toward perfection and overcome the never-ending drift in the opposite direction. All governmental units must face that responsibility.



Henry Morgenthau, Jr.

We must be careful to guard against unjust placing of the burden on particular geographic sections of the country, on particular commodities, and on particular industries, no less than on particular individuals. An unjust distribution of the tax burden immediately creates artificial obstacles to business, and the disturbing influence of these obstacles is injected into the economic life of the nation.

It would be a great mistake to think of our problem as limited to the removal of such administrative conflicts as now exist between the federal, state, and local tax systems. Indeed, certain types of new taxes which have been adopted as emergency measures might well be left to their administrative difficulties, in the hope that they will be discontinued. It would be a mistake to accept as our main problem the task of simplifying the administration of all taxes.

No extremes

What, then, should be our immediate approach to the problem? We may as well forego at the outset, the approach which would disregard the historical development of our political institutions, and attempt to recast our whole government from top to bottom, in such fashion that all governmental functions would be redistributed between federal, state, and local units according to some ideal pattern. The practical objection to setting up such an ideal system of taxation, based upon a thorough redistribution of all governmental functions, is that we would be forced to spend the rest of our lives contemplating the impossibility of putting it into effect. To be practical, we must do our utmost to correct grave abuses without attempting to recast our whole machinery.

On the other hand, I do not believe that it would be wise to go to the other extreme; that is, to make a list of all of the specific types and cases of conflicts and overlapping, and attempt to take them up one by one. That type of piecemeal tinkering is very slow and rarely effective. Moreover, it is subject to the danger that each piecemeal solution, adopted without due reference to fundamental principles, might produce new inconsistencies. And a series of such piecemeal

solutions could easily result in a badly distorted and unjust total tax structure.

The best approach would be the fundamental one of considering the entire problem from the standpoint of the individual taxpayer. The first step is to make a careful survey and analysis of the total tax structure of the country to determine just how the burden of our governmental expense is now distributed. Next, we should note what practicable changes in the combined tax structure of the country would produce a sound and more equitable distribution of the total burden. In the third place, we should concentrate upon a few important and workable means of eliminating conflicts and overlapping in a manner consistent with our analysis of what constitutes a fundamentally desirable tax structure. Finally, having arrived at a few important possibilities which we know to be fundamentally sound, we can then attempt to put them into effect. Each progressive step which we succeed in achieving along this line would not be a compromise that might create new conflicts, but would complete part of our task. Each would provide a stepping-stone to make the next part of our program easier to achieve.

Possibilities

In the case of some taxes, it is entirely possible that we shall find it desirable to make a rigid separation of sources between federal, state, and local governments. In other cases, we might find that certain taxes now levied by numerous governmental units could be best administered by the federal government, and the proceeds shared with the states. It is also possible that the states might handle certain of the taxes more easily than the federal government. We must center considerable attention upon the principles governing allocation of such revenue.

In conclusion, I strongly urge that the technical details of tax-gathering, and even the essential matter of supporting the government, be considered secondary in importance in these deliberations, and that first consideration be given to the vital question of justice to the tax-payer. That course simplifies the task and leads directly to the goal which we strive to reach.

IN THE DARK

State officials lack adequate information on the fiscal problems with which they must deal.

THE work of the Tax Revision Council and of all other fiscal bodies interested in the rationalization of state and local financial problems is greatly hampered by the lack of comparative information. It is necessary that the finances of states and their political subdivisions be understood before attempts to iron out tax conflicts can be successful and before the states can work out satisfactory tax structures. At present the data for a comprehensive financial picture are noticeably lacking.

Census statistics

The Bureau of the Census, prior to 1930, took an annual census of the financial activities of cities of more than 30,000, and of all states. As an economy measure during the depression, publication of the financial statistics of cities from thirty to a hundred thousand population, and of the financial statistics of states has been discontinued.

The Bureau has also conducted a more comprehensive decennial survey of the finances of various units of government. The scope of this ten year survey has been the entire governmental organization of the United States rather than merely cities within a specified population group and state governments. The last of these comprehensive surveys was made as of 1931-32.

As a result of investigations of state and local statistics conducted by the Central Statistical Board and the Municipal Finance Officers' Association, the Bureau of the Census is now planning a greatly improved program for collecting statistics of state and local governments. The program, when completely under way, will not only improve the quality of the data, but will also make possible an intelligent estimate of the total financial picture at any one time.

Nevertheless, the situation at present is certainly not what it should be, and the prospects

for the immediate future are not inviting. The financial support available to the Bureau of the Census assures immediate restoration of only that part of the program which contemplates a financial survey of cities having a population in excess of 30,000. It does not look toward sample coverage of smaller units or a complete reporting of state data. Moreover, the report of 1931 and 1932 is now almost completely useless for an interpretation of the present financial situation in the states. There has been, since 1931 and 1932, an almost revolutionary change in state and local finance and defects in that report render it difficult to utilize figures for comparison with such data as can be obtained at the present time, sparse as that material is.

What is needed

In order to obtain a reasonably accurate and complete picture of public finance another survey comparable in scope, but superior in quality, to that of 1931-32, is necessary. The Census Bureau would, of course, be glad to conduct such a survey if financial support were made available. It has canvassed the possibility of developing a works project for this purpose, but there is some doubt as to the legality of such a scheme, and much graver doubt as to whether its execution would be possible with work relief labor, unless a great deal more supervision could be provided than is possible under present appropriations.

A number of state financial officials may wish to concern themselves with efforts to secure adequate financial data on state and local government. Appropriate authorities in Washington—especially in the Census Bureau—would doubtless be glad to receive encouragement from state and local officers, who would be most benefited by their revised program if, and when, it could be put into effect.

THE SUPREME COURT SPEAKS

Excerpts from the recent NRA decision which define the powers lying within the domain of the states.

The commerce power: "It is not the province of the court to consider the economic advantages or disadvantages of (such) a centralized system. It is sufficient to say that the federal constitution does not provide for it. Our growth and development have called for wide use of the commerce power of the federal government in its control over the expanded activities of interstate commerce and in protecting that commerce from burdens, interferences and conspiracies to restrain and monopolize it.

"But the authority of the federal government may not be pushed to such an extreme as to destroy the distinction, which the commerce clause itself establishes, between commerce 'among the several states' and the internal concerns of a state. . . ."

Wages and hours: "If the federal government may determine the wages and hours of employees in the internal commerce of a state, because of their relation to cost and prices and their indirect effect upon interstate commerce, it would seem that a similar control might be exerted over other elements of cost also affecting prices, such as the number of employees, rents, advertising, methods of doing business, etc.

"All the processes of production and distribution that enter into cost could likewise be controlled. If the cost of doing an intrastate business is in itself the permitted object of federal control,

the extent of the regulation of cost would be a question of discretion and not of power."

Indirect effects: "The distinction between direct and indirect effects has been clearly recognized in the application of the Anti-Trust Act. Where a combination or conspiracy is formed, with the intent to restrain interstate commerce or to monopolize any part of it, the violation of the statute is clear.

"But where that intent is absent and the objectives are limited to intrastate activities the fact that there may be an indirect effect upon interstate commerce does not subject the parties to the federal statute, notwithstanding its broad provisions."

The commerce clause: "But where the effect of intrastate transactions upon interstate commerce is merely indirect, such transactions remain within the domain of state power.

"If the commerce clause were construed to reach all enterprises and transactions which could be said to have an indirect effect upon interstate commerce, the federal authority would embrace practically all the activities of the people and the authority of the state over its domestic concerns would exist only by sufferance of the federal government. Indeed on such a theory even the development of the state's commercial facilities would be subject to federal control."

LEGISLATIVE LEVEES

Interstate compacts offer a strong bulwark against retrogression in the control of social and industrial problems of the nation.

By ETHEL M. JOHNSON

Secretary of the New Hampshire Commission on Interstate Labor Compacts

THE purpose of interstate compacts with respect to labor legislation is to remove unfair differentials in the labor laws of the different states, to assure more adequate protection for employees in these states, and to give greater permanence to the legislation enacted.

It is to the interest of the manufacturer to have greater uniformity in the labor laws of comparable industrial states. It is equally to the interest of workers that uniform standards regarding conditions of employment be adopted by the several states, and that these standards should conform to the most enlightened criteria.

Wide variations

Existing differences in labor legislation between states with competitive industries have resulted in wide variations in working conditions and practices and, to some extent, in the cost of continuing business. An illustration of this may be found in the Atlantic seaboard states. A number of these have closely competing industries, yet their legal regulations in such matters as hours of employment, night work, wages, and child labor vary greatly. Of the New England states, for instance, Maine and Rhode Island prohibit the employment of children less than 15 years of age. Connecticut has recently enacted legislation prohibiting the employment of minors under 16 years of age. The other states permit boys and girls of 14 or more years of age, if properly certified, to leave school to become wage earners. New Hampshire is the one state in the group which requires extra compensation for injury to minors who are illegally employed. Connecticut, Massachusetts, and New Hampshire are the only New England states with minimum wage legislation. Only

Massachusetts and New York, of the industrial states of the east, have a 48-hour law.

These differentials in regulatory measures tend to encourage the migration of factories from states with high standards of protective legislation to others with lower standards. The resulting displacement of labor contributes to sectional unemployment. The movement of textile factories from New England to the southern states is an outstanding example of such migration. A shifting of plants on a lesser scale, but with disturbing results, goes on much of the time between adjacent states in which competing industries are located.

Another consideration in connection with the compact device in the field of labor and industry is that legislation enacted under a compact agreement is presumably of a more permanent nature than that enacted by a single state. The compact is a formal contract involving not only ratification by the legislatures of the signatory states, but, in addition, the sanction of Congress. Each state is free to decide whether it wishes to ratify a given compact. Once a state has given its consent to a compact, however, it is under moral obligation to observe the provisions of the agreement.

Regional agreements

The interstate compact, as applied to labor legislation, has many interesting possibilities. It suggests not only direct agreement on common problems between two or more states, but the further possibility of regional agreements between groups of states representing different sections of the country. One of the promising features of the interstate compact is the opportunity it affords of bringing states into closer relation-

ship with one another. Greater harmony among the states should be promoted by the development and use of this device for meeting mutual problems.

There is, however, a possible danger in connection with the compact as applied to labor legislation which should be frankly recognized in order that it may be avoided. This is the possibility that the proposed plan may be regarded as a substitute for state labor laws. There is also the possibility that the chance of securing a compact agreement may be urged as an excuse for opposing or delaying needed legislation within the states.

AN IMPORTANT SUGGESTION

Excerpt from an article by Senator Henry Parkman, Jr. in "Industry," the publication of the Associated Industries of Massachusetts.

In this difficult situation, a most welcome suggestion is that the federal power might be exercised, within the field so strictly reserved for it by the Supreme Court decision, to support the states in the maintenance of minimum labor standards. In the days before national prohibition the dry states passed strict legislation against the sale of intoxicants within their borders. This alone, however, was not enough to prevent the importation of liquor from the wet states, and the states themselves were limited constitutionally in their power to prevent such importation. To help solve the difficulties, the federal government enacted the so-called Webb-Kenyon Act which denied the privilege of interstate commerce to liquor transported from a wet state into a dry one for purpose of sale. This cooperation of the federal and state governments proved an effective protection to dry states.

Adequate legislation

The same principle could well be adapted for the maintenance of adequate social legislation standards within a group of competing states.

One of the safeguards from this danger in the utilization of the compact in the field of labor and industry may be the definite limitation of the sphere of action for the compact as applied to labor legislation. If, instead of attempting to use the compact as an agency for securing new labor laws or higher standards of legislation, the compact is used to remove differentials in existing labor laws and to deal with those special problems peculiar to two or more states which no one state is competent to settle by itself, and which are also outside the sphere of federal action—there may be less possibility of conflict with either state or national legislation.

In the exercise of its police power and acting for the preservation of the social standards of its citizens, a state could pass legislation prohibiting the sale of goods within its borders produced under conditions in another competing industrial state which did not come up to the level set by such state or group of states as desirable for its citizens.

Protecting standards

Federal legislation denying the privilege of interstate transportation to such goods would seem to be constitutional under the decisions affirming the constitutionality of the Webb-Kenyon Act, and at the same time would be extremely effective not only in giving protection to the labor standards set by compact in a group of states, but also in pointing out to other states the advantages of bringing their standards into conformity with those in effect in the competing states. The denial of a market to goods produced under "Sweat Shop" conditions would be a compelling argument with any state towards the removal of the impediments which kept her products from the market.

LABORS FOR LABOR

A recent interstate conference recommended the broadening of legal protection for workers.

THE recent meeting of the Conference on Interstate Labor Compacts at Spring Lake, New Jersey, on June 28 and 29, was marked by keen discussion and substantial progress. Forty-six delegates registered from sixteen states, a larger group, representing more states, than has ever gathered in the history of the labor compact movement. It was especially interesting to observe that the conference was extending its field of interest to the south and to the west. Representative S. Pierre Robineau of Florida and Attorney General Paul Prosser of Colorado were welcomed with especial enthusiasm.

Judge Joseph G. Wolber, acting chairman of the host New Jersey Commission on Interstate Cooperation, presided in the absence of Chairman Richard Harrisborne. He was ably aided by Senator Henry Parkman, Jr., permanent chairman of the Conference. Governor Harold G. Hoffman spoke on both days and welcomed the delegates to New Jersey's "Little White House," the Governor's summer cottage at Sea Girt.

Highlights of speeches

Opening speeches were delivered by Senator Parkman, Professor George E. Bigge, Chairman of the Rhode Island Commission on Interstate Labor Compacts, Miss Ethel Johnson of the New Hampshire Labor Compact Commission, and Commissioner Joseph M. Tose of Connecticut. All were addressed to the point of what interstate cooperation could achieve in the field of labor regulation. On page 152 appears an interesting excerpt from a recent article by Senator Parkman which give his theory of federal help to interstate action by an industrial equivalent of the Webb-Kenyon Act.

Professor Bigge, in commenting on the hours of labor compact, explained the possibilities of

interstate action from the angle of the economist. The effort of the compact is toward the maintenance of a reasonable standard of labor in a competitive market.

"This of course does not mean that competition is to be eliminated nor specific regulation imposed. If it were a choice between unfettered competition with all of its faults and detailed regulation by government, I, for one, would be for competition. The proposal is merely to fix a level, a plane below which conditions of labor shall not be allowed to fall as the result of competitive pressure. . . . The compact is suggested as a device which will enable a group of states constituting a fairly well defined competitive producing area to formulate a common policy for dealing with such common problems as wages and hours."

Miss Johnson, in speaking of the compact on minimum wages, already ratified and in effect in two states, clarified the position of the compact and the interstate commission which it establishes.

"It should be noted that the present compact does not establish new standards but rather attempts to bring a larger number of states into agreement on standards that have already been made effective in certain of the states. . . . The powers of the Commission are confined to investigations, recommendations, and publication of its findings."

Child labor

Commissioner Tose elaborated the details of the proposed child labor compact which "forbids employment of children under 16 years of age in manufacturing and certain other specified employments; minors under 18 in hazardous employments; minors under 18 in manufacturing and other specified employments between 10 P.M. and 6 A.M.; minors under 18 for

more than eight hours per day, forty hours per week and six days per week. Minors under 18 must have work certificates."

Mr. Tone noted that in addition to the future value of the compacts as working instruments of government, "the educational value of these compact conferences is worth many times what the meetings have already cost or will cost the governments of the states in the future."

Group meetings

After the introductory speeches the conference was divided into sections on child labor, minimum wages, hours of labor, and permanent organization. Considerable discussion preceded adoption of the reports of these sections by the general conference. It was recommended that ratification of the minimum wage and child labor compacts be urged on the various states and that the hours of labor compact be reserved for further consideration. Plans for establishing a permanent organization were discussed and approved.

Delegates attending the conference included: Paul P. Prosser, Attorney General, Colorado; Royal Meeker, Deputy Commissioner of Labor, Connecticut; Joseph M. Tone, Commissioner of Labor, Connecticut; H. P. Young, Director, State Employment Service, Delaware.

S. Pierre Robineau, Member, Florida House of Representatives; Dr. Peter Swanish, Chief, Division of Statistics and Research, Department of Labor, Illinois; Thomas Dorgan, Member, Massachusetts House of Representatives; Edward J. Kelly, Member, Massachusetts House of Representatives; James P. Meehan, Member, Massachusetts Senate; Henry Parkman, Jr., Chairman, Massachusetts Commission on Labor Compacts.

Mary E. Cruzen, Director of Employment, Missouri; Robert P. Bingham, Chairman, New Hampshire Interstate Labor Compact Commission; W. J. Ellis, Commissioner, Department of Institutions and Agencies, New Jersey; S. Rulling Leap, Member, New Jersey Senate Committee on Interstate Cooperation; Stephen J. Lorenz, Counsel, New Jersey Department of Labor; J. H. Thayer Martin, New Jersey State

Tax Commissioner; Joseph C. Paul, Chairman, New Jersey House Committee on Interstate Cooperation; John Roach, New Jersey Deputy Commissioner of Labor; Joseph G. Wolber, Judge of the Circuit Court, New Jersey, and Chairman, New Jersey Commission on Interstate Cooperation; E. B. Patton, Director, Division of Statistics and Information, Department of Labor, New York.

Frederick L. Zimmerman, Member, New York Assembly; A. L. Fletcher, North Carolina Commissioner of Labor; Edgar W. Brill, Chief, Factory and Building Inspection, Department of Industrial Relations, Ohio; Keith Lawrence, Member, Ohio Senate Committee on Interstate Cooperation; John G. Lowery, Member, Ohio Senate Committee on Interstate Cooperation; J. Freer Bittinger, Speaker, Ohio House of Representatives; Elizabeth S. Johnson, Research Assistant, Department of Labor and Industry, Pennsylvania; Dr. J. E. Schoedle, Secretary of Welfare, Pennsylvania; George E. Bigge, Professor of Economics, Brown University, Rhode Island; Thomas P. McHugh, Member Rhode Island House of Representatives; L. Metcalf Walling, Rhode Island Director of Labor; F. G. Austin, Retired Member, Vermont Interstate Labor Compact Commission; C. H. Day, Member, Vermont Interstate Labor Compact Commission; Arthur W. Peach, Chairman, Vermont Interstate Labor Compact Commission; Taylor Frye, Assistant to Industrial Commission, Wisconsin; Voyta Wrabetz, Chairman, Industrial Commission, Wisconsin.

Federal participants

Beatrice McConnell, Director, Industrial Division, Children's Bureau, United States Department of Labor, Washington, D. C.; A. Louise Murphy, Industrial Economist, United States Department of Labor, Washington, D. C.; M. E. Pidgeon, Director of Research, Women's Bureau, United States Department of Labor, Washington, D. C.; Louise Stirt, Industrial Economist, Women's Bureau, United States Department of Labor, Washington, D. C.; and V. A. Zimmer, Director, Division of Labor Standards, Washington, D. C.

EXTRA INNINGS

The regular schedule in the Legislators' League is rapidly drawing to a close.

THE legislators of Massachusetts and Wisconsin are still taking their regular turns at bat, having been in session since early January. STATE GOVERNMENT's Massachusetts agent prophesies that a series of home runs will probably soon end the struggle for the Bay Staters.

Alabama, whose Constitution calls for only one set-to every four years, needs more than the ordinary amount of "warm-up" to work out kinks and to devise a system. Convening first on January 8, opening day was scheduled for April 30. Falling into a slump, the legislators adjourned on July 10, to reassemble about July 30.

Idaho and Louisiana have already indulged in short, post-season exhibitions, and Tennessee has been enjoying a special session since July 15. Changes in the legislative line-up follow:

Now meeting

<i>Regular Sessions:</i>	<i>Convened: Will probably adjourn:</i>	
Massachusetts	January 2	July 30
Wisconsin	January 9	
<i>Special Sessions:</i>		
Tennessee	July 15	

Recent adjournments

<i>Regular Sessions:</i>	<i>Adjourned:</i>	<i>Convened:</i>
Alabama	July 10	April 30*
<i>Special Sessions:</i>		
Idaho	July 10	July 8
Louisiana	July 8	July 4

*Recess—will probably reconvene July 30.

IN THE COOL NORTH

The National Association of Secretaries of State is holding its eighteenth annual gathering at St. Paul, July 29th to August 1. Hon. Enoch D. Fuller of New Hampshire, a member of the Council of State Governments Board, is President of the Association, and Hon. Mike Holm of Minnesota is host to the convention.

HAROLD M. GROVES

Member of the Board of Managers of the American Legislators' Association

MADISON, Wisconsin is blessed with the state university on one hill, the state capitol on another. That proximity is more than casually geographic. Much of Wis-



Harold M. Groves

consin's eminence in state legislative affairs is chargeable to a close, cordial, university-capitol relationship, and many of Wisconsin's most famed citizens have scaled both heights, along the progressive paths made famous by the LaFollettes.

Along these routes went Harold M. Groves, first to the university, where he interlarded Phi Beta Kappa scholarship with teaching. Topping off his Ph.D. degree, in 1927, with a year in the law school at Harvard, he returned to the university at Madison and a professorship in the department of economics. Thus, unqualifiedly and unreservedly, can he be labeled, "Harold M. Groves, Brain Trustee," a serious indictment in this year of grace, 1935.

Into public service

Dropping his guard a second time, in 1930, Dr. Groves became a member of the General Assembly of Wisconsin, exposing himself to such allegedly humorous barbs as are directed at all legislators by those cerant knights of the pen—columnists and cartoonists—who are faced with the necessity of filling their daily space for their daily bread.

Member of the State Tax Commission in 1932-33, and elected state senator in the fall of 1934, Dr. Groves, although quiet, modest, and certainly no rabid radical, continues to tempt those who live by their lines about men in the public eye.

BEYOND OUR BORDERS

Incidental illustrations of the technique of government from far and near.

Penal ties

THE socio-recreational side of American prison life has often been lampooned. The *alma mater*—Dannemora, Joliet, or Sing Sing—is pictured as a cozy country club, which our pampered public enemies are loathe to leave, to which they eagerly return.

Italy proposes to strengthen such school spirit on a legitimately sound basis. Special welfare councils are being attached to criminal courts to aid in the return of convicts to a normal industrial life. By remaining in the welfare headquarters after the completion of their terms, former prisoners may get vocational training and guidance.

Assistance is also given to the families of convicts both during their terms and during their apprenticeships. To complete the rehabilitation, employment is found for these individuals as they leave prison or training headquarters. So might the Fascist felon easily become sentimentally attached to his particular prison, after graduation.

Bonus bonus

To employers who hire workers registered in the public employment office, France pays a bonus. Assiduously safe-guarded, the subsidy is not paid unless the total number of employees exceeds the average number employed by the individual or corporation in the same quarter of the preceding year and in the preceding quarter of the same year. Nor can the number of regular workers be smaller than the number for whom the bonus is paid. To the republic, the bonus is spurious—since it may not exceed the allowance which would have been paid if the employee had continued to require assistance.

Dominion over provinces

A recent debate of the Canadian Parliament over ratification of several International Labor Conference conventions, turned into a spirited

discussion. The question arose over the power of the Dominion Government to ratify conventions which might affect the legislative rights of the provinces. Over the loud lamentation and protests of those who favored preference for the provinces in legislative matters, the conventions were ratified.

With the participation of the United States in the International Labor Office, similar questions may arise in this country to add another subject to conversation on federal-state relationships.

Wage differentials

A knotty problem, not yet satisfactorily solved in this country, has arisen in attempting to set wage rates for the unemployed who are engaged in work relief projects. There are many possibilities: the single standard, uniform wages; the double standard, north-south or urban-rural. Other schemes are suggested, both in connection with public works and with the approaching social security program.

New Zealand has devised a four-way wage differential for those on work relief, in the following regressive order: (1) in the four largest urban centers; (2) in secondary cities; (3) in smaller towns; and (4) in rural areas.

Reich righteousness

That life begins at forty is a philosophy not alone expressed on the silver screen and between the covers of a novel. An order of the President of the Federal Institution for Employment Exchanges and Unemployment Insurance in Germany contained the following instructions: (1) new vacancies are to be filled by employees forty years of age or older, preference to be given to those more advanced in age, and to those with families; (2) employees under 25 are to be gradually replaced by males over forty, preferably married; (3) the Reich stands ready to encourage employment of such persons through subsidies.

MINNEAPOLIS TRIBUNE

A recent editorial discusses the Tax Revision Council.

THE problem of taxation, not unlike the tariff, is something of a local issue. Yet in the same sense that the tariff raises more than a local problem, so are the problems which surround taxes and their collection more than local. It is because of the many-sided character of the tax question that a commission such as the one just appointed by the Council of State Governments can prove useful.

Coöperative council

This commission is to be made up of eight representatives of the federal government, a like number representing the state governments and another eight, the city and county governments. This commission, which is to act as a Tax Revision Council, will seek to eliminate tax conflicts through coöperation and attempt to determine those functions which are best performed by the federal government and those which would be handled to the best advantage by the states and their subdivisions. One of the first problems which is being undertaken by the Council is to determine which governments are able to collect particular taxes most effectively.

This phase of the problem of taxation is unquestionably one of growing importance. Federal, state, and local governments are now collecting taxes on the same items and each acts according to its own rules; levying taxes at varying rates. A tax on the sale of gasoline is collected not only by the federal government and by all the states but also by some local communities. The confusion, the difficulties of enforcement, and the premium being placed on attempts at evasion resulting from this multiple system are obvious.

A very similar experience is being repeated in the case of the income tax. Most of the states

have now joined the federal government in levying a tax upon incomes and there is even talk of city income taxes in some sections of the country. An increasing number of states are also making use of the sales tax and the variance in rates and exemptions adds another confusing element to our badly organized system of taxation.

That something approaching uniformity should be brought to this system, and that the overlapping of levies be reduced in number, would be highly desirable. Yet under our present form of government these reforms can be realized but slowly and that only through the intelligent coöperation of federal, state, and local governments.

Another phase

Any organization that will act to make that coöperation effectively possible is rendering an important service. Yet the fact remains that the lack of uniformity in our taxing system is only one phase of the problem. We are not only suffering because too many agencies are trying to collect the same kind of taxes, but also because the taxes being levied are too high. Simplifying the method of tax collection by centralizing it would not necessarily make the taxes any easier to pay. While it is highly desirable that reforms directed toward simplifying the taxing system be carried out, it should not be forgotten that this is only one aspect of a complex problem.

Coöperation, in every aspect of government as functionally distributed between federal, state, and local units, would result in distinct advantages and might easily bring about lowered tax levies with no decrease in services performed.

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STATE GOVERNMENT



JULY, 1935.

**THE TAX REVISION COUNCIL.
INTERSTATE LABOR COMPACTS.**



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Administrative Offices: Decree Avenue and 58th Street, Chicago, Illinois.

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GOVERNORS

News notes about the doings of state executives.

Conference: The month of June brought an important gathering of governors. The annual Governors' Conference, held this year at Biloxi, Mississippi, June 13, 14, and 15, attracted more than twenty of the chief executives of the states. Ably planned by Hon. Cary A. Hardee, former Governor of Florida and Secretary of the Conference since 1925, the meeting was interesting and instructive.

Departing from a precedent of the Governors' Conference, resolutions were introduced at this meeting. Governor Ehringhaus drew up a measure commending the course of President Roosevelt and tendering him the cooperation of the governors. It was adopted without a dissenting vote, at the concluding session. A resolution protesting against the transfer of the administration of work-relief funds from state authorities to federal agencies was introduced by Governor Fitzgerald of Michigan, but was tabled by a vote of thirteen to three.

Governors Talmadge and Nye launched an assault on the NRA but were outnumbered by Governors McNutt, Sholtz, Graves, and Johnston who defended the policies of the federal government and the fundamental principles of the National Recovery Act, recommending that these principles be retained by state action through interstate compacts.

Through suspension of the rule which prohibits all except members from addressing the Conference, Miss Ethel M. Johnson, Secretary of the New Hampshire Commission on Interstate Labor Compacts, addressed the state executives. Miss Johnson outlined the use of compacts in American history, and asserted that a more extensive adaptation of the compact device is the safest, shortest route out of the dilemma resulting from the decision of the Supreme Court in the Schechter case.

Governor McNutt of Indiana was re-elected chairman of the executive committee of the conference, with Governors Hornet, Landon, Sholtz, and Nye completing the membership of the committee. It was announced that no convention city will be selected for the next meeting until it is known where the national nominating conventions of 1930 will be held.

Budgets and Billfolds: An unusual situation occurred in California during the last session when, for several days, Governor Merriam refused to sign the state budget until adequate tax laws were passed. Under the California law, other appropriation bills cannot be adopted until the budget has become law. Meantime, the period for payment of salaries to legislators expired, and the temperature began to climb in Sacramento. Budgets and billfolds were soon replenished.

Crime: Governor Curley of Massachusetts has signed a bill making it possible for a judge to sentence to life imprisonment a person convicted of the illegal possession of a machine gun.

Governor Fitzgerald of Michigan affixed his signature to several anti-crime bills passed by the Michigan legislature. It is now mandatory that all inmates of state supported institutions in Michigan be finger-printed. Persons convicted of sex crimes are subject to immediate examination by psychiatrists and physicians before commitment to any institution. A general enabling act for the negotiation of interstate parole agreements was adopted.



WAYS AND MEANS

Gathered around a long table in the room ordinarily reserved for the Congressional Committee which is faced with the thankless task of tailoring a revenue program to fit broad-shouldered expenditures, members of the Tax Revision Council met in Washington on June 6 and 7.

Their problem was not how to raise money but how to reconcile the methods of taxation now used by the three levels of government. The proposed line of attack is discussed in the article which begins on the opposite page.

Sitting at the far end of the table is Secretary of the Treasury Morgenthau, and to his left is Senator Mastick of New York. Proceeding in that general direction—to the left, a Hearst heresy—we meet, in the order of their appearance, Messrs. McCaven, Hays, Tull, Vinson, Parker, Boyington, Warkentin, Yantis, Moffett, Gallagher, Martin, Gaston, Woodward, Graves, Belknap, Murrissett, Long, Mrs. Klotz, private secretary to Mr. Morgenthau, Mr. Oliphant, and the stenotypist.

JULY, 1925

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STATE GOVERNMENT

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TAX TRINITY

The Tax Revision Council is a joint effort of federal, state, and local governments to develop means for simplifying and harmonizing American tax systems.

ONE of the most important developments in the American science of government occurred when the Tax Revision Council held its first meeting in Washington, June 6-8. Representatives of the federal government, of the state governments, and of the local governments met together to work out an integrated tax program for America's one federal, forty-eight state, and 175,000 local units. For the first time in our history the three levels of government initiated a serious attempt to work out their joint problems through joint endeavor.

Federal members of this significant new organization are drawn from the major sources of federal tax policy—the Treasury Department, and congressional committees on finance. In addition to Secretary Morgenthau, they include Hon. Herman Oliphant, General Counsel of the Treasury, and Hon. George C. Haas, Director of Research and Statistics of the Treasury. Senator Pat Harrison, Chairman of the Senate Finance Committee, Hon. Robert L. Doughton, Chairman of the House Committee on Ways and Means, Senator William H. King, Chairman of the Senate Subcommittee on Conflicting Taxation, Hon. Fred M. Vinson, Chairman of the House Subcommittee on Conflicting Taxation, and Hon. Lovell H. Parker, Chief of Staff of the Joint Committee on Internal Revenue Taxation, comprise the congressional contingent.

A group of equally weighty tax authorities has been designated by the Interstate Commission on Conflicting Taxation to speak for the interests of the states. The list includes Hon. William B. Belknap of Kentucky, President of the American Legislators' Association; Senator Seabury C. Mastick, Chairman of the New York State Commission for Revision of the Tax Laws; Hon. Henry F. Long, Commissioner of Corporations and Taxation in Massachusetts; Hon. Mark Graves, President of the New York State Tax Commission; Senator George Woodward, Chairman of the Pennsylvania Senate Committee on Interstate Cooperation; Hon. Henry W. Tull of Colorado, Executive Director of the Council of State Governments; Hon. C. H. Morrisett, State Tax Commissioner of Virginia; and Hon. George F. Yantis, former Speaker and now a Member of the Washington House of Representatives.

Local government is represented by nominees from various national associations of local officials. The American Municipal Association—an organization of the state leagues of municipalities—is represented in the Council by Mayor Daniel W. Hoan of Milwaukee. The United States Conference of Mayors (cities over 50,000) has appointed Controller Leonard S. Leavy of San Francisco. The International City Managers' Association has selected City Manager

C. A. Dykstra of Cincinnati as its representative, President Kenneth J. McCarron of the Detroit Board of Assessors is to represent the views of the National Association of Tax Assessing Officers, while City Auditor Charles J. Fox of Boston is to be a participant through appointment by the Municipal Finance Officers' Association.



Sashbury C. Mottick

Less organized, but no less ably represented, is rural local government which is assured of consideration by the membership on the Council of Hon. Guy Boyington, County Judge of Clatsop County and Member of the State Planning Board of Oregon; County Clerk and Assessor J. K. Warkentin

of Marion County, Kansas; and District Attorney Ora Miller of Anson, Texas, former President of the County Judges' Association of Texas.

Occasional conferences of officials from the three different levels of government have met before, but never for the purpose of launching a sustained, broadside attack on a national problem. The tasks of the Tax Revision Council are based on extensive preparatory work by the Treasury Department of the federal government, by the Congressional Joint Committee on Internal Revenue Taxation, and by the Interstate Commission on Conflicting Taxation.

Treasury study

The Treasury, at the request of President Roosevelt, has undertaken a broad study of the problems of conflicting taxation. This study will be greatly aided by the wealth of material in the Treasury files and by the studies made last year by the Treasury staff under the direction of Dr. Jacob Viner.

Among the comprehensive studies upon which the Tax Revision Council will be able to base its work is the preliminary report of the Subcommittee on Conflicting Taxation of the

House Committee on Ways and Means, which appeared early in 1933. Representative Fred M. Vinson of Kentucky is the chairman of this subcommittee, and Mr. Lovell H. Parker is Chief of Staff. The report is a valuable factual summary of federal and state taxation. Although it does not offer suggestions or recommendations, it is of great importance as the first effort to view the national tax system as a complete picture. The listing of the different state taxes and the information about tax revenues have made this report a storehouse of knowledge for students of conflicting taxation. Mr. Parker's staff has also issued several other reports including the recent *Summary of the British Tax System and Income Tax in Canada*.

Interstate commission

Readers of STATE GOVERNMENT are already acquainted with the careful work of the Interstate Commission on Conflicting Taxation, and of the First and Second Interstate Assemblies which sponsored the work of the Commission. In the twenty-eight months since its organization, in February, 1933, the Commission has, by dint of thorough staff investigations and seven meetings of sustained, sometimes heated, discussions, arrived at a penetrating and reasonable program for dealing with many of the burdens of conflicting taxation.

Every member of the Commission is either a legislator who is actively concerned with tax affairs, or a state tax official. The results show that the Commission has attacked the problem in a broad and practical manner. It has recognized, for example, that maintenance of state and local fiscal responsibility necessitates state and local administration of certain taxes, even though purely economic considerations would suggest centralization of tax administration in



Kenneth J. McCarron

Washington. The crediting device, employed in the field of death taxation under the Federal Revenue Act of 1926, has been recognized as a useful procedure, and the Commission has sympathetically examined proposals for federal collection and state sharing of other tax revenues.

A brief review of the findings of the Interstate Commission on Conflicting Taxation will serve to illustrate the type of considerations with which the Tax Revision Council must deal. After careful study, the Commission definitely accepted the view that some degree of separation of sources of federal and state revenues is desirable. It is expensive to provide duplicate federal and state gasoline and tobacco tax administrative machinery. The Commission also recognized that state and local governments experience a sense of financial responsibility if they levy and administer their own taxes, which feeling of responsibility is lacking if another unit of government collects taxes for them to spend. Finally, the Commission realized that administration of numerous taxes by the federal government would, ultimately, result in an undesirable increase in restrictions on the states.

Largely on these grounds, the Commission sought specific points at which separation of sources of revenue might be operative. After conferring with taxation leaders in Congress, studying staff reports, and carefully deliberating pros and cons, the Commission unanimously proposed: (1) that the federal government should abandon gasoline taxation; (2) that

no additional tobacco taxes should be adopted by the states for revenue purposes; (3) that Congress should reserve electric energy taxes for the exclusive use of the states; and (4) that, since the federal government has imposed a heavy tax on beer, other units of government should refrain from levying heavy taxes on that

beverage, unless needed for regulatory purposes.

After careful consideration of a number of factors the Commission decided to make no recommendation on the question of instituting a federally-administered, state-shared sales tax.

Attention was also given to the possibility of utilizing the crediting device in the field of income taxation. A crediting plan was proposed, which would involve a minimum of federal interference. This plan would make all distinctly personal state and local taxes eligible for the federal credit and would not include uniformity requirements. The Commission recognized that such a device would result in a minimum of relief from existing income tax conflicts; but it nevertheless believed the experiment worth consideration.

The removal of tax exemptions is one of the most fundamental proposals for alleviation of tax conflicts. The Commission has offered no definite recommendation on the subject, but, at the time the Commission's report was submitted to the Second Interstate Assembly, two proposals for modification of reciprocal federal-state exemptions were offered from the Board and adopted. The first recommendation sought the removal of exemptions of government securities and salaries of government officials; the second proposed that the federal government authorize the taxation of private property on federal reservations.

The work of the Commission has been handicapped from the beginning by a lack of statistical information regarding state and local finance. As a consequence of this difficulty, the Commission recommended that the states collect more adequate financial statistics of state and local governments and that many of the states conduct comprehensive investigations of their own state and local problems.



Henry F. Toll

The third long-range proposal of the Commission—that a Tax Revision Council be established—has now been accepted.

At the first meeting of the Tax Revision Council, on June 6-8, the following members attended: Messrs. Belknap, Boyington, Doughton, Graves, Haas, King, Long, Mastick, McCarren, Morgenthau, Morrisett, Oliphant, Parker, Toll, Vinson, Warkentin, Woodward, and Yantis. Assurances of complete cooperation were offered from the Senate Finance Committee by Senator King, who recalled that he had proposed a tax revision council as early as 1921. A similar cordial message from the House Committee on Ways and Means was offered by Representatives Doughton and Vinson. The latter urged promptness of attack as a vital necessity.

On the morning of June 7, Secretary Morgenthau presented a proposed policy, the text of which appears on pages 147-148. Messrs. Parker, Mastick, and Long presented statements of the triple approach to this problem by the Congress, the Interstate Commission on Conflicting Taxation, and the National Tax Association, respectively. Other members of the Council presented various viewpoints. A letter from City Manager Dykstra pointed to the division of functions of government as the real underlying problem and suggested the possibility of constitutional revision.

Secretary of the Treasury Morgenthau was elected chairman of the Council, Senator Mastick, first vice-chairman, Mr. McCarren, second vice-chairman, and Mr. Henry W. Toll was named secretary. Messrs. Vinson, Graves, and Dykstra, in addition to the officers, were named members of the executive committee. The cuts of photographs accompanying this article are those of some of the members of this committee. Chairman Morgenthau's picture is included with the text of his address to the Tax Revision Council which appears elsewhere in this issue.

At the afternoon session on Friday, June 7, the following committees were selected, to per-

form the duties which are outlined below:

1. *Federal-State Planning Committee*,—on the development of a plan or plans for coordinating federal and state tax systems; on methods of putting such plans into effect; and on inequities subject to prompt correction. Hon. Mark Graves, chairman; Messrs. Belknap, Leavy, Long, Oliphant, and Parker.

2. *State-Local Planning Committee*,—on the development of a model plan for coordinating state and local tax systems, including a report on possible methods of cooperation between the several states. Hon. C. H. Morrisett, chairman; Messrs. Boyington, Fox, Miller, Warkentin, and Woodward.

3. *Federal, State, and Local Functions Committee*,—on the allocation of governmental functions among federal, state, and local governments. Hon. C. A. Dykstra, chairman; Messrs. Hon, Mastick, Oliphant, and Yantis.

4. *General Survey Committee*,—on the collection of facts and statistics in respect to governmental tax laws, functions, revenues, and expenditures. Hon. George C. Haas, chairman; Messrs. Mastick, McCarren, and Parker.

As advisory members of the last named committee there were appointed Messrs. Morris Copeland, Stuart Rice, Mayne S. Howard, and John Willmott.

Through these committees the Tax Revision Council is to begin its work. The seriousness of the difficulties which it is attempting to smooth out cannot be too often emphasized. If, in what must necessarily be a slow, orderly procedure, it can assist in the transformation of our existing competitive tax system into a cooperative tax system, the aims and purposes of the Council will have been amply fulfilled.

"Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state."
—ADAM SMITH, *Fourth Canon of Taxation.*



C. A. Dykstra

THE TREASURY DEPARTMENT

Washington

The following text of an address by Henry Morgenthau, Jr., Secretary of the Treasury, before the Tax Revision Council in Washington, D.C. at 10:30 A.M. Friday, June 7, is for release upon delivery.

I appreciate the invitation to take part in this discussion of the problem of conflicting and overlapping taxation.

It is an old problem and not confined to the United States, but it grows more complicated, more difficult, and more acute with the years. At present we find it so acute in our country that it must be faced, and the fact that we are facing it raises the hope that we shall soon be taking important steps to solve it.

The depression has brought this problem into prominence by impairing the usual sources of revenue, thus causing our various governmental units to compete with each other for new sources and for greater yield from the old sources. This competition has produced numerous unfortunate results. For example, certain states have discovered that their taxes drove business into neighboring states; others have revised their tax laws primarily to attract business. Tax evasion, in all of its forms, has been increased by the fact that our machinery for the levying of taxes is out of equilibrium. We find some states imposing taxes previously levied solely by the Federal government, and therefore having to set up duplicate administrative machinery. The Federal Government had also tapped sources of revenue previously regarded as for the states alone. The conflicts between local and state governments in the field of taxation are too numerous ever to be catalogued during the few minutes I shall address you. Every phase of this problem bristles with thorny details.

The principal contribution that I should like to make to your deliberations on this subject is a definition of the basic problem. With the definition in mind we are ready to divide the problem into its many parts, and take them up in detail. The basic problem, as I see it, is to be just to the tax-payer. Independent levying of taxes by all of the various taxing authorities, without due consideration for the tax structure as a whole, has often resulted in unfair and uneconomic distribution of the burden. This is unjust, and therefore, affects the very foundations of government. It touches the welfare of the citizen in his daily task of earning a living. I think the problem should be approached with this point of view. Duplicate taxes cause waste, but that is a detail. The greater problem is to restore equilibrium in the tax structure as a whole, in order, primarily, to be fair and just. The waste is not as important as the injustice. It is entirely possible that we could attack the problem of waste and solve it without removing injustice. If we considered the matter solely from the point of view of the efficient tax gatherer it would become a technical problem. You could summarize it as a question of how to get the most money with the least expense. Stated in those terms the problem of this democratic government would be no different from that of any ancient tyrant. He had to raise money to support his government and he tried to get as much as he could with the least possible expense. A considerable part of the oppression which characterized tyranny was a direct result of taxation for revenue only, without regard to justice.

We must remember that, to the individual citizen, taxes are taxes, and that it makes no difference to him which agency is most at fault for any injustice he suffers. The tax structure should be sound, and the responsibility for making it so, rests upon every part of our government. When each taxing authority is guided only by its own immediate needs, and levies regardless of

the existence of identical or similar taxes imposed by other government units, the structure cannot be sound.

The problem of how to be fair in levying taxes is not easy, and perfection is out of the question; but the very complexity of the question makes it necessary for us to be striving constantly toward perfection because of the never-ending drift in the opposite direction.

We must be careful to guard against injustices as between geographic sections of the country, as between commodities, and industries, no less than as between individuals. An unjust distribution of the tax burden immediately creates artificial obstacles, and their disturbing influence is injected into the economic life of the nation.

I think it would be a great mistake, therefore, to think of our problem as limited to the removal of such administrative conflicts as now exist between the Federal, State, and local governments with respect to taxes. Certain types of new taxes which have been adopted as emergency measures might well be left to their administrative difficulties, in the hope that they will be discontinued. It would be a mistake, in my opinion, to accept as our main problem the task of making it easier to collect and administer all taxes.

What, then, should be our immediate approach to the problem? We may as well forego at the outset, the approach that would disregard the historical development of our political institutions, and attempt to recast our whole Government from top to bottom in such fashion that all governmental functions would be redistributed between Federal, State, and local units according to some ideal pattern. The practical objection to setting up such an ideal system of taxation, based upon a thorough redistribution of all governmental functions, is that we would be forced to spend the rest of our lives contemplating the impossibility of putting it into effect. To be practical, in this

connection, we must do our utmost to correct grave abuses without attempting to recast our whole machinery.

On the other hand, I don't believe that it would be wise to go to the other extreme; that is, to make a list of all of the specific types and cases of conflicts and overlapping, and attempt to take them up one by one. That type of piecemeal tinkering is very slow and rarely effective. Moreover, it is subject to the danger that each piecemeal solution, adopted without due reference to fundamental principles, might produce new inconsistencies. And a series of such piecemeal solutions could easily result in a badly distorted and unjust total tax structure.

The best approach would be the fundamental one of considering the entire problem from the standpoint of the individual taxpayer. The first step, in my opinion, is to make a careful survey and analysis of the total tax structure of the country to determine just how the burden of our governmental expenses is now distributed. Next, I would note what practicable changes in the combined tax structure of the country would produce a sound and more equitable distribution of the total burden. In the third place, I would concentrate upon a few important and workable means of eliminating conflicts and overlapping in a manner consistent with our analysis of what constitutes a fundamentally desirable tax structure. Finally, having arrived at a few important possibilities which we know to be fundamentally sound, we can then attempt to put them into effect. Each progressive step that we succeed in achieving along this line would not be a compromise that might create new conflicts, but would complete part of our task. Each fundamental step completed would provide a stepping-stone to make the next part of our program easier to achieve.

Wherever the problem has been attacked in this manner real progress has resulted. Several of the states are excellent examples but I am most familiar with what was done in New York State when Franklin D. Roosevelt was Governor. At his direction, the problem of equalizing the tax burden was studied by experts, and their reports are among the most valuable we have on this subject. In the rural areas of New York State, tax reforms of great social value were put into effect, and remain as beacon-lights to direct our course.

Mr. Roosevelt's interest in this problem has been intensified since he became President of the United States. At his direction the Treasury is undertaking a new study of overlapping taxes. This will supplement and carry further the excellent work on the problem of double taxation done by the staff of the Joint Committee on Taxation of the Congress for the Ways and Means Committee in 1932.

In proceeding along the course I have outlined, guided at every step by the basic principle of fairness, we should be careful not to assume that the revenue needs of our various governmental units are now fixed for all time. That assumption would lead us into new difficulties.

Our attack upon the problem of conflicting and overlapping taxation must be so basic that the solutions we arrive at are sufficiently flexible to provide for changing needs.

In the case of some taxes, it is entirely possible that we shall find it desirable to make a rigid separation of sources between Federal, State, and local governments. In other cases, we might find that certain taxes now levied by numerous governmental units could be best administered by the Federal Government, and the proceeds shared with the States. It is also possible that the states might handle certain of the taxes more easily than the Federal Government.

It would be highly desirable to center considerable attention upon the principles that should govern the allocation of such revenue.

In conclusion, I strongly urge that the technical details of tax-gathering, and even the essential matter of supporting the government, be considered secondary in importance in your deliberations, and that first consideration be given to the vital question of justice to the tax-payer. That course simplifies the task and leads directly to the goal.

Secretary of the Treasury
Office
For Revenue
1100

MORGENTHAU DRIVES JUSTICE TO TAXPAYER

WASH - SECY OF TREASURY MORGENTHAU

SPEAKING TODAY BEFORE THE TAX REVISION COUNCIL, HEKES URGED THAT TECHNICAL DETAILS OF TAX DETERMINING BE CONSIDERED SECONDARY IN IMPORTANCE IN DELIBERATIONS REGARDING TAX REVISIONS AND FIRST CONSIDERATION BE GIVEN TO THE QUESTION OF JUSTICE TO THE TAXPAYER-

-INDEPENDENT LEVYING OF TAXES BY ALL OF THE VARIOUS TAXING AUTHORITIES- MR MORGENTHAU SAID -WITHOUT DUE CONSIDERATION FOR THE TAX STRUCTURE AS A WHOLE HAS OFTEN RESULTED IN UNFAIR AND UNECONOMIC DISTRIBUTION OF THE BURDEN- DUPLICATE TAXES CAUSE WASTE BUT IS A -- BUT THAT IS A DETAIL- THE GREATER PROBLEM IS TO RESTORE EQUILIBRIUM IN THE TAX STRUCTURE AS A WHOLE IN ORDER PRIMARILY TO BE FAIR AND JUST- THE WASTE IS NOT AS IMPORTANT AS THE INJUSTICE-

-THE FIRST STEP IN MY OPINION IS TO MAKE A CAREFUL SURVEY AND ANALYSIS OF THE TAX STRUCTURE OF THE COUNTRY TO DETERMINE JUST HOW THE BURDEN OF OUR GOVERNMENTAL EXPENSES IS NOW DISTRIBUTED- THE SECY SAID --NEXT I WOULD NOTE WHAT PRACTICABLE CHANGES IN THE COMBINED TAX STRUCTURE WOULD PRODUCE A SOUND AND MORE EQUITABLE DISTRIBUTION OF THE BURDEN - IN THE THIRD PLACE--

THE THIRD PLACE I WOULD CONCENTRATE UPON A FEW IMPORTANT AND WORKABLE MEANS OF ELIMINATING CONFLICTS AND OVERLAPPING IN A MANNER CONSISTENT WITH OUT ANALYSIS OF WHAT CONSTITUTES A FUNDAMENTALLY DESIRABLE TAX STRUCTURE-- STRUCTURE FINALLY WE CAN THEN ATTEMPT TO PUT A FEW IMPORTANT POSSIBILITIES INTO EFFECT-

THE SECY SAID THAT THE TREASURY IS UNDERTAKING A NEW STUDY OF OVERLAPPING TAXES AT THE DIRECTION OF PRESIDENT ROOSEVELT- THE STUDY WILL SUPPLEMENT AND CARRY FURTHER THE WORK ON THE PROBLEM OF DOUBLE TAXATION DONE BY THE STAFF OF JOINT COMMITTEE ON TAXATION OF CONGRESS FOR THE WAYS AND MEANS COMMITTEE IN 1932-

MR MORGENTHAU SUGGESTED THAT IN THE CASE OF SOME TAXES IT MIGHT BE DESIRABLE TO MAKE A RIGID SEPARATION OF SOURCES BETWEEN A FEDERAL STATE AND LOCAL GOVT AND THAT IN OTHER CASES CERTAIN TAXES NOW LEVIED BY NUMEROUS GOVERNMENTAL UNITS MIGHT BE BEST ADMINISTERED BY THE FEDERAL GOVT AND THE PROCEEDS SHARED WITH THE STATES- HE SUGGESTED ALSO THAT THE STATES MIGHT HANDLE CERTAIN TAXES MORE EASILY THAN THE FEDERAL GOVT-

FEDERAL RESERVE BANK
OF NEW YORK

32

OFFICE CORRESPONDENCE

Date June 6, 1935.

To CONFIDENTIAL FILES

Subject TELEPHONE CONVERSATION WITH

From L. W. Knoke

MR. CARIGUEL OF THE BANK OF FRANCE.

Mr. Cariguel called at 10 a. m. today, and stated they were having an easy time today, total dollar sales amounting so far to \$3,500,000 only.

He then referred to the \$33,000,000 gold now held for our account in Paris for optional shipment to New York or to London and inquired whether he might send this amount by two steamers on June 7 and June 8 direct to New York. I replied that I thought the answer would be yes but that I would have to check back with Washington first. At the same time I inquired whether such shipment under present conditions would be all right from their viewpoint, considering probable newspaper comment about the resumption of gold shipments from Paris. He said, "Absolutely," also that he would not hesitate to send it. If Washington was willing to have the gold come to New York he would use the steamer New York on June 7 and the steamer Bremen on June 8, both being German boats. He added that for political reasons he would ask the Guaranty Trust Company in Paris to effect the shipments as his agents.

Politically there were no new developments; Pietri is still trying to form a ministry. Everybody believed that ultimately Lebrun would have to ask Laval again to make another effort.

LWK:KMC

FEDERAL RESERVE BANK
OF NEW YORK

33

OFFICE CORRESPONDENCE

Date June 6, 1935.

To CONFIDENTIAL FILES

Subject TELEPHONE CONVERSATION WITH

From L. W. Knoke

MR. CARIGUEL OF THE BANK OF FRANCE.

I called Mr. Cariguel at 10:40 a. m. to tell him that I discussed the shipment of \$33,000,000 to New York instead of to London with Washington and that our friends were agreeable to have the Banque de France proceed as suggested by him. Cariguel will accordingly request the Guaranty Trust Company, as his agent, to ship \$33,000,000 odd on the New York and on the Bremen consigned to Federal Reserve Bank of New York. The balance of the first \$35,000,000, that is about \$4,000,000, Cariguel said, would come forward on the American Merchant. All of our gold will therefore have been moved out of France by the end of the week. In this connection, Cariguel with a laugh expressed the opinion that this might be best for our Treasury.

I then referred to his cable (his No. 143) of May 31, in which he confirmed having bought gold from us under the Treasury's offer contained in our cable No. 82 and told him that the lawyers here had pointed out two small inaccuracies in the wording of this message: firstly, he had mentioned the price as \$35 without adding "less 1/4% handling charges and customary mint charges"; secondly he had stated the gold was "guaranteed free for export, etc." and the lawyers would have preferred to have had him say instead "guaranteed by us free for export, etc." Cariguel assured me that on both points there was no misunderstanding on his part as to the terms which we had proposed and that next time he accepted a proposition he would bear the

lawyers' request in mind and word his cables accordingly.

As regards political developments, Cariguel thought they would have a government tonight or tomorrow morning at the latest, either Pietri or Laval forming it.

LWK:KMC

Under the circumstances it might be necessary for us to raise the gold for the Government. We could act accordingly unless we heard otherwise from the Treasury. As far as support for the Government is concerned, Cariguel said he was of the opinion that the Guaranty Trust Company as heretofore

Cariguel then requested that I should refer the matter to Governor Harrison. With reference to the situation in France I mentioned to Cariguel that the market here seemed to think that the Government would make a proposal in the Chamber. Cariguel replied that they were thinking the Paris market will be closed on Monday, and being closed

I referred to paragraph one of his cable of the 15th that I received and told him that we would probably see the market this afternoon repeating that it was our understanding that the Guaranty Trust Company was making an offer of \$2,000,000 in gold. Cariguel again mentioned that the gold would be assigned to us and reported that the Guaranty had offered their services and he had accepted the offer because it was the quickest way to get the gold over.

LWK:KMC

FEDERAL RESERVE BANK
OF NEW YORK

35

OFFICE CORRESPONDENCE

Date June 7, 1935.

To CONFIDENTIAL FILES

Subject TELEPHONE CONVERSATION WITH

From L. W. Knoke

MR. CARIGUEL OF THE BANK OF FRANCE

Mr. Cariguel called at noon to let me know that the market was quiet and that they had done nothing at all in dollars. Under the circumstances he thought it would not be necessary for us to renew the order for tomorrow. I told him we would act accordingly unless we heard from him to the contrary. As far as support for the franc in this market is concerned, Cariguel said he was giving an order to the Guaranty Trust Company as heretofore.

Cariguel then requested that I again convey his thanks to Governor Harrison. With reference to the political situation in France I mentioned to Cariguel that the market here seemed to think that the Government would obtain a majority in the Chamber. Cariguel replied that they too thought so. The Paris market will be closed on Monday, that being Whitmonday.

I referred to paragraph one of his cable No. 158 just received and told him that we would probably send him a cable this afternoon repeating that it was our understanding that the Guaranty Trust Company was acting as Bank of France's agents in effecting the shipment of 22,000 kilos gold. Cariguel again mentioned that the gold would be consigned to us and repeated that the Guaranty had offered their services and he had accepted the offer because it was the quickest way to get the gold over.

LWK:KMC



Diary

TREASURY DEPARTMENT

WASHINGTON

June 6, 1935.

MEMORANDUM FOR MR. McREYNOLDS:

Following is a summary of the "important happenings" in the molasses situation, according to my notes, which some weeks ago you asked me to prepare for Mrs. Klotz's files.

About the middle of November, 1934, the Secretary received information to the effect that the Secretary of Agriculture was about to consummate an agreement with the North American Import Company and the Molasses Products Company, pursuant to the provisions of the so-called Costigan-Jones Act, whereby these two companies were to import substantial quantities of molasses into the United States from the Philippine Islands, Puerto Rico, and Hawaii, and to distribute such molasses to the feed trade in this country as agents for the Agricultural Adjustment Administration.

Upon the receipt of this information, the Secretary called the attention of the Secretary of Agriculture to the past record of the Molasses Products Corporation, owned by the Kaplan interests, and questioned the propriety of giving so important a contract, calling for the distribution of a substantial tonnage of molasses over an extended period, to a concern which was known to be a principal source of supply of raw material for the bootleg trade.

As the result of this suggestion, the Secretary of Agriculture directed that the proposed contract should be held in abeyance pending investigation by the officials of the Agricultural Adjustment Administration.

On or about November 20, 1934, Mr. Chester C. Davis of the Agricultural Adjustment Administration, accompanied by Mr. J. A. McConnell, representing the G. L. F., conferred with the undersigned during the Secretary's absence from the city, with a view to inducing the Treasury Department to withdraw the objection which the Secretary had made to the proposed contract. I advised these gentlemen that on the assumption that the Secretary's objection was based on the fact that the Molasses Products Corporation had been, and still was, engaged in illicit traffic, I did not see how this objection could be set aside, inasmuch as the Department had positive evidence of the company's derelictions. I made the suggestion to Mr. Davis that the whole matter should be left in abeyance until Secretary Morgenthau's return to the city, at which time he could confer with the Secretary personally. Mr. Davis assented to this suggestion.

On or about November 26, Mr. Davis, again accompanied by Mr. McConnell, conferred with Secretary Morgenthau in the latter's office. The undersigned was present. Mr. Davis sought to show the Secretary the importance of consummating the contract from the point of view of providing essential stocks of feed, particularly to agricultural communities in drought-stricken areas. The Secretary advised Mr. Davis that while he considered it his duty to acquaint the Secretary of Agriculture with the character and reputation of the Molasses Products Corporation, the question whether the contract should be consummated with that company was one for decision by the Secretary of Agriculture. There was protracted discussion, but at the end of the conference Mr. Davis let it be understood that in view of the Secretary's attitude he did not consider it advisable to consummate the proposed contract.

On November 26 and 27, the Secretary received telegrams from Mr. A. I. Kaplan, of the Molasses Products Corporation, asking a hearing with reference to the Department's objections to the contract. At the Secretary's instruction, such a hearing was accorded Mr. Kaplan on December 4, at which time Mr. Kaplan made what is believed to be a full and truthful statement of the business operations of the Molasses Products Corporation, and its subsidiary, the Dunbar Company. The undersigned, Captain Sayles, and Mr. Avis were present at this meeting, following which I advised the Secretary in writing (on December 6) that in my opinion the Department should adhere to its objections to the contract.

About this same time, Mr. H. E. Babcock, head of the G. L. F., conferred with the Secretary, and subsequently with Mr. Oliphant and the undersigned, with regard to the formation of a new company to take over the plant assets of the Molasses Products Corporation and to contract with the A. A. A. to import molasses according to the original plan.

About January 10, the undersigned was advised by Mr. J. A. McConnell, of G. L. F., that a new corporation had been formed, under the name Commercial Molasses Corporation, to acquire the assets and take over the business of the Molasses Products Corporation. The new Company was owned as follows:

Commercial Solvents	70 per cent
Corn Products	25 per cent
G. L. F.	5 per cent

The consideration paid to the Kaplan interests was \$4,000,000 in cash.

A copy of the contract of sale was furnished the Department, at my request, by officers of the new company about January 20, and returned on February 9, after analysis by Mr. Klaus, of the General Counsel's staff. At this time the undersigned was given assurances by the officers of the new company that it would do no business with known or suspected users of molasses for illicit purposes, and that the company desired, and would make full use of, the cooperation and help of the Department to that end.

Chief of the Federal Reserve Bank of New York.

These assurances have been repeated subsequently, and, so far as the Department is aware, are being carried out by the new company in good faith.

It is understood that the Commercial Molasses Corporation has received no contract from the A. A. A. looking toward the importation of molasses from the Philippine Islands, Puerto Rico, and Hawaii, along the lines of the originally proposed contract with the Molasses Products Corporation and the North American Import Company.

New York

U.S. 101 Yes, Secretary Graves will call the telephone **GRAVES.**

U.S. 102 I've a cable from Secretary Graves which he wanted to be read to you.

U.S. 103 Please,

U.S. 104 It reads as follows: It is understood that the A. A. A. has invited all sections of this market to participate in the restricting facilities for operations in London, always and for good. In this connection, we have advised the London officers or representatives of the various banks in London including the British Bank who have been given a command: advising forth with the cable which we desire Federal cooperation. The list of bank companies will perhaps be transmitted to your side, and I, therefore, advise the subject for your information and I hope that your support is suggested as applied to your transport. Signed Graves.

U.S. 105 Yes.

U.S. 106 We have only arrangements to get this at office + copy of a copy of the memorandum regarding meeting by cable.

U.S. 107 Yes.

U.S. 108 And we'll advise your office of this at once.

U.S. 109 All right.

U.S. 110 Now, I wanted to get this information to you and I want the Government will be talking to you about it.

U.S. 111 Thank you very much.

U.S. 112 You're welcome.

U.S. 113 Thank you.

June 7, 1935.
Friday.

39

Allen Sproul of the Federal
Reserve Bank of New York.

H.M.Jr: Hello.

Allen
Sproul: Mr. Secretary?

H.M.Jr: Yes.

S: This is Allen Sproul of the Federal Reserve Bank of
New York.

H.M.Jr: Yes, Governor Harrison said you'd be talking.

S: I've a cable from Governor Norman which he wanted me to
read to you.

H.M.Jr: Please.

S: It reads as follows: At the suggestion of Governors of
several Continental Central Banks, we have recently in-
vited all sections of this market to cooperate in
restricting facilities for speculation in foreign ex-
change and for gold. In this connection, we can approach
the London officers or representatives of the foreign
banks in London including the American Banks who have
been given a memoranda setting forth various points upon
which we desire Federal cooperation. The gist of this
memoranda will perhaps be transmitted to your side, and
I, therefore, mention the subject for your information
and I hope from your support a copy will be mailed to
you tomorrow. Signed Norman.

H.M.Jr: Yes.

S: We have made arrangements to get hold of either a copy
or a summary of the memorandums tomorrow morning by
cable.

H.M.Jr: Yes.

S: And we'll advise your office of what it contains.

H.M.Jr: All right.

S: But, I wanted to get this information to you and I assume
the Governor will be talking to you about it.

H.M.Jr: Thank you very much.

S: You're welcome.

H.M.Jr: Thank you.

June 7, 1935.

40

The Open Market Committee met with the Secretary of the Treasury in his office at 12 o'clock. Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury.
Marriner S. Eccles, Governor, Federal Reserve Board,
G.L. Harrison, Governor, Federal Reserve Bank of New York,
T.J. Coolidge, Under Secretary of the Treasury,
W.R. Burgess, Deputy Governor, Federal Reserve Bank of N.Y.,
R.A. Young, Governor, Federal Reserve Bank of Boston,
G.J. Seay, Governor, Federal Reserve Bank of Richmond,
D.W. Bell, Commissioner of Accounts and Deposits,
George C. Haas, Division of Research & Statistics,
C.B. Upham.

Mr. Coolidge reported that he and the Open Market people had had some discussion and that the only conclusion reached was to offer on Monday a 5 year 1-1/2% note to be exchanged for the notes which mature June 15th and August 1st. Interest to June 15th only will be paid on the notes maturing in August.

Mr. Coolidge and Mr. Burgess guessed that the new note would probably sell at about par and 5/8ths.

It was agreed that a 4-1/2 year note would be more attractive than a 5 year note but a 5 year note will go.

Mr. Morgenthau said that this program was satisfactory to him, and Mr. Coolidge said that that was all he cared to do on Monday.

Mr. Morgenthau asked Mr. Bell what his best estimate is of available cash on June 16th.

Mr. Bell replied that we ought to have in the neighborhood of \$850,000,000 on June 30th and probably it would not be much different as of June 16th.

Mr. Bell said that on July 1st there will be \$600,000,000 of Consols to pay off and that there will be \$225,000,000 of lawful money come in with a net drop in cash of from \$450,000,000 to \$500,000,000. We will need \$250,000,000 of new money in July. That much will just about take up the deficit.

Mr. Coolidge said that Jesse Jones expects to make considerable payments in July, to which Mr. Morgenthau said not to figure too strongly on that.

It was reported that on June 17th the FCA has a conversion of \$250,000,000 Land Bank Bonds and that they expect to offer a 20 or 30 year bond, callable in 10 years, bearing 3 or 3-1/4% interest.

It was suggested that an offering on June 24th for payment July 1st would be a pretty good day for a new money announcement.

Mr. Harrison asked why it was necessary to get new money so soon, and Mr. Morgenthau replied that \$450,000,000 cash balance was pretty low.

Mr. Coolidge interposed to say that we want to train the purchasers of Government securities in the bidding method.

Mr. Burgess said that he was agreeable to an offering on June 24th if the market is favorable and the character of the offering adjustable.

Mr. Eccles recommended trying out the bidding method two or three times at least.

Mr. Harrison said that was alright if we were looking for a wet blanket on Government bonds.

Mr. Morgenthau asked, if in the event of a real row with the bond dealers, could the Treasury count on the Federal Reserve Board to go along.

Mr. Eccles said that the Board had no power to go along.

Mr. Morgenthau said the Treasury might offer the System \$1,000,000,000 in bonds. Suppose the Treasury put it up to the Board, he said, to take \$1,000,000,000 new securities at 1/8th of 1%.

Mr. Harrison said he knew what his advice as fiscal agent of the Treasury would be to such a proposal.

Mr. Morgenthau added that he referred to the case of a real showdown.

Mr. Burgess said he did not think it was a dealer problem, but referred to the fact that the group had agreed to an experiment in offering securities on a bid basis at the last meeting and suggested the advisability of having a report on results.

Mr. Morgenthau asked Mr. Harrison to report.

Mr. Harrison was of the opinion that there was some disappointment and some confusion. He referred to the fact that there was not much dealer profit in the new procedure and that small banks did not have so much chance to acquire securities. He reported a checkup in Chicago as indicating that the big banks did not mind the new method but that the small banks did.

Mr. Young interposed to say that he had talked to only one country bank but that he cannot feel that the bidding program has been a failure. He still thinks that there is something in the bidding venture and that it got a bad break on its first trial. He said that he did not want to give up the idea. He referred to the N.R.A. decision as ^a disturbing influence.

Mr. Morgenthau commented that he thought the French situation was equally disturbing. He added that there had been discussion of the bidding venture for 3 months and that everyone had approved it and that he considered it a distinct success, and in view of the French difficulties, which were very serious, he thought it remarkable that there was only a threepoint fall. He indicated that he considered it silly to say that the decline in the Government market is caused by the method of offering \$100,000,000 of bonds.

Mr. Harrison said that it was his feeling that the Treasury, during the last 3 years has done a magnificent job in arranging maturities and through lowering interest payments and through the use of a thoroughly understood and successful process. While there has been occasional gravy, his own belief is that the Treasury has secured its money more cheaply than if it had used the bidding procedure. Its success and smoothness shouldn't be interrupted at a moment when things are going so well, from the Treasury point of view. He saw no very cogent reason to change today. Maybe both ways are needed in an emergency but we should stick to the traditional method until we need more money.

Mr. Morgenthau said that he was always appreciative of previous experience and that he was very willing to listen to men on the firing line. He said that the way he looks at it is that we have gone through a very difficult period in Government finance and that it has been the good fortune of the Treasury for conditions to improve very definitely over the first three months that he was Secretary. We are riding high now, he said, and in his opinion it is time to look for other methods of disposing of the bonds and try them out. If we have to try them out with our backs to the wall it will be a sign of weakness. Another reason, he said, is that the Treasury can now estimate better what its ^{cash} requirements are. RFC loans are nearing an end. Heretofore their estimates have been out as much as \$1,500,000,000 at a time. The Treasury has pretty good control over the rate of work relief expenditures. He said he would like to go through the summer on a 30 day ahead basis rather than getting the \$1,000,000,000 needed at one time.

He agreed with Mr. Burgess that if conditions sour resort should be had to the use of notes rather than bonds.

Mr. Harrison said that his remarks had been made wholly independent of the success or failure of the bid offer.

Mr. Morgenthau said that he didn't think the United States Government could let 5 bond houses tell it what to do.

Mr. Burgess and Mr. Harrison said that there was nothing to that idea -- that it was all wrong.

Mr. Coolidge said, too, that reports that a small group of

bond houses were dictating to the Government were an exaggeration. Nevertheless, he said, if the dealers had felt badly about the experiment they could have influenced the result more favorably.

Mr. Coolidge added that there are two reasons for the change to the bid basis. He said we have issued bonds with longer and longer maturities until we now have outstanding a 25 year issue. Maturity vacancies have been filled -- we do not need a new bond. In the second place, he said, the bidding has become worse and worse, so far as over-subscriptions are concerned, more and more people want to take rides.. This has been a bad influence from the spending end as evidenced in the demand for a bonus and other extravagances. If an offering on a bid basis doesn't go too good he is not disposed to feel too badly about it.

Mr. Burgess said he thought we had been gaining better control over over-subscriptions.

Mr. Coolidge was of the opinion that the last offering was the worst of all, and that many banks and others had put in bids in the names of numerous other people.

Mr. Young said he had considered offering a two way proposition -- price a bond and at the same time invite bids.

Mr. Coolidge said he thought it might be well to put a bottom limit on what we will accept -- say 103 or better. This he thought would produce closer and more satisfactory bidding.

Mr. Burgess said that representatives from Chicago and Cleveland were not able to come to the meeting and that they had been asked their impression. The report from Chicago was that the rural bankers didn't like it but that the Chicago banks were not so

hostile. He read a telegram from Mr. Fleming of Cleveland to the effect that the banks in the large cities opposed the new method and regarded the procedure as disturbing to the market. He added that New York banks are not particularly averse. Devine and Company like it, he said, and Mr. Coolidge commented that they bought 103.2 and 103.1.

Mr. Burgess continued by saying that it is a cinch for dealers who will take a short position.

Mr. Young commented that he doesn't know of anything better for the Government market right now than a substantial short interest.

Mr. Burgess commented that the two things Mr. Morgenthau had been seeking were better distribution and a rest for the market and that the new procedure achieved neither. He agreed that there was a pretty narrow margin of error in the bidding.

Mr. Young said that he assumed the bankers opposed the procedure for two reasons: First, because banks opposed change anyway, and second, that they get less profit.

Mr. Burgess commented that the new procedure would go good in good weather and bad in bad weather.

Mr. Coolidge commented that one group is really hurt by the new procedure -- those who ordinarily get a \$10,000 preference on small subscriptions. Heretofore they have received about 1 point profit. This group includes about half the banks in the country.

Mr. Seay reported that the Baltimore banks told him the new method creates uncertainty and works against a free market and brings about a down turn in prices. He reported that trust

companies would not enter bids for their trusts. He regarded this position as wholly illogical. He said that the Richmond bank got more bids than ever before but that the bids were too low and so the bidders got no bonds.

Mr. Young interposed to say that the banker is a "chiseller" and a bargain hunter.

Mr. Morgenthau said he would like to continue on a bid basis through the summer with a new issue on the old basis about September 15th to bring in from \$500,000,000 to \$1,500,000,000 to last through to January.

Mr. Seay thought it would be helpful to the country banks if a sheet were sent along showing the current prices on outstanding bonds.

Mr. Morgenthau replied that the Treasury would consider accompanying the next request for bids with newspaper advertisements in cities of 25,000 or over.

Mr. Young, Mr. Eccles and Mr. Coolidge were of the opinion that the banks in the smaller cities were pretty well circularized by the dealers.

Mr. Burgess said that the general reaction is that the bid method is a mistake. He was of the opinion that we ought to keep on trying but take it gradually and in our stride -- not use it for all new cash this summer and do not appear to be stubborn and run our heads against the wall. Do not imperil the whole program without reason, he said.

Mr. Eccles commented that banks prefer the old method

because it is for their interest, and Mr. Morgenthau added "for the turn that they could make."

Mr. Eccles said "yes, for the profit in it". He added that as long as there are so many excess funds in the banks there is not the slightest reason for concern about financing. From the Treasury standpoint, he said, he has heard no argument yet that weighed against the new method.

Speaking to the point of distribution, Mr. Coolidge said he thought the new method would be better for gradual and eventual distribution. He blamed the difficulties of last September on June offerings for cash. The June sales were not distributed until September, he said.

Mr. Morgenthau said that if the market drops people are worried and critical but if it is up their comment is that the Treasury is pushing it too hard. He said the Treasury could have put out a new issue for \$1,000,000,000 in June.

Mr. Eccles said the bond houses buy for speculation on large offerings and that on the bid basis he thinks there is better absorption and less overloading of dealers.

Mr. Morgenthau asked if those present would come down two weeks from today and then we can make up our minds what to do about new money.

Mr. Harrison said he wanted it understood that he had an open mind on the problem.

Mr. Morgenthau said he did too and that he has no hobbies and no set ideas about it. He added that he has not been convinced that the experiment is not worth continuing.

Mr. Seay thought the new method was founded on reason and common sense.

Mr. Morgenthau said to Mr. Burgess "you are not convinced that the new method is wrong, are you?" Mr. Burgess replied "no". He said it is surrounded with difficulties and we ought to go slow.

Mr. Harrison said he thought that a more important statement than that the new method is not wrong is the statement that the old method is right.

Mr. Eccles said that he agreed with Mr. Young that the main trouble with the banks is their resistance to change.

Mr. Burgess commented that that is a good reason for changing slowly.

Mr. Seay said to Mr. Morgenthau that he didn't fully understand earlier reference to selling \$1,000,000,000 of Government securities to the Federal Reserve Banks.

Mr. Morgenthau indicated that he had not been too serious in that proposal, that it had better be forgotten.

Mr. Young commented that if the Government market went sour he was pretty sure that the Federal Reserve Banks would do whatever were necessary to make their investment of \$2,500,000,000 good.

Reference was made to the decline in the Mellon's 3's shortly after their issuance and Mr. Burgess commented that that piece of financing represented the only case where the Treasury had gone against the advice of New York.

TREASURY DEPARTMENT

Washington

Press Service
No. 5-9

FOR RELEASE, MORNING NEWSPAPERS,
Monday, June 10, 1935.
6-8-35.

Secretary of the Treasury Morgenthau today announced the offering of 5-year 1-1/2 percent Treasury notes of Series B-1940 in exchange for Treasury notes of Series A-1935 maturing June 15, 1935 and for Treasury notes of Series B-1935 maturing August 1, 1935.

About \$416,600,000 of the notes of Series A-1935 will mature on June 15, and about \$353,800,000 of the notes of Series B-1935 mature on August 1, 1935. These maturing notes may now be exchanged for the new issue, the amount of which will be limited to the amount of the maturing notes tendered and accepted for exchange. The offering is confined to exchange subscriptions, and cash subscriptions will not be received.

The Treasury notes now offered will be dated June 15, 1935, and will bear interest from that date at the rate of 1-1/2 percent per annum payable semi-annually. They will mature June 15, 1940, and will not be subject to call for redemption before that date.

The notes will be exempt, both as to principal and interest, from all taxation. The exemption does not apply to estate or inheritance taxes or gift taxes.

The notes will be issued in bearer form only in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

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

the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice. Subject to the reservations set forth in the official circular, all exchange subscriptions will be allotted in full.

Payment at par for any new notes allotted must be made on or before June 15, 1935, and may be made only in Treasury notes of Series A-1935 maturing June 15, 1935, or in Treasury notes of Series B-1935 maturing August 1, 1935, which will be accepted at par and should accompany the subscription. In the case of Treasury notes of Series B-1935 tendered in payment, coupons dated August 1, 1935, must be attached to the notes when surrendered and accrued interest from February 1 to June 15, 1935, on the surrendered notes will be paid following their acceptance for exchange.

The text of the official circular follows:

UNITED STATES OF AMERICA

1-1/2 PERCENT TREASURY NOTES OF SERIES B-1940

Dated and bearing interest from June 15, 1935

Due June 15, 1940

Interest payable June 15 and December 15

OFFERED ONLY IN EXCHANGE FOR TREASURY NOTES OF SERIES A-1935, MATURING JUNE 15, 1935, AND TREASURY NOTES OF SERIES B-1935, MATURING AUGUST 1, 1935

1935
Department Circular No. 542
Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary
Washington, June 10, 1935.

The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States, for 1-1/2 percent notes of the United States, designated Treasury Notes of Series B-1940, in payment of which only Treasury Notes of Series A-1935, maturing June 15, 1935, or Treasury Notes of Series B-1935, maturing August 1, 1935, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series A-1935 and of Series B-1935 tendered and accepted.

Description of Notes

The notes will be dated June 15, 1935, and will bear interest from that date at the rate of one and one-half percent per annum, payable semiannually, on December 15, 1935, and thereafter on June 15 and December 15 in each year. They will mature June 15, 1940, and will not be subject to call for redemption prior to maturity.

The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes ¹) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

¹ Similarly, the exemption does not apply to the gift tax, see Treasury Decision 4550.

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

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

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

Application and Allotment

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

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

Payment

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Payment at par and accrued interest, if any, for notes allotted hereunder must be made on or before June 15, 1935, or on later allotment, and may be made only in 3 percent Treasury Notes of Series A-1935, maturing June 15, 1935, or in 1-5/8 percent Treasury Notes of Series B-1935, maturing August 1, 1935, which will be accepted at par, and should accompany the subscription. In the case of Treasury Notes of Series B-1935 tendered in payment, coupons dated August 1, 1935, must be attached to the notes when surrendered, and accrued interest to June 15, 1935,² will be paid following acceptance of the notes for exchange.

General Provisions

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

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

² Accrued interest at 1-5/8 percent from February 1, 1935, to June 15, 1935, on \$1,000 is \$6.015193.

June 11th

At the 9:30 meeting this morning Mr. Oliphant brought in draft of a letter to Senator McCarran in answer to one which Mr. Morgenthau received dated June 7th in regard to the Treasury's silver purchase program. Mr. Morgenthau suggested many changes. He then telephoned Senator Key Pittman and told him about the letter which he had received from Senator McCarran and also about our suggested reply and asked whether he would have the time to look over our letter before we sent it up on the hill. Senator Pittman said he would come down in about 15 minutes.

Mr. Oliphant then read both letters to Senator Pittman. He then dictated the following suggestions:

- "I think it would be impolitic to discuss the Stabilization Fund as it is purely an American policy and deals more with international exchange than our local currency.
- "I am sure that it is realized the publicity in regard to the Stabilization Fund would be contrary to public interest and no member of Congress has heretofore asked for any public expression in regard to it.
- "I have submitted you these facts which seem to be the conclusive evidence that the Treasury Department is carrying out the act according to its mandates and in the spirit intended.
- "On or about such and such a date you had a group of Senators come down to your office, such Senators as you could reach by telephone and those who are interested in silver legislation. At that time a number of them responded and we had a very open and frank conference in regard to the complete operation of the Treasury Department under the Act. That you explained to those present what you had done, what you were doing and what you intended to do and outlined quite fully the entire policy. Everyone present either by statement or by apparent acquiescence agreed to the policy.
- "Point out that McCarran was not present at that meeting but that he came to your house upon your invitation the next morning and you answered all questions which he asked and that you attempted to outline what you were doing and were under the impression that he was satisfied with it.

"That if any group of Senators desire to come down and discuss this or any phase of it with you that you would be very happy to do so that you never intended to conceal anything from them."

After Senator Pittman left, Mr. Morgenthau decided to give McCarran facts but he certainly did not intend to be apologetic. Attached herewith are copies of Senator McCarran's letter to Mr. Morgenthau and his reply.

* * * * *

McReynolds, Bell and I talked over the future of the office of the Director of the Budget and we all three agree that for the immediate future it would be best if we could get somebody like Tom Smith to become Director of the Budget. As to the future, Bell and McReynolds have a plan of a permanent fiscal Assistant Secretary who would have charge of accounting and fiscal matters. I think that this should be gone into very thoroughly.

If I am able to get Tom Smith to come then I would want Bell to stay on my payroll as Special Assistant until December 31, 1935 in order to compensate him in a small way for his efforts.

UNITED STATES SENATE
Committee On Appropriations

52

June 7, 1935

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

My dear Mr. Secretary:

I am at a loss to understand the reason for the recent drop in the price of silver with its other attending phases, and therefore appeal to you for facts of which I am entirely uninformed.

Will you be so kind as to tell me whether the Treasury has sold any silver directly or indirectly through the stabilization fund or through any of its agencies, and if so, in what quantities and at what price?

Will you also tell me what steps are being taken now by your Department to carry out the provisions of the Silver Purchase Act of 1934?

Lastly, will you kindly inform me to what reason you attribute the recent fall in the price of silver, which fall was approximately nine cents?

Frankly, I am concerned about the seeming failure to assure the country on the status of silver. Reports which I assume of course to be wholly unfounded are being circulated in the world markets to the effect that the United States is to abandon its silver policy; and from some source there seems to come an intimation that your Department was not intent in carrying out the provisions of the Silver Purchase Act. These rumors appear to be particularly persistent in India and China and from what I can learn are being circulated without refutation or authentic statements from the Department nor from any person or agency in this country most interested in silver. Cable reports from Shanghai assert that the rumors originate with certain Washington correspondents of the news agencies. Whether this be so of course I do not know, but in the absence of any positive statement from the Treasury or Congressional circles such rumors may continue, and it appears to me that something should be done to prevent a demoralization of the market.

I trust that you may see fit to tell an uninformed public that the provisions of the Silver Purchase Act are being enthusiastically carried out by the Treasury Department and that there is not the slightest basis for the rumors to which I have made reference;

Hon. Henry Morgenthau, Jr., page 2

6/7/35

also that as soon as practicable silver will be equal to one-fourth the value of the monetary metal in the treasury.

Assuring you of my continued cooperation in carrying out the provisions of the Silver Purchase Act, and with the hope that I may have your reply as soon as it is convenient, I remain

Respectfully yours,

/s/ Pat McCarran

I am, however, glad you are fully satisfied with the operations under the Silver Purchase Act and the results relating to newly mined silver. It is an important fact with the public interest that these facts should be made known and that, therefore, should the body of the report be your own.

In carrying out the policy declared in the Silver Purchase Act, and in accordance with the authority and direction thereto given, the Secretary of the Treasury has authorized in the two months ending May 31, 1935, by purchase, 220,000,000 ounces of silver as to which delivery has already been made, and 110,000,000 ounces of silver under the Silver Purchase Act of August 9, 1934. During the first period 10,800,000 ounces of newly mined domestic silver have been delivered under the Executive Proclamation of December 21, 1933. In the aggregate, 200,000,000 ounces of monetary silver have been increased by 330,000,000 ounces.

The extent of these purchases may better be appreciated by a comparison of the amount of silver which has been produced and produced in the United States and in the world during the two months from August 1, 1934 to May 31, 1935. It is estimated that 25,000,000 ounces of silver were produced in the United States, of which 2,000,000 went into industrial use, leaving a net of only 23,000,000 ounces. During the same period the Secretary of the Treasury received 1.5 times as much silver as was produced in the United States and that three times as much of that production as was available for monetary use.

The world total, it is believed, produced only 14,000,000 ounces of silver during the two months from August 1, 1934 to May 31, 1935, of which 10,000,000 ounces were available for industrial use. The expenditures of the Secretary of the

June 11, 1935.

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My dear Senator:

I refer to your letter of June 7 in which you ask me to furnish you certain facts in respect to our silver purchase program.

I believe you will agree with me upon reflection that, since the purpose and operations of the Stabilization Fund are matters of American policy and primarily have to do with international exchange relations rather than domestic monetary matters, discussion of the operation of the Fund would not be in the public interest. This has been the fixed policy of the Department since the Fund was established. That this is generally appreciated is evidenced by the fact that no inquiry concerning the operation of the Stabilization Fund has come to the Treasury from any member of the Congress or other officer of the Government. Only those primarily interested in speculation in silver would seriously question the wisdom of this policy.

I can, however, give you the facts with respect to the operations under the Silver Purchase Act and Proclamations relating to newly mined silver. It is entirely consistent with the public interest that these facts should be made known; and they, therefore, furnish the best means of answering your questions.

In carrying out the policy declared in the Silver Purchase Act, and in accordance with the authority and direction therein given, the Secretary of the Treasury has acquired in the ten months ending May 31, 1935, by purchase, 283,000,000 ounces of silver as to which delivery has already been made, and 112,850,000 ounces of silver under the Nationalization Order of August 9, 1934. During the same period 25,647,000 ounces of newly mined domestic silver have been received under the Executive Proclamation of December 21, 1933. In the aggregate, our stocks of monetary silver have been increased by 421,497,000 ounces.

The extent of these purchases may better be appreciated by a comparison of the amounts of silver which have been produced and consumed in the United States and in the world during the ten months from August 1, 1934 to May 31, 1935. It is estimated that 25,700,000 ounces of silver were produced in the United States, of which 9,000,000 went into industrial use, leaving a net of only 16,700,000 ounces. During the same period the Secretary of the Treasury received 16.4 times as much silver as was produced in the United States and 25.2 times as much of that production as was available for monetary use.

The whole world, it is estimated, produced only 156,000,000 ounces of silver during the ten months from August 1, 1934 to May 31, 1935, of which 60,000,000 ounces were necessary for industrial use. The acquisitions of the Secretary of the

Treasury during the same period exceeded the world production by about 265,000,000 ounces, and exceeded such of that production as was available for monetary purposes by more than 325,000,000 ounces. In other words, the receipts of silver were 2.7 times the total world production and 4.4 times the current world output of monetary silver.

The United States agreed at the London Conference to withdraw 24 $\frac{1}{2}$ million ounces of current newly mined silver from production every year. The receipts of silver under the Executive Proclamation of December 21, 1933, alone, more than comply with this Agreement. During the ten-month period from August 1, 1934 to May 31, 1935, we have acquired for monetary purposes 401,100,000 ounces more silver than we agreed to by the London Agreement. We have, in fact, withdrawn more than twenty times as much as we agreed to do.

The total amount of silver to be withdrawn each year by all other parties to the London Agreement was 9,500,000. The United States alone has withdrawn during the ten-month period 421,497,000 ounces, or forty-four times more than the other countries agreed in a whole year.

Under the Sherman Act of 1890 the Treasury purchased during the 3 $\frac{1}{2}$ years of its operation 168,675,000 ounces. The Treasury has purchased and received delivery of 2 $\frac{2}{3}$ times that amount in the ten months that the Silver Purchase Act has been in operation. Our monthly average purchases during the ten months from August 1, 1934 to May 31, 1935, have been ten times the average monthly purchases under the Sherman Act of 1890.

During the period 1920-1930, it is estimated that the annual withdrawal of silver for monetary purposes for the whole world, including the United States, averaged approximately 200,000,000 ounces. During the past ten months the United States has received more than twice the average annual amount taken by the whole world during that period. I have taken a ten month period, for, as you doubtless know, delivery is usually made at the end of the month and these figures are based upon deliveries.

The figures on a monthly basis are even more significant. Confining ourselves to actual receipts, during the past ten months the Secretary of the Treasury has acquired and received delivery of silver averaging more than 42,000,000 ounces a month.

Concerning the policy and purpose of the Treasury Department in carrying out the letter and spirit of the Silver Purchase Act of 1934, the foregoing facts speak for themselves.

Referring to your last question concerning the recent course of the price of silver, I do not believe that the sudden and abnormal rise of the price to eighty-one cents in the latter part of April was the result of the normal operation of legitimate market forces. I think rather that it is to be attributed

to manipulations of speculative interests. The disappearance of this unhealthy condition and influence has been a wholesome development.

Very truly yours,

Secretary.

Honorable Patrick McCarran,
United States Senate.

The President in his Budget Message of January 11, 1939, recommended that the Internal Revenue Code for 1939 be amended to extend the expiration date of the tax laws terminating on June 30 and July 31, 1939, until they are extended by Congress, and also that the tax laws which would be repealed on June 30, 1939, will be extended. Specifically, the President recommended that the Congress should pass legislation to extend the expiration date of the laws which under existing law will expire with respect to 1939, and also to maintain the current rates of such laws until they expire next June. He added "I consider that such laws are necessary to the financing of the Budget for 1939."

The representatives of the Treasury Department and other your Committee will be glad to answer any questions which may be available to the Committee the results of its discussions with these groups.

Respectfully,
(Signed) V. Roosevelt, Jr.

Secretary of the Treasury

Mr. Samuel H. Hill, Chairman,
Committee of Ways and Means, House of Representatives.

June 11, 1935.

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My dear Mr. Chairman:

I am glad to avail myself of the opportunity afforded by your invitation to have representatives of the Treasury appear before the Subcommittee of which you are chairman to answer questions in respect to legislation affecting the miscellaneous internal revenue taxes. As you are aware, a number of these taxes were terminated by the Revenue Act of 1934; a substantial number of other taxes expire on June 30 and July 31 of this year; and in the case of a few of the continuing taxes, the rate will be substantially reduced effective on June 30.

The President in his Budget Message of January 7 estimated that the miscellaneous internal revenue taxes for 1936 would increase some \$143,000,000 over the collections for 1935, stating that "this increase is predicated on the assumption that the taxes terminating on June 30 and July 31, 1935, will be extended by Congress, and also that the tax rates which would be reduced on June 30, 1935, will be continued." Accordingly, the President recommended "that the Congress take steps by suitable legislation to extend the miscellaneous internal revenue taxes which under existing law will expire next June or July, and also to maintain the current rates of taxes which will be reduced next June." He added "I consider that such taxes are necessary to the financing of the Budget for 1936."

The representatives of the Treasury appearing before your Committee will be glad to answer any questions and to make available to the Committee the results of its experience with these taxes.

Respectfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Samuel B. Hill, Chairman,
Subcommittee of Ways and Means Committee,
House of Representatives.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, June 12, 1935.
6-11-35.

Press Service
No.5-11

Secretary of the Treasury Morgenthau announced today (June 11) that the subscription books for the current offering of Treasury Notes of Series B-1940 will close at the close of business Thursday, June 13, 1935. Subscriptions placed in the mail before 12 o'clock, midnight, Thursday, June 13, will be considered as having been entered before the close of the subscription books. This offering is open only to the holders of Treasury Notes of Series A-1935, maturing June 15, 1935, and to the holders of Treasury Notes of Series B-1935, maturing August 1, 1935.

June 11th

The following is a tentative plan of financing which I discussed with Mr. Coolidge to-day:

That the last week in June we borrow enough to take care of our July needs; the last week in July we borrow enough to take care of our August needs and the middle of September we get out a new large bond issue for new money to take us through December 15th.

Coolidge wants an offer for conversion of the 1 billion 200 million which comes due October 15th. These are the last 4-1/4's.

June 12, 1935.
Wednesday.

Tom
Smith: my two partners come into my apartment this afternoon to talk the matter over and wanted you to understand why there was some delay in calling you.

H.M.Jr: Oh, well, then - then, I'd say that we still can hope.

S: Yes.

H.M.Jr: Good.

S: You may hope. I'll be talking to you tomorrow or the next day.

H.M.Jr: How is your permanent partner?

S: Well, she's not very warm to it.

H.M.Jr: Not very warm to it.

S: Not very warm to it, no, she thinks I'm simply taking on another job, probably a good deal heavier than anything I've tackled and I ought to go the other way.

H.M.Jr: But, she hasn't said no.

S: Well, it isn't - it isn't final.

H.M.Jr: Good.

S: And I think it lies really with what arrangements I can make

H.M.Jr: Fine. Well, I'll - I'll wait with great interest to hear from you.

S: Thank you so much.

H.M.Jr: Thank you.

S: Goodbye.

June 18th

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Mr. Morgenthau called Harry Hopkins to-day to find out how many people have been put to work out of the money allocated from the 4 billion 8. Mr. Hopkins was not in and his office informed Mr. Morgenthau that they did not have the information on hand - that they had not gotten around to that yet.

Congressman Doughton called up and asked Mr. Morgenthau whether the Treasury had a representative on the hill, to which Mr. Morgenthau replied that we had Mr. Hester on the hill all the time. Congressman Doughton then asked who was looking after the Federal Alcohol Control Bill and Mr. Morgenthau informed him that the bill that Charlie West has on Federal Alcohol Control has the approval of the Treasury. That any time he wanted Mr. Morgenthau to come up on the hill he would be delighted to do so but that Choate was a little touchy and if he called him he ought to call Choate as well. That the Treasury did not want to get into the social aspects of the Alcohol Bill and that Mr. Choate was doing a very good job on that.

Mr. Doughton also reminded Mr. Morgenthau about the man he was interested in for appointment on the Board of Tax Appeals. The man's name is Kitchen and Mr. Morgenthau promised to have definite word for Mr. Doughton tomorrow morning. Mr. Morgenthau told Mr. Doughton that this was a Presidential appointment to which Mr. Doughton replied "just as soon as I know what you are going to do I'm going to see the President about it."

Mr. Morgenthau was very much annoyed with Mr. Oliphant because he had told someone about Mr. Kitchen several times and nothing was done about it. If the man is good he certainly wants to satisfy Mr. Doughton.

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June 12, 1935.
Wednesday.

H.M.Jr: Hello.

Robert
Doughton: Mr. Secretary?

H.M.Jr: Yes, Mr. Doughton.

D: Congressman Doughton. How're you getting along?

H.M.Jr: Oh, I don't know. What do you think?

D: Well, I just don't know myself; I wanted to find out. You've got so quiet there, but still I didn't know whether you'd left town, gone over on a long vacation - vacation excursion or what.

H.M.Jr: Oh, no, we - we're just sitting down here borrowing money at five years - one and a half percent.

D: Yes. I didn't know - I wanted to talk with you one of these days or someone representing your department about this bill that's come before our committee from the Alcohol Control Division. I - it's - they've sent down their bill and we're going to refer it to a sub-committee I have and then I - decide whether or not I can submit it in its present shape or whether or not - maybe we should change it for you before introducing it. I didn't know but what you had any representations or any views you wanted to express.

H.M.Jr: Well, we have - I thought we had a man up there all the time.

D: Well -

H.M.Jr: Isn't Mr. Hester up there?

D: Who?

H.M.Jr: Hester.

D: Yes, Hester, yes.

H.M.Jr: Yes.

D: We hadn't brought that bill especially up before our committee.

H.M.Jr: Is that Federal Alcohol Control?

D: Yes.

H.M.Jr: Yes. Well, anytime - I'll come up or have anybody else come up. You just say the word.

D: Well, I thought maybe that - if you'll - been giving the

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H.M.Jr: Oh, I don't know. What do you think?

D: Well, I just don't know myself; I wanted to find out. You've got so quiet there, but still I didn't know whether you'd left town, gone over on a long vacation - vacation excursion or what.

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D: Yes, Hester, yes.

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D: We hadn't brought that bill especially up before our committee.

H.M.Jr: Is that Federal Alcohol Control?

D: Yes.

H.M.Jr: Yes. Well, anytime - I'll come up or have anybody else come up. You just say the word.

D: Well, I thought maybe that - if you'll - been giving the

matter your own personal attention that I might just talk with you personally about it a little some day.

H.M.Jr: The Federal Alcohol Control?

D: Yes.

H.M.Jr: Well, I'll be glad to, Mr. Doughton. I - I -

D: You know, they want a separate commission and I understand that you-all want it in the Treasury Department.

H.M.Jr: No, the bill - the bill that Charlie West has got on Federal Alcohol Control - we worked with Choate's people on that.

D: Well -

H.M.Jr: And the bill that Charlie West has got - has got the o.k. of the Treasury.

D: All the way down the line?

H.M.Jr: All the way down the line.

D: Well, that means an independent setup - independent commission.

H.M.Jr: Yes.

D: Well -

H.M.Jr: I'll tell you how I feel. That gets into the social aspects of this Alcohol thing and I would rather not have it in the Treasury and I think Mr. Choate done a swell job.

D: Well, I knew you were doing a right good job myself.

H.M.Jr: But, that bill that Charlie West took up on the Hill, I've o.k'd it and I'm for it.

D: Well, I'm glad to know that.

H.M.Jr: Now, I'll come up, but Mr. Choate's a little bit touchy and I'd little bit rather have you send for him, but if that isn't agreeable, you know, all you've got to do is to press the button and I'll come.

D: Well, thank you very much. Well, now you remember, some time ago, I brought to your attention a matter that - of an important member of the -

H.M.Jr: Board of Tax Appeals.

D: Yes, Board of Tax Appeals.

D: Yes, Board of Tax Appeals.

H.M.Jr: Yes, sir.

D: Did you check on that man?

H.M.Jr: Now, just a minute, I've got some people right in the office and I'll ask them.

D: Yes.

H.M.Jr: Just hold the wire a minute.

H.M.Jr: Well, they don't seem to know. We'll - they have - I'll have to ask them. It's young Kitchen.

D: Yes.

H.M.Jr: Now, wait a minute.

D: He's had a great deal of experience in that work and he's certainly a man of extraordinary ability. As to his background and how's he been getting along where he's worked and all that kind of detail, I just couldn't tell. But, he's one of the finest minded men I know of and I wouldn't be surprised if he makes you a most excellent man down there.

H.M.Jr: Well, I - I haven't forgotten about him for a moment.

D: I haven't asked you for much, you know.

H.M.Jr: No.

D: And I'm not going to ask you for that unless you think he qualifies.

H.M.Jr: Well, you know - I'm not the fellow to ask anyway.

D: How's that?

H.M.Jr: It isn't my appointment, you know. It's a Presidential appointment.

D: I know it is, but I would imagine that he would rely on you as far as investigations of the facts were concerned.

H.M.Jr: Yes, well, don't think I forgot it because I haven't.

D: Well, how soon do you reckon I'll be able to find out anything about it?

H.M.Jr: Oh, I'd say, couple of days.

D: and if you don't find
then, I'd like to go talk to the President.

H.M.Jr: Well -

D: If you find some vivid reason why you don't think you could consider him, why, that would drop it with me.

H.M.Jr: Well, supposing I give you a call or send up for it tomorrow?

D: Fine, thank you so much and if I'll come around and talk with you.

H.M.Jr: O.k.

D: Thank you so much.

H.M.Jr: Thank you.

D: Goodbye.

June 12

Earle Bailie said he thinks H.M., Jr. is making a mistake in being in the market so often for the Treasury. His old policy of going into the market four times a year is best.

H.M., Jr. called in Bell after talking to Kiplinger, and said he thinks that June 24th he ought to go out and ask for money for July 1st, enough money to last us until Sept. 15th and give the market a rest. Bell said five hundred million ought to take care of us.

A group met in the office of the Secretary of the Treasury at 9:30 A.M. for a discussion on banking legislation. Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,
T.J. Coolidge, Under Secretary of the Treasury,
Herman Oliphant, General Counsel,
Herbert E. Gaston, Assistant to the Secretary,
D.W. Bell, Commissioner of Accounts & Deposits,
Wm. H. McReynolds, Administrative Assistant to the Secretary,
George C. Haas, Director of Research & Statistics,
Mrs. H.S. Klotz, Special Assistant to the Secretary.
C.B. Upham.

Mr. Morgenthau referred to the situation with respect to the FDIC and the fact that unless there is additional legislation between now and July 1, the so-called permanent plan of deposit insurance, originally enacted as a part of the Banking Act of 1933, will go into effect on that date.

He referred to the requirement in the present law that National banks must be class A stockholders of the FDIC on July 1 or it becomes the duty of the Comptroller of the Currency to appoint receivers or conservators for them. Moreover, it is made the duty of the Federal Reserve Board to terminate the membership in the Federal Reserve System of member state banks which are not class A stockholders in the Corporation on July 1.

The Federal Reserve Board is given the duty of prescribing regulations for the computation of deposit liabilities of member banks for the determination of the amount of their stock subscriptions.

Mr. Morgenthau was of the opinion that, as fiscal officer of the Administration, it was his duty to take steps to see that arrangements are made under which the permanent deposit insurance plan can be set up and be put into effect on July 1, if that becomes necessary. It was pointed out that the various agencies concerned have relied upon a general belief that there would be legislation prior to July 1 either giving a further extension of the temporary fund or enacting Title I of the proposed Banking Act of 1935.

It was recalled that the permanent plan now on the statute books was scheduled to go into effect on July 1, 1934 but had been postponed until July 1, 1935 by action of the Congress.

Mr. Morgenthau asked that a meeting be arranged in his office for 2:30 P.M. and that Mr. Eccles, Mr. Crowley, Mr. O'Connor, and (in the absence of Jesse Jones) Lynn P. Talley be asked to come. He asked Mr. Coolidge and Mr. Upham to arrange the agenda for the meeting.

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June 13, 1935.

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A group met in the office of the Secretary of the Treasury at 2:30 P.M. to discuss the situation with respect to the permanent Federal Deposit Insurance plan which goes into effect July 1, 1935, unless there is legislation prior to that time.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,
Marriner S. Eccles, Governor, Federal Reserve Board,
T.J. Coolidge, Under Secretary of the Treasury,
Leo T. Crowley, Chairman, FDIC,
J.F.T. O'Connor, Comptroller of the Currency,
Herman Oliphant, General Counsel, Treasury Department,
Lynn P. Talley, President, Commodity Credit Corporation,
James B. Alley, General Counsel, RFC,
Herbert E. Gaston, Assistant to the Secretary,
C.B. Upham.

Mr. Morgenthau explained that he had asked for this meeting because he is frankly disturbed about the situation which is developing with respect to the insurance of deposits. He added that the intricate details of the situation were even better known to the Governor of the Federal Reserve Board, the Chairman of the FDIC and the Comptroller of the Currency than to him, but that the situation had been brought forcibly to his attention by Mr. Tom K. Smith and Mr. C.B. Upham.

Mr. Morgenthau stated that he felt considerable responsibility in the situation as Secretary of the Treasury and the fiscal officer of the Administration. He added that he was not so much interested in the politic thing to do as in the right thing to do. He indicated

that there was a possibility of adjournment of the Congress on July 1 or soon thereafter, and that as Secretary of the Treasury he cannot continue indefinitely to neglect the legislative situation. In his opinion the agencies concerned may very well be open to criticism because they have not taken action earlier than this. Inaction may leave the Administration wide open to criticism. People may point to the fact that the situation was known and that nothing was done to help the banks get ready for the permanent insurance plan. As custodian of the peoples money in the banks, the Secretary said he was interested in doing the right thing and that he wanted the advice and help of those present. He wanted to be able to go to the President and say such and such a procedure had been agreed upon and should be followed up.

Mr. Crowley said that he supposed the FDIC was more vitally concerned than any of the other agencies. There are 7800 State non-member banks which must make application before July 1 for Class A stock and pay an assessment equal to 1/4 of 1% of their total deposit liability.

The Board and the Corporation said we cannot sit back and do nothing. As a matter of fact, he said, letters are being prepared to the Comptroller and to the Federal Reserve Board calling the situation to their attention. He said he thought it was important that the FDIC take the necessary steps without a great upset to the banking system.

Mr. Morgenthau said he thought that on the 15th of June we could have no choice about notifying the banks.

Mr. Crowley agreed that we couldn't wait any longer. He remarked that the Banking Act of 1935 had been introduced on

February 5, 1935 -- that there is no opposition to Title I -- that it can be passed before July 1. It is Title II that hurts, he said, and he feels that the FDIC shouldn't be sacrificed any further.

Mr. Morgenthau told Mr. Crowley that we had been all through that and that Title I was just a part of the Administration's financial program.

Mr. Crowley said he thought it was his duty to let Mr. Morgenthau know how he feels, and also what the Corporation is doing. He said that he is not worried about the loss to the Corporation in a few closed banks but that he is worried about losing 4000 banks and the effect on the fund and the banking structure of the country. He said that the bankers approved the new Title I, that it has been approved by the House, and the Senate Sub-committee approves it. He stated his belief that the Corporation cannot be gotten into shape for the permanent fund starting as of this date. He said he had been led by the two banking and currency committees to think that there would be legislation before July 1 and so no notification to the banks on the present permanent fund would be necessary. If notice is now sent to the State Bank Supervisors there will be meetings in all the State groups and withdrawals of State non-member banks from the fund. It is a serious matter and the necessary arrangements cannot be made between now and June 30th.

Mr. O'Connor said that the Corporation is in a jam. Even if the Bill came out of the Committee tomorrow it could not be passed by June 30th. There will have to be a conference between the two Houses because some things in the House Bill cannot be

left as they are. Some things were put in for trading purposes.

Mr. O'Connor said there had been a meeting of the FDIC Board and it was agreed to send notices out at once. He said a letter had been approved. He is asking the Federal Reserve Board for 5000 copies of the regulation which they must provide, which he will send the National banks. He added that none of us wanted to disturb the banking structure unless it is necessary.

Mr. Morgenthau suggested that if anything is done he thinks it ought to be joint action and a joint statement to the press for the information of the public on the reasons for taking the action.

Mr. O'Connor thinks there ought to be no statement of any kind to the public and no publicity.

Mr. Morgenthau said that he differed with Mr. O'Connor. He thought there should be a joint statement from the Federal Reserve System, the FDIC, the Comptroller, and, perhaps the RFC, which is a stockholder in many of the banks. He asked those present what their best guess was as to the reaction on the Hill if a statement were sent out on Saturday and on Monday received by the banks. Would Congress try to pass the bill or would they prefer to let the present permanent plan go into effect?

Mr. O'Connor was of the opinion that the House would like to see the present permanent plan go into effect.

Mr. Crowley was of the opinion that there would at least be 30 days debate on what to do. He said there is a deadlock and that some would like to hold off permanently. Nothing can be passed without a compromise. They spent 10 days in the Senate Sub-committee on

Title I. They will take up Title III next. On the basis of time spent on Title I, the sub-committee will take 2 or 3 weeks on Title II.

Mr. Morgenthau reported that Tom Smith is of the opinion that if Mr. Eccles will agree to an open market committee made up of 6 members of the Federal Reserve Board and 5 Governors that the bill can be passed as easily as snapping the fingers.

Mr. Eccles said he did not think that was correct. He added that Senator Glass is opposed to the whole business -- that the 6-5 matter is an issue with the bankers but not with the committee.

Mr. Morgenthau said that Tom Smith is pretty careful about making statements and that he wouldn't attach so much weight to that statement if someone else had made it.

Mr. Crowley said that if there could be an agreement to a 6-5 open market committee -- an upper limit of 25% reserves against deposits -- if Mr. Morgenthau would see Senator Glass -- the bill could be passed.

Mr. Eccles said he had no objection to the upper limit of 25% for reserves against deposits and that the 6-5 open market committee was particularly a question for the Secretary to decide, but that he (Mr. Eccles) had no objection to it.

Mr. Morgenthau recalled that the agreement prior to introduction of the bill was for a 3-2 open market committee.

Mr. Eccles said that there were particularly good reasons for having 5 Governors because it gave geographical representation to the four sections of the country and one member at large.

This committee, he thought, with an executive committee of three members of the Federal Reserve Board including the Governor, and two regional bank Governors would be an excellent arrangement.

In response to an inquiry from Mr. Morgenthau, Mr. Eccles explained that he was on record before the committees for the Open Market Committee to be made up of the Federal Reserve Board with a group of Reserve Bank Governors acting in an advisory capacity.

Mr. Morgenthau said that he felt that if there were an agreement reached by this group and if it were then given the O.K. of the President that the group must absolutely stick together on that agreement and all sing the same song.

Mr. Eccles said he thought that was absolutely right.

Mr. Morgenthau personally inclined toward letters to the banks and publicity with respect thereto to shock the country and the Hill into action.

Mr. Eccles interposed to say that the organized opposition of the bankers is responsible for the delay.

Mr. Morgenthau said that if that were true it makes Tom Smith's argument all the stronger.

Asked by the Secretary for his opinion, Mr. O'Connor said that he had no expression of view to make on the composition of the Open Market Committee.

Mr. Morgenthau said that it was agreeable to him that the Secretary and the Comptroller have no vote. He didn't care about that. He said they could then sit back and tell the Open Market Committee when it was wrong. He added that the President

disagreed with him on that and wanted the Secretary of the Treasury on the Board.

Mr. Morgenthau suggested asking Tom Smith into the meeting for a statement on how he can make good upon his statement that the bill could be passed if a 6-5 Open Market Committee was agreed to.

Mr. Crowley said he thought it would be possible to get the 6-5 compromise but he thought the Secretary should see Senator Glass in any event.

Mr. Morgenthau is under the impression that the President should see Senator Glass with him and Mr. Eccles. He added that if Mr. Eccles is an irritation to Senator Glass it might be well to leave him at home, to which Mr. Eccles cordially agreed.

Mr. Morgenthau said he wasn't going to have any more complication of the President and Senator Glass differing in the stories that they tell about their conversations and agreements -- that the thing to do was to get them together.

Mr. Morgenthau said he thought a combined statement could be prepared and the Senate leaders told that it is going to be sent out.

Mr. Crowley thought that was O.K. but we might be playing a joke on ourselves -- that it is past the time for any scare.

Mr. Morgenthau said that so far as he was concerned it was not a bluff -- that he took his oath of office seriously.

Mr. Eccles said that he would suggest the group agree on a program, then have the President call Senator Glass down

and try to get the whole Banking Act through. If that is found to be impossible prepare a resolution for a 30 day extension of the temporary insurance plan.

Mr. Morgenthau said that he thought Mr. Eccles, Mr. Crowley and Mr. O'Connor did not fulfill the duties/^{with}which they are charged. He was of the opinion that many bankers would think the delay and inaction outrageous, and any others who might know of it.

Mr. O'Connor thought that the situation was pretty well understood all around.

Mr. Eccles said an extension of the temporary fund must be secured or the notices sent out.

Mr. Crowley was of the opinion that there would be no extension now.

Mr. Oliphant was in favor of sending out notices at once.

At this point Mr. Tom Smith joined the group.

Mr. Morgenthau explained the situation to him, indicating that there had been discussion of sending out a letter on subscriptions to the permanent insurance fund and told him that he had reported to the group what Mr. Smith had said about getting the bill passed and Mr. Smith agreed that he thought there was a good chance of passing the bill if they could get an agreement of 6-5 Open Market Committee and a 25% top on deposit reserves. He said he thought it could be brought about.

Mr. Morgenthau and Mr. Oliphant thought that the notice to the banks should be sent out anyway -- that there is no assurance and there can be no definite assurance that the bill will pass. There are always possibilities of a fillibuster.

Mr. Crowley was in favor of giving a few days time before sending out the announcements. He thought they would have a bad effect on the banking system.

Mr. Oliphant was opposed to any delay and his comment was that there were a number of members in the Senate who would delight in embarrassing the Administration by consenting to a delay and then passing the plan.

Mr. Morgenthau said he was interested in doing the moral and legal thing and that his interest is in what is right.

What explanation, he said, can I, as fiscal officer of the Administration, give if I have not advised the President and the public of the situation. At least two weeks notice is due the bankers. I think there is justified criticism of myself and my associates that the thing has not been brought to a head sooner.

Mr. Oliphant pointed out that the Boards of Directors of the various banks must determine whether to go into the permanent fund and that it will be impossible to arrange Board meetings for that purpose between now and July 1. He was willing to agree on a 6-5 Open Market Committee but said that if there was any expectation of getting complete agreement on the bill that there would be no bill before June 30th.

Mr. Morgenthau was of the opinion that if the notices were sent out, he and his associates would have done their duty.

Mr. O'Connor agreed that we must protect ourselves.

Mr. Eccles agreed that notice should be sent out unless there was a 30 day extension at once.

Mr. Morgenthau said he thought it was not only good public

psychology but common decency to send out notices at once.

Mr. Eccles said that even if the notices were sent out it might still not be sufficient time or notice to the banks and suggested that we ask for 30 day extension also.

Mr. Morgenthau was opposed to this and said that Senator Glass would inquire why this had not been suggested sooner.

Mr. Crowley said that Title I had been tied to Title II in order to pass Title II. He suggested that if a conference with the Hill brought about an agreement to pass Title II in some form eventually that it might be well to pass Title I at once, and then pass Title II on July 10 or some other date following the first of the month.

Mr. Oliphant suggested the possibility of sending out the notice, having conference with the Hill, waiting 10 days and then provide for 30 day extension.

Mr. Crowley was of the opinion that they wouldn't be able to get a 30 day extension.

Mr. Eccles said it would be impossible to get Title I alone through the House. He said that they shouldn't permit Senator Glass and the bankers to determine what legislation to pass.

Mr. Oliphant said we had the same situation on the Gold Reserve Act and if it had gone to the Glass sub-committee instead of to the whole committee, that ^{the} same situation would have resulted.

Mr. Morgenthau said that if all agreed he would recommend to the President, (1) that a notice would go out Saturday night to the banks, (2) that there would be a joint publicity statement for Monday papers, (3) that the President would agree to a 6-5

Open Market Committee for trading purposes and that he would send for anybody that he wished to make the best bargain he can.

It was agreed that the 25% top limit for reserves would be included also.

Mr. O'Connor said that he was for that plan. He said there was brief time and wondered if he should prepare certificates. A committee was appointed to draw up the joint publicity statement composed of Mr. Upham, Mr. Elliott Thurston, Mr. Folger. Mr. Crowley said he would name a representative of the FDIC later.

Mr. Smith said that Senator Glass would be out of the city next Monday, Tuesday and Wednesday. He asked what he might say to the bankers on all this.

Mr. Morgenthau asked that he say nothing until they would go across the street to see the President.

Mr. Morgenthau called Marvin MacIntyre and told him that the group present in his office were all in agreement and they would like to see the President for 15 minutes. The President was unable to see the group at that time, but Mr. Morgenthau went into an adjoining room and talked with him on the 'phone. Mr. Morgenthau returned and reported that the President would agree to a 6-4 Open Market Committee but not 6-5.

Asked by Mr. Morgenthau if he gave a damn, Mr. Smith said that he certainly did give a damn -- that it made a great deal of difference -- that to get a different type of representation with 5 means a greater dispersion over the country.

Mr. Eccles interposed to say that the President would take 8-5 -- that he had it in writing.

Mr. Morgenthau said that the President would not see Senator Glass and that he was leaving the whole thing to him.

Mr. Morgenthau at this point was called on the telephone by the White House and told that the President had arranged an appointment for the Secretary with Senator Fletcher at 11 tomorrow morning.

Mr. Smith asked how about 8 to 5 and Mr. Eccles reported again that he had the President in writing on that.

Mr. Smith said that he would talk to his associates about 8 to 5.

Mr. Eccles, Mr. Coolidge and Mr. Crowley all said that they prefer 8 to 5.

Mr. Morgenthau again called the White House and confirmed the 8 to 5 as O.K. with the President.

During the discussion Mr. Smith asked about the amendment to the Utility Bill which should bar bank officers and directors from serving at the same time on utility boards.

Mr. Talley of the RFC said that he was for the amendment.

Mr. Smith and Mr. Coolidge thought it very important that it be killed and Mr. Morgenthau said that with all the other things on his mind he couldn't get excited about it.

June 13th

75

H.M.Jr. called Mr. Choate and the following is their conversation:

H.M.Jr: I was talking to the President this morning on your bill and I told him that as far as we are concerned there is no misunderstanding as to where we want to see this control. We do not want it in the Treasury.

Choate: The Ways and Means Committee boys thought you wanted it.

Then Mr. Morgenthau gave Mr. Choate the gist of his conversation which he had with Mr. Doughton yesterday. (A copy of this conversation can be found under date of June 12th in the telephone records.)

H.M.Jr: Bell tells me that some of the Committee was down to see him and said that they would like to see it in the Treasury. I told the Press two weeks ago that I thought you did a grand job and that I wanted to see FACA under your control. I do not want to go into the social aspects of the thing. I am 100% for having FACA stay with you and they are trying to play us off one against the other.

* * * * *

At 11:00 A.M., the President having called the meeting to order.

June 14th

Secretary Morgenthau, Under Secretary Charles West and C.B. Urban called at the office of the

Tom Smith came in and said that he contacted the bankers last night (officers of the American Bankers' Association) and they stick by six to five.

Mr. Morgenthau explained the situation with respect to the necessity for taking steps to get into effect the permanent deposit insurance plan on July 1, in the absence of legislation on the subject prior to that time. He told of the meeting in his office yesterday with the Governor of the Federal Reserve System, the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and representatives of the Reconstruction Finance Corporation, at which there was agreement that the fiscal officers of the Government would no longer rely upon legislation before July 1, and agreement that the banks should be notified that they were to be insured by the Federal Deposit Insurance Corporation before that date.

Mr. Fletcher and Mr. Byrnes were shown the statement which had been prepared to give to the press explaining the necessity for relying upon the banks for applications for deposit insurance and were advised that it be sent out. Senator Byrnes said that he was sure more in favor of it than he would have been a year earlier, because he had just come from a meeting of the Banking Act of 1935 in which the bill was passed after a fifteen minute session, because the bill was so good that some people don't even read it, and because of the

June 14, 1935.

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At 11:00 A.M., the President having arranged for the appointment, Secretary Morgenthau, Under Secretary Coolidge, Charles West and C.B. Upham called at the office of Senator Duncan U. Fletcher, of Florida, Chairman of the Senate Banking and Currency Committee. Senator Byrnes was also present.

Mr. Morgenthau explained the situation with respect to the necessity for taking steps to put into effect the permanent deposit insurance plan on July 1, in the absence of legislation on the subject prior to that time. He told of the meeting in his office yesterday with the Governor of the Federal Reserve System, the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and representatives of the Reconstruction Finance Corporation, at which there was agreement that the fiscal officers of the Government could no longer rely upon expectation of legislation before July 1, and agreement that the banks should be notified that they must become Class A stockholders of the Federal Deposit Insurance Corporation before that date.

Mr. Fletcher and Mr. Byrnes were shown the statement which had been prepared to give to the press explaining the necessity for calling upon the banks for applications for Class A stock, and both advised that it be sent out. Senator Byrnes said that he was even more in favor of it than he would have been an hour earlier, because he had just come from a meeting of the subcommittee having the Banking Act of 1935 in charge, and that it had adjourned after a fifteen minute session, because Senator Glass had to meet some people down town, and because Senator Glass, who lives at the

Raleigh Hotel, has had little sleep for two or three nights on account of the Shriners Convention. Moreover, because Senator Glass is to be away Monday and Tuesday of next week having degrees conferred on him, the consideration of Title II of the Bill was postponed until next Wednesday.

Mr. Byrnes said that there was quite a difference of opinion among the members of the Committee. Senator Bulkley, he said, is almost ready to go to the idea proposed by Mr. Vanderlip in his testimony, and shut the bankers out entirely, giving complete control to the Government. Senator Couzens is going to the hospital and will not be back this session. He is leaving a memorandum with Townsend and giving him authority to vote for him. Senator Couzens has been talked around to agreeing to a 6-5 open market committee, Mr. Byrnes thinks.

Both Senator Byrnes and Senator Fletcher deplored the delay and inaction of the subcommittee, and Senator Fletcher said that the full committee ought to take the bill away from the subcommittee. Senator Byrnes said he had pressed Senator Glass so hard that even so good a friend as he had always been, now passed him no more than a Good Morning. All the rest of the subcommittee agree readily to any suggestion Senator Glass makes about putting off consideration of Title II or postponing meetings of the subcommittee.

Senator Byrnes said he thought the issuance of a publicity statement would help the bill's chances of passage and that some action was needed.

Senator Byrnes referred to a proposal that all members of the Federal Reserve Board be made Governors and that they be permitted

to elect their own Chairman. Mr. Morgenthau was of the opinion ⁷⁹ that the President should appoint the Chairman of the Board.

Senator Byrnes said there were various proposals to leave the Comptroller off the Board or to leave both the Secretary and the Comptroller off the Board. Mr. Morgenthau said that personally he was not eager to be a member of the Board, in fact, would prefer not to be, but that the President wanted him on the Board, and that settled it -- that he would go along with the President. He added that the Secretary and the Comptroller should be treated alike, either both left on or both removed.

During the course of the conference, Mr. Upham was called to the telephone and informed by Elliott Thurston that the Federal Reserve Board, in session at the time, had voted unanimously that in their opinion no statement should be given to the public, and that if one was, the Federal Reserve Board would not participate in it.

At Mr. Morgenthau's request, Mr. Upham telephoned to Mr. Crowley to be in the office of the Secretary in 15 minutes on an emergency matter. He also tried to reach Mr. O'Connor with the same message. Upon being told by Governor Eccles' secretary that Mr. O'Connor was on another telephone, Miss Egbert was asked to give the message to Mr. O'Connor. Upon returning to the Secretary's office, Mr. Crowley appeared, and Mr. Morgenthau called Mr. O'Connor at the Federal Reserve Board meeting. Upon his return to his own office, Mr. Upham was given a message from Miss Egbert to the effect that Mr. O'Connor would come to the Secretary's office if he got out of the Board meeting, but that he doubted that he would get

out in time.

Mr. Morgenthau talked to Governor Eccles on the telephone, and Governor Eccles confirmed the action of the Federal Reserve Board, and told Mr. Morgenthau that the Board felt that it had no responsibility in the matter, other than to issue the necessary regulations, and to certify member State banks when asked to do so by the Federal Deposit Insurance Corporation. Mr. Morgenthau told him that the statement would be made^{even}/if it had to be made by the Secretary of the Treasury.

Mr. O'Connor, who came out of the Federal Reserve Board meeting to talk to the Secretary, told him, after ascertaining that frank speaking was acceptable, that he thought it most inadvisable that any statement be made to the public, that it would be very upsetting to the banks and bank depositors, and might result in serious banking disarrangements.

Upon being informed of the action of the Federal Reserve Board, Mr. Crowley said that he would issue the statement by himself. Asked if Mr. Goldsborough would go along with him in such action, Mr. Crowley replied in the affirmative. When Mr. Upham returned to his office he found a communication from Mr. Crowley to the effect that his Board had voted that before any statement should be given out to the public, there should be a joint meeting of the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency to discuss it.

June 14, 1935.
Friday.

50A

Marriner S.

Eccles: - occasion and no responsibility whatever except for the certification of the member banks, or in short, when they're submitted to the F.D.I.C.

H.M.Jr: Well, have you got - how - don't you make the rules and regulations?

E: Don't we what, you say?

H.M.Jr: Make the rules and regulations.

E: Well, they make - no, they only make one regulation. They make a regulation as to the method of concluding deposits.

H.M.Jr: Are those - is that regulation -

E: That regulation - the regulation is out. The Board just - it's been out for some time. The already had most of the work done on it; it was just a question of fixing the date of the bank statements that they wanted to use, see?

H.M.Jr: I see.

E: And we've discussed it with the Comptroller - he's here now, and the dates are fixed and the regulation has been just adopted by the Board in conformity with the law.

H.M.Jr: Yes.

E: And the regulation will be out in the - we'll wire it as to the Federal Reserve Bank and ask the Federal Reserve Bank to send it so it will - it can be in the hands of every bank tomorrow morning.

H.M.Jr: Well, who do you think ought to sign that statement?

E: I think nobody but Crowley. I don't think that either the - I don't think the Comptroller ought to do it and I don't believe the Treasury ought to do it, for this reason, that a statement going out - now, I'm speaking of it psychologically and not legally - but if statements go out signed by the Governors of Federal Reserve Board and the Comptroller and the Treasury, it gives too much importance to this thing. It - I think we ought to treat it just as a normal matter and not throw a lot of scare and get a lot of headlines on it.

H.M.Jr: Well, do you think it is a normal matter?

E: What is it?

H.M.Jr: Do you think it's a normal matter?

E: I think it is. I think it's simply complying with the law, and to do - to treat it any other way, I really think it would be a mistake.

H.M.Jr: Well - they voted on it, did they?

E: They voted on it this morning.

H.M.Jr: All right.

E: I hope you feel the same way about it.

H.M.Jr: Well, I'm going to get the statement out if I have to sign it alone.

E: Well, I - of course - you shouldn't sign it though by all means.

H.M.Jr: Yes, but the statement is going to go out -

E: Well, the statement should go out immediately.

H.M.Jr: - and if the only person to sign it - I'll sign it.

E: Well, it's up to Crowley - it's up to the F.D.I.C. Board to put the statement out. I mean, that's their legal responsibility, and there's no reason at all for you to do it or for you to take the responsibility of it, and as far as I'm personally concerned, I don't have any hesitancy at all about doing it - but, as Governor of the Board I can't do it unless the Board approves of it.

H.M.Jr: Yes, that's all right.

E: You know that.

H.M.Jr: Yes.

E: And, of course, you also know the general situation here.

H.M.Jr: All right, Marriner.

E: All right.

H.M.Jr: O.k.

E: All right, goodbye.

June 14, 1935.
Friday.

80C

H.M.Jr: Hello.

James

Moffett: Hello, Henry?

H.M.Jr: Yes, Jimmy, how are you?

M: This sub-committee of ours will meet this morning in
anticipating that the subject may be discussed

H.M.Jr: Yes.

M: You - you do not approve of taking the Secretary and
the Comptroller off the Board so far as voting is con-
cerned, do you?

H.M.Jr: Well, Jimmy, this is - there's a difference on this be-
tween the President and myself.

M: Yes.

H.M.Jr: Just a minute, please. (Would you mind stepping out a
minute?) Just hold the wire, please. I couldn't talk.
Hello.

M: Yes.

H.M.Jr: I had Mr. Frazier, President of the International Bank
of Basle, but he's now with the New York Bank; I
couldn't talk.

M: Right.

H.M.Jr: Now, here's the thing. We had all of the governmental
agencies affected in here yesterday by this, do you see?

M: Yes.

H.M.Jr: And then we called in Tom Smith who represents the Ameri-
can Banker.

M: Yes.

H.M.Jr: Then we had two or three talks with the President.

M: Yes.

H.M.Jr: Now, the President said confidentially for trading purposes
he'd be willing to go eight to five, see?

M: Eight to five.

H.M.Jr: Yes, or six to four. Hello.

M: I figured eight to five.

H.M.Jr: Eight to five.

M: Yes.

H.M.Jr: Now, the President insists that I stay on the Federal Reserve and I vote.

M: Yes.

H.M.Jr: The American Bankers who have been very decent on this thing insist that they don't want the Secretary of the Treasury or the Controller to vote on the open market. Personally, I - I don't give a damn, see?

M: Yes.

H.M.Jr: And - but the President is very insistent that the Secretary of the Treasury should stay on the Federal Reserve and he had told them that.

M: Take that on the ground without public interest

H.M.Jr: Yes, Now, the President made the appointment for me to go and see Senator Fletcher this morning at 11:15 on this subject.

M: Yes. Trouble is we're meeting at 10:30. I just left

H.M.Jr: Well, now he called up Senator Fletcher and said, I'm sending up the Secretary of the Treasury to see you on this.

M: Well -

H.M.Jr: And I asked Charlie West to be there so that there wouldn't be any misunderstanding, see?

M: The trouble is, he don't set in on the sub-committee.

H.M.Jr: Who?

M: Fletcher.

H.M.Jr: Well, I - but, this is what happened yesterday and I could tell you for trading purposes the President will go to eight to five or six to four. But, he will not do what the Bankers want nor what Glass wants and that is six to five.

M: No.

H.M.Jr: Because that -

M: Well, how about this -

H.M.Jr: You see, that leaves the Secretary of the Treasury and

the Comptroller off voting

M: Well, I'm agreeable keeping them both

H.M.Jr: Pardon me?

M: If you keep both of them on, both voting

H.M.Jr: Yes. Well, that's eight to five.

M: That's eight to five. That'll go that far; that's what I told them.

H.M.Jr: Well, the President - all he'll go is - as far as they can shove him is eight to five.

M: Well, that's my - I'm on that. Now, let me ask you -

H.M.Jr: Yes.

M: This thing of the Governors - calling them Governors the Board selecting its own chairman. What's he got to say about that?

H.M.Jr: I never took it up with him; I don't know.

M: What do you think best?

H.M.Jr: You'll have to repeat it because I don't quite get it.

M: The proposal of fellows was, and I know that certainly Glass seemed to favor it.

H.M.Jr: Yes.

M: That - called the method of the Board of Governors -

H.M.Jr: Yes.

M: members of the Board and they've selected each one, you see, as a Governor.

H.M.Jr: Yes.

M: And they select their chairman instead of the chairman being appointed by the President.

H.M.Jr: The chairman of this -

M: Federal Reserve Board.

H.M.Jr: Well, the President now appoints the chairman, doesn't he?

M: Well, that's what they want stopped and have the chairman selected by the members themselves.

H.M.Jr: Oh, I don't think so. I think that - that - I mean, it's never been put up to me before and I'd have to give you a curb stone opinion.

M: Well, let's take Interstate Commerce Commission -

H.M.Jr: Well, I'd have to give you curb stone and my curb stone opinion is that the President should appoint the chairman.

M: Well, that would be mine.

H.M.Jr: Well, that's just curb stone; no one has ever asked me before.

M: What else did you determine upon?

H.M.Jr: Well, the only other point was this question of 25% reserve and -

M: You're fixing the

H.M.Jr: The reserve that the - that they can't change reserves from 25%, see? I mean, as I understand it they wanted to have it so the Federal Reserve Board could increase or decrease the amount of the reserves, you see?

M: Yes.

H.M.Jr: But they want to have - leave it the way it is which is now 25%. Now, those are the only two things that -

M: Now,

H.M.Jr: Yes, I think that's the way it is. I'm a little hazy on it, but I know they kept talking about 25% reserve, see?

M: Yes.

H.M.Jr: There's just two things, that Tom Smith said that they - everybody would be happy if they'd make it six to five and leave the reserve to 25%. You know, I'm not a banker.

M: Yes.

H.M.Jr: So, we agreed on the 25%; I didn't even put it up to the President, see, because the whole guts of this thing, Jimmy, is the question of this open market committee, see?

M: Yes.

H.M.Jr: That's the whole thing and Tom Smith was back here this morning again. He said, well, we've got to fight on this thing. I said, well, I'm sorry, Tom. And he said, well,

we can't do better - we can't do better than six to five and I said, well, this Administration cannot meet you on that.

M: Well, if necessary, we'll have - if necessary, we'll take the Comptroller off and put another member on. It would be putting another member on the Board.

H.M.Jr: Well, that would be all right, but the President insists - the President insists that the Secretary of the Treasury stays on. If you take the Comptroller off you've got to take care of his salary, though. See? Because he gets part of his salary from being a member of the Federal Reserve Board, you know.

M: All right.

H.M.Jr: So you'd have to take care of his salary.

M: Well, we'll do that..

H.M.Jr: What?

M: We'll do that.

H.M.Jr: Yes.

M: All right.

H.M.Jr: Now, I'm here and - I wasn't doing anything until yesterday; now the President has kind of pinned this thing on me.

M: Well, it was - after you get through this morning, I'll tell you what's happened and then you can keep up to date on it.

H.M.Jr: And I will be at Senator Fletcher's office at 11:15 at the President's request.

M: All right, good.

H.M.Jr: God bless you and I'm glad you're in it.

M: Goodbye.

June 14, 1935.
Friday.

to H

J.F.T.
O'Connor:

Yes.

H.M.Jr:

- about my going off the Board and your going off the Board.

O'C:

Yes.

H.M.Jr:

And then he said - I told him that we were willing to go eight to five and nothing else.

O'C:

That's right.

H.M.Jr:

And then he said, what about the Controller's going off the Board and you staying on and creating a vacancy and then we could put a new member. I said, no, whatever you do the Comptroller and I either stay on or go off together.

O'C:

I'm with you a hundred percent.

H.M.Jr:

Now, I want you to know that.

O'C:

I'm a hundred percent with you, but - now, I - those - that committee - I don't think I told you - came to see me a couple of times and I said this - and - this point hasn't been emphasized. Can I take a second?

H.M.Jr:

Surely.

O'C:

This point hasn't been emphasized and that is, they talk about political control and this man. I said, do you realize where the greatest control of this nation is today over money? Well, that's over a two billion dollar profit in the hands of one man, and have you found any complaint anywhere in this country about it? I said, I haven't got that, the Federal Reserve and the Federal Deposit haven't got that - haven't got any responsibility such as that and have you found any complaint? Well, they said, no they hadn't. Well, I said, all right; that's the answer.

H.M.Jr:

Well, I just wanted -

O'C:

Well, you're dead right.

H.M.Jr:

I don't know where that idea came from.

O'C:

Well, I know where it came from.

H.M.Jr:

Well, I - I -

O'C:

It came from the same source that's been fighting us right along.

H.M.Jr: Well, I wanted to tell you so in case you heard about it. I've taken the position that the two of us either go on or stay off.

O'C: I'm with you a hundred percent.

H.M.Jr: O.k.

O'C: Thank you.

H.M.Jr: Goodbye.

- Inheritance Tax
- Graduate Tax
- Inter-corporate Tax
- Tax on corp income

The other tax items can go into the combined section. They are:

- 10% surtax less dividend
- Unnecessary surplus
- Minerary and depletion
- Tax exempt securities

The tax message which the President is working up is more or less of a campaign document laying down the principles as to where he stands. He does not expect any action on this but gives the people a year to think it over.

Pat Harrison called up this evening and told Mr. Morgenthau that he wanted to go over the new taxes with him and Mr. Morgenthau told Pat Harrison that he was always glad to go over anything with him but it was the President he wanted to see on the tax program and not himself - that it was entirely in the hands of the President.

Tom Smith told Mr. Morgenthau today that he could not come as Director of the Budget. Mr. Morgenthau said that the bankers worked on him last night and advised him against taking it, because the other day Mr. Morgenthau felt that he was 50% sure that he could come.

June 14th

Last night Mr. and Mrs. Morgenthau had supper at the White House - celebrating Bobby Fitzmaurice's birthday.

After supper the President discussed his tax program message. Ray Moley rewrote the message that we prepared for the President. The taxes included in the President's program, which he feels are important and essential, are as follows:

Inheritance Tax
Graduate Tax
Inter-corporate Tax
Tax on top incomes

The other tax items can go into the omnibus section. They are:

10% surtax less dividend
Unnecessary surpluses
Discovery and Depletion
Tax exempt securities

The tax message which the President is sending up is more or less of a campaign document laying down the principles as to where he stands. He does not expect any action on this but gives the people a year to think it over.

* * * * *

Pat Harrison called up this morning and told Mr. Morgenthau that he wanted to go over the new taxes with him and Mr. Morgenthau told Pat Harrison that he was always glad to go over anything with him but it was the President he wanted to see on the tax program and not himself - that it was entirely in the hands of the President.

Tom Smith told Mr. Morgenthau to-day that he could not come as Director of the Budget. Mr. Morgenthau feels that the bankers worked on him last night and advised him against taking it, because the other day Mr. Morgenthau felt that he was 50% sure that he could come.

H.M.Jr. then called Jefty O'Connor and told him that he had just come from the hill and had seen Senator Fletcher and Jimmy Byrnes and they are very anxious that the statement be given out in regard to the permanent insurance plan and that we go ahead. (Statement attached herewith).

Crowley says that he is perfectly willing to sign the statement alone and Eccles feels that nobody but Mr. Crowley ought to sign the statement. Mr. Morgenthau then asked Mr. O'Connor how he felt and he frankly told him that he thought it was a great mistake to give out any statement at this time. However, Mr. Morgenthau informed Mr. O'Connor that he, Coolidge and the President all agreed heartily in favor of giving out the statement to which Mr. O'Connor replied that if Mr. Morgenthau decided to do it he would go along with him.

Mr. Morgenthau also told Mr. O'Connor that when Jimmy Byrnes raised the question of Mr. Morgenthau staying on as a Member of the Federal Reserve Board and possibly the Comptroller going off Mr. Morgenthau made it very clear that either both stayed on the Board or both went off.

The permanent insurance plan provided for by Section 12 B of the Federal Reserve Act, as amended, will become operative under the terms of the present law on July 1, 1935. In order, however, to obtain the benefits of the permanent insurance, every bank which is a member of the temporary Federal Deposit Insurance Fund must become a Class A stockholder of the corporation on or before July 1, 1935. For this purpose the corporation is sending out the necessary application forms to all such banks. As the amount of stock which each bank is required to subscribe and pay for must be computed in accordance with regulations prescribed by the Federal Reserve Board, that Board has promulgated the necessary regulation and copies of the regulation are being sent to all banks which are members of the temporary fund. The law requires that upon receipt of the application of each member bank, the corporation shall request the Federal Reserve Board, in the case of a State member bank, or the Comptroller of the Currency, in the case of a National bank, to certify as to the adequacy of the assets of the applying bank to enable it to meet all of its liabilities to depositors and other creditors as shown by its books. State banks which are not members of the Federal Reserve System must also apply for Class A stock, but inasmuch as the necessary certification was furnished by the State Supervisory authorities at the time of their admission to the fund, no further certification is required.

Blank forms which may be used in applying for Class A stock in the Corporation are being sent out to the banks and plans are being completed for putting the permanent plan into effect on July 1.

In order that the transition from the temporary fund to the permanent insurance may be effected smoothly and without unnecessary delay or confusion, it is urged that every bank fill out its application and file it with the office of the Federal Deposit Insurance Corporation promptly upon receipt.

The permanent insurance plan was scheduled to go into effect on July 1, 1934, but the effective date was postponed for one year by the Congress. A revised plan for permanent insurance is now pending before a subcommittee of the Senate Committee on Banking and Currency, having been passed by the House of Representatives on May 9. In view of the impossibility of definite assurance that this legislation, included in the Banking Act of 1935, will be enacted before July 1, the Federal Deposit Insurance Corporation is accordingly prepared to receive applications for continuance of insurance coverage.

After Mr. Morgenthau returned from the Hill he had the following conversation with Mr. Eccles.

Marriner S.

Eccles: - occasion and no responsibility whatever except for the certification of the member banks, or in short, when they're submitted to the F.D.I.C.

H.M.Jr: Well, have you got - how - don't you make the rules and regulations?

E: Don't we what, you say?

H.M.Jr: Make the rules and regulations.

E: Well, they make - no, they only make one regulation. They make a regulation as to the method of concluding deposits.

H.M.Jr: Are those - is that regulation -

E: That regulation - the regulation is out. The Board just - it's been out for some time. The already had most of the work done on it; it was just a question of fixing the date of the bank statements that they wanted to use, see?

H.M.Jr: I see.

E: And we've discussed it with the Comptroller - he's here now, and the dates are fixed and the regulation has been just adopted by the Board in conformity with the law.

H.M.Jr: Yes.

E: And the regulation will be out in the - we'll wire it as to the Federal Reserve Bank and ask the Federal Reserve Bank to send it so it will - it can be in the hands of every bank tomorrow morning.

H.M.Jr: Well, who do you think ought to sign that statement?

E: I think nobody but Crowley. I don't think that either the - I don't think the Comptroller ought to do it and I don't believe the Treasury ought to do it, for this reason, that a statement going out - now, I'm speaking of it psychologically and not legally - but if statements go out signed by the Governors of Federal Reserve Board and the Comptroller and the Treasury, it gives too much importance to this thing. It - I think we ought to treat it just as a normal matter and not throw a lot of scare and get a lot of headlines on it.

H.M.Jr: Well, do you think it is a normal matter?

E: What is it?

H.M.Jr: Do you think it's a normal matter?

E: I think it is. I think it's simply complying with the law, and to do - to treat it any other way, I really think it would be a mistake.

H.M.Jr: Well - they voted on it, did they?

E: They voted on it this morning.

H.M.Jr: All right.

E: I hope you feel the same way about it.

H.M.Jr: Well, I'm going to get the statement out if I have to sign it alone.

E: Well, I - of course - you shouldn't sign it though by all means.

H.M.Jr: Yes, but the statement is going to go out -

E: Well, the statement should go out immediately.

H.M.Jr: - and if the only person to sign it - I'll sign it.

E: Well, it's up to Crowley - it's up to the F.D.I.C. Board to put the statement out. I mean, that's their legal responsibility, and there's no reason at all for you to do it or for you to take the responsibility of it, and as far as I'm personally concerned, I don't have any hesitancy at all about doing it - but, as Governor of the Board I can't do it unless the Board approves of it.

H.M.Jr: Yes, that's all right.

E: You know that.

H.M.Jr: Yes.

E: And, of course, you also know the general situation here.

H.M.Jr: All right, Marriner.

E: All right.

H.M.Jr: O.k.

E: All right, goodbye.

TREASURY DEPARTMENT

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Inter Office Communication

Date June 14, 1935.

To Secretary Morgenthau

From Mr. Oliphant

In connection with the case against Dr. Bernard Cohen and Druggist Oscar Garten for violation of the Narcotics laws, Dr. Cohen claimed that treatments given by him to narcotics addicts had been with the consent and approval of the Narcotics enforcement officer in his district.

You asked that an examination be made to determine whether and to what extent the Bureau should take action to prevent the repetition of such cases.

Our study indicates that there is no acceptable method of assisting physicians to determine their action in individual cases. The other alternative is to issue instructions to all Narcotics officers to be on their guard against any communications with physicians which will indicate a concurrence in or acceptance of the treatment of any individual patient.

For this purpose the attached draft of instructions has been prepared. If you agree, please return the file to me and I will forward it to Deputy Commissioner Wood with appropriate advice.

(Signed) Herman Oliphant.

TO NARCOTIC DISTRICT SUPERVISORS AND OTHERS CONCERNED:

It has come to the attention of the Bureau that, in certain instances, narcotic officers have adopted the practice of advising applicants as to the propriety of administering narcotics in specific cases concerning which the applicant may be in doubt.

Your attention is directed to the statement contained in Narcotic Pamphlet N-No. 56, revised, that;

"The Bureau is not charged with the duty of laying down any fixed rule as to the furnishing of drugs or the frequency of the prescriptions in any particular case."

It is recognized that narcotic officers receive numerous requests for advice in prescribing and dispensing narcotics in specific cases on which a ruling may be desired either because of a bona fide lack of understanding of the law and regulations by the applicant, or because of a desire to attempt to shift to the officer and the Bureau the responsibility in questionable cases.

Every case where the dispensing of narcotics is concerned presents different circumstances and it is impossible to formulate regulations which will lay down definitely a rule in every case that may be presented. Responsibility for the proper dispensing of narcotics is placed on the practitioner. The custom of advising whether narcotics may or may not be prescribed in specific cases tends to result in a lack of accuracy and encourages violations of the law and regulations difficult to prosecute, since an unscrupulous, careless, or incompetent practitioner may apply a ruling in a case legitimately requiring the prescribing and dispensing of narcotics to a case of outward similarity, but which, in reality, does not require such prescribing and dispensing. A different interpretation by a narcotic agent or inspector of a situation in which an applicant has acted upon advice of another such officer may result in both the Bureau and the applicant being placed in an embarrassing position.

In the future all applications for interpretations of the law and regulations should be answered by forwarding to the applicant a copy of Narcotic Pamphlet N-No. 56, revised. In the event that information is given to any representative of the Bureau of a treatment or prospective treatment by a physician, or application is made for an interpretation or advice as applied to any specific case or symptoms, the applicant, in addition to being furnished a copy of the above-mentioned pamphlet, should be advised in the following, or similar, terms:

"Under the Harrison Narcotic Law, a physician is allowed to prescribe or dispense narcotic drugs in the course of his professional practice only. The Bureau has no authority to grant permission to any physician to prescribe narcotic drugs for any person or under any circumstances. What constitutes professional practice and the good faith of the physician in any given case must necessarily be established by the facts and circumstances of that case,

the application of existing law, and the consensus of medical opinion with regard thereto, based on the experience of the medical profession in cases of a similar nature.

"While the Bureau is desirous of rendering every assistance possible, it feels that advice with reference to the prescribing and dispensing of narcotic drugs in any specific case would not only be wholly unauthorized, but might lead to misinterpretation of the Bureau's function. The responsibility for the proper dispensing of narcotics is one which the law places upon the physician and which the Bureau can not assume."

Narcotic officers and other employees of this Bureau will exercise care to avoid advice, comments, interpretations, or silence, which might be construed as authorizing the prescribing and dispensing of narcotics in any specific case.

Commissioner.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE June 14, 1935

TO Secretary Morgenthau

FROM Mr. Haas

On June 3, 1935, telegrams were sent to Collectors and Deputy Collectors of Internal Revenue, asking them to instruct their agents to obtain information from taxpayers regarding changes in rates of pay, hours of work, and volume of employment since May 25th. Of the returns received (1) 8,511 represented firms with an aggregate employment of approximately 1,475,000 workers. In Table 1 these returns are distributed by Census geographic areas, indicating that all parts of the country are represented.

Table 2 shows the general changes made by the 8,511 firms. The bulk of them, or 88 percent of the total, show no changes whatsoever. 384 firms, or 4.5 percent of the total, show decreases in pay, increases in hours, and decreases in employment, or some combination of two or three of these. These adverse changes affected 107,352 employees. This leaves 637 firms, or 7.5 percent of the total, showing increases in pay, decreases in hours, increases in employment, or some combination of two or three of these.

More detailed information on firms showing adverse changes since May 25, 1935, can be obtained from Table 3. It can be seen that there were 36 firms which showed decreases in pay, or decreases in pay plus some other change. These firms employed 2,467 workers, or .2 percent of the total number. 195 firms show increases in hours or increases in hours plus some other change. These firms employed 22,729 workers, or 1.5 percent of the total. 153 firms reported decreases in the number of employees. These firms employed 82,156 workers, or 5.6 percent of the total. Little importance is to be attached to the last two categories since it may well be that such changes ordinarily take place at this time of the year. This is especially true in view of the fact that there were 637 firms which show favorable changes.

In Table 4 all the firms showing adverse changes are classified by type of business. It is to be noted that an unusually large number of firms in trade show adverse changes. Of the 384, approximately

(1) Some 750 returns were received but not tabulated either because they carried no information or because they were received too late for tabulation.

this one is for a run of copies made

one half are in this group. However, they had only 21.8 percent of the number employed by firms in all groups, indicating that they were very small firms. The average number of workers per firm in all groups is approximately 280, while the average number per firm in the trade group is approximately 120, and in manufacturing approximately 590. Of course in the country as a whole the average per firm is smaller in trade than in manufacturing.

Of the 36 firms which decreased pay, 11 with an average number of approximately 50 are in the trade group and 20 with an average number of approximately 89 are in the manufacturing group.

New England.....	100	100	100	100
Middle Atlantic.....	100	100	100	100
East North Central.....	100	100	100	100
West North Central.....	100	100	100	100
South Atlantic.....	100	100	100	100
East South Central.....	100	100	100	100
West South Central.....	100	100	100	100
Mountain.....	100	100	100	100
Pacific.....	100	100	100	100
Not classified.....	100	100	100	100
Total.....	1,000	1,000	1,000	1,000

Table 1.
 Total Number of Returns Classified
 by Census Areas

Census Area	Number of firms	Per cent	Number of employees	Per cent
New England.....	723	8.5	150,618	10.2
Middle Atlantic.....	2,070	24.3	513,634	34.8
East North Central.....	1,435	16.9	361,772	24.5
West North Central.....	1,107	13.0	49,898	3.4
South Atlantic.....	1,171	13.7	210,027	14.2
East South Central.....	226	2.7	34,565	2.4
West South Central.....	915	10.7	103,192	7.0
Mountain.....	397	4.7	12,560	.9
Pacific.....	423	5.0	31,175	2.1
Not classified.....	44	.5	7,229	.5
Total.....	8,511	100.0	1,474,670	100.0

Table 2.
 Summary of changes shown by 8,511
 returns, in rates of pay, hours of
 work and volume of employment.

Type of change	Number of returns	Per cent	Number of employees	Per cent	Number of employees affected
Decrease in pay and other changes					
Returns showing no changes	7,490	88.0	1,152,800	78.2	-
Returns showing adverse changes..	384	4.5	107,352	7.3	19,120
Returns showing favorable changes	637	7.5	214,518	14.5	41,946
Total	8,511	100.0	1,474,670	100.0	
Decrease in hours and other changes					
Increase in employees and other changes					
Total					

Table 3.
Distribution of 8,511 returns
by types of changes made.

Type of change	Number of firms	Per cent	Number of employees	Per cent	Number of employees affected
No changes	7,490	88.0	1,152,800	78.2	
Decrease in pay and other changes	36	.4	2,467	.2	1,508
Increase in hours and other changes	195	2.3	22,729	1.5	12,882
Decrease in employees and other changes	153	1.8	82,156	5.6	4,730
Increase in pay and other changes	229	2.7	114,355	7.7	35,186
Decrease in hours and other changes	20	.2	3,957	.3	3,788
Increase in employees and other changes	388	4.6	96,206	6.5	2,972
Total	8,511	100.0	1,474,670	100.0	61,066

Table 4.

Firms showing adverse changes classified by
types of business

Type of business	Number of firms	Per- cent	Number of employees affected	Per- cent
Banking and finance....	6	1.6	57	.1
Building.....	2	.5	119	.1
Manufacturing.....	136	35.4	80,427	74.9
Printing and publishing	7	1.8	2,079	1.9
Service.....	35	9.1	1,126	1.1
Trade.....	195	50.8	23,408	21.8
Miscellaneous.....	3	.8	136	.1
Total.....	384	100.0	107,352	100.0

June 3, 1935.

Instruct your deputy collectors to obtain the following information when calling upon or interviewing taxpayers: Name of taxpayer. Nature of business. Number of employees on Saturday May twenty-five nineteen thirty-five. What changes have been made in rates of pay of employees since May twenty-five. Specify increase and number of workers affected, decrease and number of workers affected, or no change. What changes have been made in weekly hours of work since May twenty-five. Specify increase and number of workers affected, decrease and number of workers affected, or no change. What changes have been made in number of employees since May twenty-five. Specify increase and number of workers affected, decrease and number of workers affected, or no change.

Send a separate return for each taxpayer interviewed to George C. Haas, Director of Research and Statistics Treasury Washington DC. Forward returns at end of each day by air mail.

Guy T. Helvering,
Commissioner.

Pittman sees U. S. moving to lend gold and silver

Washn - The increasing stocks of gold and silver in the United States can mean only one thing that is that the government is building closer toward a stabilization of currencies Sen Pittman Democrat Nevada probably the silverite closest to the administration said Friday To effect stabilization however the United States must and will lend both gold and silver to foreign powers properly safeguarded to carry out the stabilization agreements The Senator declared A responsible group of Senate Silverites led by Senator Pittman believe that the Treasury silver program is working splendidly and successfully despite a disgruntled expression of sentiment coming from more aggressive quarters in Congress

Sen Pittman states that the Treasury stock of gold having reached a new high record does not interfere or present a problem in the carrying out of the silver program - anti-silver interest he points out are contending that the silver policy can never be carried out because the incoming gold is offsetting purchases of silver to date which were designed to bring the white metal to a one to three ratio to gold in the monetary reserves

Sooner or later Sen Pittman explains the United States is going to have to part with some of its gold and silver in order to bring about effectively a permanent stabilization of currencies - then he predicts there will be an adjustment of gold and silver stocks in accordance with the policy laid down in the Silver Purchase Act

- There is no danger of the United States getting too much gold or too much silver- the Senator stated - - the more we have the better we shall be able to dominate the negotiations for stabilization with the leading powers of the world on both a silver and gold basis - - if left alone the Senator contends the Treasury will work out its monetary program in a satisfactory way and - I have no doubt that the Treasury is living up to the spirit of the Congressional silver policy -

Meanwhile Sen McCarran Dem Nev states that further silver moves by his bloc will be postponed until next week because he is leaving Washington for the middle west to make a series of speeches

Entertaining views somewhat similar to those of his colleague Sen McCarran declares that the only permanent way to settle the silver issue is to stabilize the currencies of the leading powers of the world - more aggressive in his demands Sen McCarran declares that the Treasury bring the silver purchase program to a close by fixing a 16 to 1 ratio between gold and silver - in order to do this he explains it will be necessary to devalue silver to obtain a monetary price of 2 dls 18c

WASHINGTON POST

ST: SUNDAY, MAY 5, 1935



From the St. Louis Post-Dispatch.

"I Balanced The British Budget. Want Yours Balanced?"

During the temporary absence of Mr. Elderman, The Post's cartoonist, a symposium of editorial reaction to current national and foreign affairs will be published from day to day in this space. The reprinted drawings will not necessarily represent our own viewpoint, but are selected as reflections of considered opinions on the passing scene. The editors of The Post wish to make full acknowledgment of the courtesy of their contemporaries in granting permission for this procedure.