

Walter Dill Scott  
The Un-American League

Meeting of 6/16/35

Meeting of 6/16/35 of Committee 6/16/35..... 117 132

- a) Mr. Jones, Fisher, Scott, all speak together and bring the floor story
- b) Crowley says hearing still must be February 6 and your side do its best a prototype running back and forth between House and Senate subcommittee, Title I is not ready with very few changes; Title II around the perimeter; those who vote on Title II and those who vote a new judicial Title III. Crowley thinks there must be an amendment that resolution calling temporary committee until after June 29, hoping for passage in committee

DIARY

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June 16 - June 30, 1935

- c) DeLoach agrees with Crowley
- d) O'Donnell reiterates his position held since January, not in the minority in the three titles are left together, must not require to appoint a receiver for an insolvent bank, he must appoint a receiver for every national bank which on July 1, NY act becomes a Class 2 stockholder in the Federal Deposit Insurance. The article even though relevant and lively
- e) Should be aware of importance of the temporary plan just beyond time that Congress can be expected to adjourn
- f) Mr. Jones promises to see FBI and report
- g) On June 20, Mr. Jones reports to Jones, Fisher, Crowley and O'Donnell that FBI still favors letting nature take its course

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- a) HMJr says "they must all stick together and sing the same song"
- b) Crowley says banking bill went up on February 6 and ever since he has been a messenger running back and forth between House and Senate subcommittee, Title I is now ready with very few changes; Title II arouses two reactions: those who want no Title II and those who want a more radical Title II. Crowley thinks there need be no advocacy of joint resolution extending temporary plan at least before June 29, hoping for passage in meantime
- c) Eccles agrees with Crowley
- d) O'Connor reiterates his position held since January, but in the minority: if the three Titles are left together, there will be no legislation, points out that while, under general law, the Comptroller is not required to appoint a receiver for an insolvent bank, he must appoint a receiver for every national bank which, on July 1, has not become a Class A stockholder in the Federal Deposit Insurance Corporation even though solvent and liquid
- e) Coolidge favors an extension of the temporary plan just beyond time when Congress can be expected to adjourn
- f) HMJr promises to see FDR and report
- g) On June 20, HMJr reports to Jones, Eccles, Crowley and O'Connor that FDR still favors letting nature take its course

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HMJr sees FDR at 9 Sunday evening, Felix Frankfurter also present as he had been on the previous Thursday evening when HMJr persuaded FDR to include intercorporate dividends tax as one of the principals of new taxation (1. inheritance and gift tax revision, 2. revision of rates in high brackets of personal income tax; 3. corporate net income tax graduated according to size of income plus prevention of evasion through intercorporate dividends tax)

HMJr thinks Frankfurter was there on Thursday evening to whip message into shape and Moley would then put final touches on draft. HMJr tells FDR, "If you will give me Moley's draft and the Treasury draft once more, we will be glad to prepare final draft"; FDR agrees. On Sunday evening, HMJr suggests sentence "Looking forward to balancing the budget -----"; FDR against using it.. VII 139

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Taken up with F.D.K.  
9.P.M. Sunday night  
June 17, 1935

A good government must provide a tax system designed to produce ample revenue and a just government must distribute the cost of government equitably. The revenue raising power of taxes does not measure all of their social consequences. Taxation in any form inevitably has a multitude of collateral effects throughout our whole economic and social life. Since taxes cannot be laid without these collateral results being produced, and since they must be laid, good government requires forethought and safeguards to insure that such results shall be wholesome, not harmful.

Our tax legislation has too often neglected these considerations. On the one hand certain of our past revenue practices have operated to the special advantage of the few, thereby contributing to a concentration of the wealth and economic power in this country. On the other hand, those who have benefited directly from these practices, and others who have benefited from the maintenance of government, have not borne their fair share of the Federal tax burden.

With the enactment of the income tax law of 1913, the Federal Government began to apply concretely the widely accepted principle that taxes should be levied in proportion to ability to pay and to benefits received.

The extensive use of income as a measure of benefits of government, and as a measure of ability to pay, is a sound and wholesome policy. It should be retained as the guiding principle of Federal taxation. The use of other tax measures is often justifiable, particularly for temporary

periods, but taxation according to income provides the most effective means of obtaining just contributions from those best able to make them.

In considering changes in our tax laws, we should, while providing the needed revenues, seek to bring about a more equitable apportionment of the burden of governmental costs; and we should seek also to eliminate those weaknesses in our tax structure that have incidentally produced undesirable social consequences. The time has arrived for modifications in our revenue gathering measures designed to remove discriminations and to eliminate some of the major exemptions and special benefits conferred upon particular groups.

I

The transmission from generation to generation of vast fortunes by will, inheritance, or gifts, is not consistent with the ideals and sentiments of the American people. The desire to provide security for one's family is a natural and a wholesome one, but it is amply served by reasonable inheritances. The unchecked power to bequeath vast accumulations of wealth far beyond the needs of security is a growing menace to the very existence of democratic institutions. It perpetuates great and undesirable concentration of control by a relatively few individuals over the employment and welfare of many. Such inherited economic power is as offensive to this generation as the inheritance of political power was to the generation that formed our government.

Nearly 30 years ago, President Theodore Roosevelt, in laying of the cornerstone of the House Office Building, said:

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Nearly 50 years ago, President Theodore Roosevelt, in laying of the cornerstone of the House Office Building, said:

"It is important to this people to grapple with the problems connected with the amassing of enormous fortunes, and the use of those fortunes, both corporate and individual, in business. We should discriminate in the sharpest way between fortunes well-won and fortunes ill-won; between those gained as an incident to performing great services to the community as a whole, and those gained in evil fashion by keeping just within the limits of mere law-honesty. Of course no amount of charity in spending such fortunes in any way compensates for misconduct in making them. As a matter of personal conviction, and without pretending to discuss the details or formulate the system, I feel that we shall ultimately have to consider the adoption of some such scheme as that of a progressive tax on all fortunes, beyond a certain amount, either given in life or bequeathed upon death to any individual—a tax so framed as to put it out of the power of the owner of one of these enormous fortunes to hand on more than a certain amount to any one individual; the tax, of course, to be imposed by the National and not the State Government. Such taxation should, of course, be aimed merely at the inheritance or transmission in their entirety of those fortunes swollen beyond all healthy limits."

I recommend for the consideration of the Congress, as an important source of revenue, that all inheritances and gifts received by any individual beyond reasonable exemptions, be subjected to progressive rates of taxation comparable to those of our income tax law; and that, preferably, the rates of tax on inheritances and gifts be made to vary directly with the accumulated wealth and income of the recipient.

II

Even in the depression year of 193<sup>3</sup>/<sub>4</sub>, the number of individuals in the United States who received taxable net incomes in excess of a million dollars increased over the preceding year.

The application of the principle of a graduated tax has always stopped at \$1,000,000 of annual income. In other words, while the bracket rate for a man with a \$6,000 income is double the rate for one with a \$4,000 income, a man having a \$10,000,000 annual income has the same bracket rate as one whose income is \$1,000,000. The principle of fixing the rate according to ability to pay is not applied when the million dollar income is reached, and those whose incomes exceed that sum are immune from further graduation of the rate, although obviously those whose annual incomes run above the million dollar mark are most able to pay. This source of added revenue should not be longer neglected.

A million dollars is a large amount of wealth even as a capital sum, but an annual income to an individual above that, is difficult to justify by service to society, and is not necessary to the economic security of the taxpayer.

I recommend for your consideration, therefore, that the rates and brackets of our individual income tax be so adjusted as to remove the long-standing discrimination in favor of vast incomes by applying the principle of graduation progressively to annual incomes exceeding one million dollars.

III

The two preceding matters which I have asked you to consider relate to the taxation of natural persons. I come now to the taxation of corporations, {which are at law artificial persons.}

The domination of our economic life by a relatively small number of huge corporate enterprises, which often exercise an effective measure of monopoly power, has advanced with lengthening strides. These giant business organizations, now subject only to a flat corporation income tax rate which is the same as that paid by their smaller competitors, have grown swiftly. In many cases, their size is far greater than that necessary for technical efficiency. The sole object of such undue size in many cases has been to achieve monopoly control and to wield large amounts of economic and social power. Our economic and political stability is jeopardized by the growth and existence of such enormous business aggregations. Certain rigidities in our economic structure that have operated to protract the depression are traceable to their existence. Smaller business enterprises, which have always played a vital part in American economic life, have been placed at a growing disadvantage as an ever-increasing proportion of our national wealth has been concentrated in the control of a few great units.

I propose for the consideration of the Congress the substitution of a corporation net income tax graduated according to the size of corporate incomes in place of the present uniform corporation income tax of 13-3/4 percent. The rate for smaller corporations might well be reduced to 10 percent, and the rate for larger corporations graduated

up to 20 percent of net income with such exemptions as the Congress may deem desirable and equitable.

#### IV

I come finally to my fourth and last proposal—that of an inter-corporate dividend tax. The present exemption of such dividends from corporation income taxation has furnished a distinct incentive to the creation of fantastic inter-corporate relationships, most strikingly exemplified by numerous complicated holding company structures, the results of which have been thoroughly unwholesome in many instances. One result has been to make possible the partial avoidance of individual income taxes. Dividends received by an individual have been subject to surtaxes, but dividends received by corporations have been tax-free. In consequence, holding companies have been established whereby the earnings of underlying companies have been passed along from corporation to corporation without being subjected to the income taxes that would have been incurred by the beneficial owners of the properties had these earnings been received by them directly.

In addition, the looseness of our laws has lent itself to a pyramiding of control through the holding company device, by means of which a few individuals have been enabled, with a relatively small investment, to control huge enterprises representing the savings of many. The dangerous effect of this development has been to divorce effective control from the risks and responsibilities of ownership.

To meet this situation, it is recommended that the Congress impose an inter-corporate dividend tax. Such a tax would provide revenue

from incomes which so far have avoided carrying their share of the tax burden. It would, moreover, operate collaterally to reduce existing complexities in corporate structures, to discourage a form of economic control that has proved unwholesome in many ways, and to safeguard investors against securities of illusory value. To avoid needless disruption in business relationships and give ample time for the readjustments of corporate structures, this tax should begin with a low rate and be increased in succeeding years.

Bona fide investment trusts that submit to public regulation and perform the function of permitting small investors to obtain the benefit of a diversification of risk, may well be exempted from such a tax on inter-corporate dividends.

----- 0 -----

In addition to proposing for your consideration at this session of the Congress the four changes in our tax policies that I have outlined above, I desire also to recommend for your study certain others for future legislative action. The first of these relates to the possibility of discouraging the accumulation of unwieldy and unnecessary corporate surpluses. Another relates to the possibility of encouraging the distribution to stockholders of excessive or unnecessary corporate assets already accumulated. And finally, there is the problem of tax-exempt securities, the existence of which, by providing a legal means of tax avoidance, impairs the ability of State and local governmental units as well as the National Government, to bring about a better and more equitable distribution of the burden of the cost of government. In this connection, I have asked the

Treasury Department to make a preliminary survey of the whole field of conflicting and overlapping taxation. It is now working on this study in cooperation with the newly organized Tax Revision Council, whose members include representatives of Federal, State and local governments.

There is urgent need for simplification and clarification of our revenue laws, together with a greater certainty and expedition in the execution of them. I want to acknowledge the timely efforts of the Congress in laying the basis for many needed improvements in our tax legislation and administration by the careful studies of the organization and operations of the revenue system of our own and other countries which its committees have made.

June 17th

Isidor J. Kresel called on me - Oliphant was present. Kresel appealed to me on the decision rendered by Internal Revenue Bureau on his personal income tax. I asked Oliphant to look after it and give him a decision one way or the other during the week. I assured him that we would do whatever was fair and just as I personally knew nothing about these matters.

\* \* \* \* \*

The following memorandum was sent to Mr. Bell to-day:

"At the Allotment Board Meeting to-day Harry Hopkins made the following statement: That he would ask each agency how many men they would take off the relief rolls in the month of July. If the combined figure was, for example, 100,000 men that he would hold each agency strictly accountable to give that number of men work and furthermore and most important of all that in figuring his needs for relief for the month of July he would deduct, for example, the relief requirements for 100,000 men.

"This is the exact point that I wanted to bring out and when Harry Hopkins sends you his request for money for July for his old FERA I would very much like to go over it carefully with you."

## U.S. RESCUED FRANC IN RECENT CRISIS, TANNERY REVEALS

Chief of Bank of France Says  
Treasury Supplied Market  
With Badly Needed Dollars.

HE PRAISES MORGENTHAU

'Broad Understanding of the  
Situation' Averted Trouble,  
He Declares at Basle.

BANKERS ARE IMPRESSED

Discern a Major Development of  
American Policy and Aid to  
de Facto Stabilization.

By CLARENCE H. STREET.

Written for The New York Times.

BASEL, Switzerland, June 16.—The United States Treasury played the decisive rôle in saving the franc in the recent crisis, Jean Tannery, governor of the Bank of France, disclosed here today at the monthly meeting at the World Bank of the governors of Europe's central banks.

M. Tannery paid a special personal tribute to Secretary Morgenthau's "broad understanding of the situation," which had enabled the French to keep the exchange rate from getting out of hand, as it seemed likely to do on May 31 because of the Bank of France's difficulty, despite its gold, in getting enough dollars to meet the demand.

M. Tannery declared that at this juncture in the crisis, in which, he said, France lost nearly 10,000,000-000 francs worth of gold—half to the United States—the United States Treasury had stepped in with its tremendous resources and "constantly supplied the market with dollars."

### Bankers Favorably Impressed.

The fact that the United States Treasury thus intervened to show the smooth working of the gold standard and to prevent devaluation of the franc—which is to say of the gold bloc—surprised many there is good reason to believe a tremendous and favorable impression on the bank governors who were aware of the incalculable consequences of such a monetary upset.

There had been rumors that Washington had cooperated with France in this crisis, but even the bank governors, it is understood, showed surprise at learning the degree of support Washington had given, the like of which they had not seen since 1931. They were obviously happy when they left the bank; in fact such cheerful faces have not been seen here in years. The American move is regarded as a major development in American policy and one greatly encouraging to the gold bloc and accepted by others as making for de facto stabilization.

The American rôle in the crisis of the franc became public when the Bank of France issued a communiqué this evening after the meeting saying that M. Tannery had explained the crisis to the governors and giving a summary of his statement containing prominently this passage:

"M. Tannery brought out the importance of the aid that had been given by the United States Treasury which, thanks to Secretary Morgenthau's broad understanding of the situation, constantly supplied the market with dollars to prevent the dangerous consequences of any cessation of gold purchases."

### Saving of Franc Described

Inquiry into what lay behind this passage brought out bit by bit what seemed the main elements of the part the United States had played. The inside story M. Tannery told to the Governors of how the franc had been saved was not lacking in excitement. The situation he described may be thus summarized:

The fight of francs to dollars, pounds and gold had jumped from 20,000,000 francs a day at the beginning of May to nearly 2,000,000,000 a day when the month-end neared and a fantastic but very real difficulty threatened that to upset the franc. The fantastic thing was that the Bank of France with 15,000,000,000 worth of gold in its cellar and anxious to buy dollars with it to meet the market demand and thus keep the exchange rate in hand could no longer be certain of getting even 100,000,000 paper dollars with its gold.

Here are the reasons: The ton had then reached such dimensions that, it is understood, Paris banks were handling as much as 120,000,000 a day in dollar sales and by the last week in May only one bank was still buying francs with dollars.

Others know that all ships, from the giant Normandie to the smallest cable boats of the American coast guard lines, which carry gold and other valuables, were loaded with gold.

(Continued on Page Seven.)

specimens with gold in payment of the francs already sold in May. It was then physically impossible to get any more gold from France to the United States. Through the gold market it is bought and then purchased in France in return for dollars.

There was the risk, however, that the government might, if the exchange rate got out of hand, suddenly decide the franc in dollars. An embargo on gold shipments, leaving the seller of dollars holding the bag. The danger of devaluation was increased by the fact that the Cabinet was in the midst of a crisis, such was the situation about May 29 and the heavy end of the month settlements period then loomed, certain to raise the demand for dollars even if speculation did not increase.

The Bank of France, anxious to keep on gold according to the rules, was apparently ready to release any amount of its hoard for conversion into dollars so as to keep the exchange rates steady, but there were no longer enough dollars in the private market to meet the demand. Even the speculators even guessed this situation, the demand for dollars was likely to exceed all bounds and the exchange rate was likely to skyrocket. What then of the political situation? What then of the situation as regards sterling when the Bank of England was, as already known, strongly intervening with sales of sterling to keep the pound as well as the franc steady.

**Treasury Buys Gold**

It was at this juncture that Mr. Morgenthau let the United States Treasury buy enough of the Bank of France's stock to keep the market "constantly supplied" with dollars. The amount was so large as to enable the official traders to go on the morning of May 31 into the market smiling. They felt assured they could meet all demands for dollars at the usual rate of 12.19.

The unbalance of the official traders that morning told others too that something had happened behind the scenes. That day a rumour in the franc began that was heavier than usual in the morning—but instead of growing stronger all day, as had been the rule previously, it died off as the day went on. The speculation has never recovered since. The backbone of the crisis was broken that day.

M. Tannery also paid tribute to the Bank of England for its help in covering the gold application, and Montagu Newman, Governor of the Bank, personally explained to the other governors the work that London had done and is doing in this connection.

**Bank of France's Statement.**

Following is the text of the Bank of France's communiqué issued here tonight.

At the meeting of the governors of central banks on June 16 at the Bank for International Settlements the governor of the Bank of France gave a full explanation of the recent monetary crisis in France.

Recalling first that in conformity with its traditional policy the Bank of France had sought above all to insure absolute freedom of movement of gold, M. Tannery showed that if during normal and even very important withdrawals of capital the bank had not very often even raised its discount rate it was not the same when withdrawals had a speculative origin.

At the beginning of the present crisis, which dates from the end of March, no measure of defense was taken because of the moderate amount of gold losses and because it was desired not to neutralize the raising of the discount rate by the Bank of The Netherlands. But if in April and the first week of May withdrawals had not passed 80,000,000 francs a week, they reached 90,000,000 the second week, 90,000,000 the third and nearly 1,000,000,000 the fourth. A total from May 4 to June 7 of 3,000,000,000, of which half went to the United States and the other half to Europe.

It was a crisis of confidence and a vast speculative movement. The latter had been set in motion by the liquidation of the Dutch-Belgian settlements and by the active hunt for credits in France for the increase of gold and foreign exchange.

**Exchange Rate Stated.**

The Bank of France limited its activity, first by raising the discount rate from 7% to 8 per cent between May 23 and 25, second by active intervention in exchange movements with a view to averting any play in gold with abroad.

At this point in his statement M. Tannery brought out the importance of the aid that had been given by the United States Treasury thanks to Secretary Morgenthau's broad understanding of the situation which constantly supplied the market with dollars to prevent the dangerous consequences of any cessation of gold payments.

Third by a strong restriction of the credits of the bank. This policy fortunately was supported by the spontaneous intervention of the Bank of England on the London market.

Despite these restrictions amounts of portfolios at the Bank of France rose in one month from 4,800,000,000 to 5,000,000,000. This figure, however, was less than that before the war. It is noted, too, that the increase did not raise the average to per cent of the discount portfolio of the bank presenting which proportions shows how liquid they were. The portfolio tends to diminish and was reduced 200,000,000 last week.

**Tells of Credit Contraction.**

The definite figures are that from May 20 to June 7 the gold reserve fell by 2,100,000,000, discounts and advances rose 4,000,000,000 and the contraction of credit amounted to 4,000,000,000 of which 2,500,000,000 was drawn from current accounts and 1,500,000,000 in reduction of circulation. The relative importance of the diminution in current accounts shows well the tightening of the money market, which technically contributed heavily to the slowing of circulation.

The crisis, however, was diminished by the budget deficit, the treasury difficulties and the lively competition for devaluations.

The financial power the government has obtained will allow

it to remedy the budgetary deficit and re-establish public credit.

The government's decisions have been taken and the first ones will soon be made public. They will put a definite end to the monetary and financial crisis, which has endured too long, and they will be accepted by the interested parties. These latter realize, in fact, that a moderate sacrifice is preferable to the complete ruin that would result from monetary devaluation.

Thus will vanish the hopes of some and the fears of others—of all those who know that an aggravation of monetary disorders would cause grave prejudice not only to France but to the world economy.

The Governor of the Bank of France ended by insisting on his determination to maintain the regular rules of the gold standard and to support by all his means the efforts of his government and by expressing the wish that the success of the French effort would contribute to preparing for a reestablishment of world economic equilibrium by a stabilization of money and a resumption of normal commercial relations among the various nations.

# TREASURY AVERTED WORLD MONEY WAR

Morganthau's Action in Saving  
the Franc May 30 Will Aid  
Plans for Stabilization.

## SENATORS APPROVED ACT

It Is Described as One of Good,  
Hard Business Sense—Test  
of Currencies Is Seen.

Special to THE NEW YORK TIMES.  
WASHINGTON, June 17.—The act of the United States Treasury on May 30 in helping France surmount the franc and restore on the gold standard averted immediate danger of a currency devaluation warfare and represented a long step forward in promoting cooperative effort toward eventual stabilization. It is believed in many quarters here. The part that our government played in the "crisis of the franc," which was first disclosed at Paris yesterday by Jean Tessier, governor of the Bank of France, as reported in THE NEW YORK TIMES this morning, was confirmed in official circles.

Secretary Morganthau referred to the transaction as representing "common decency among nations." He would not discuss American policy in detail, however, adding that the Treasury's monetary policy was "still on a twenty-four-hour basis." As the situation is understood here the franc was saved from collapse by the Treasury's purchase of many millions of dollars' worth of francs for conversion into gold. When on Memorial Day, after the franc had been under severe attack for some time, the Bank of France could not find other buyers. At that time all shipping space for gold was taken and with the banks refusing off because of probable delay in delivery, France turned to the United States Government for aid.

### Senators Have Approved.

The offer of cooperation by the American Government was that made in the words of the President of the United States and the Treasury. Senator Key Pittman, chairman of the Senate Foreign Relations Committee, and Senator Charles J. McNary, Republican leader of the Senate, were informed of the action and approved. When the speculative drive on the franc became acute, the Liberty Trust Company of New York was the only American bank operating in the purchase of francs, and it was limited to the use of 25 per cent of its capital and surplus. This aid proved insufficient, and it was at this time that France asked the United States Treasury to help.

Dispatches from Paris told that M. Tessier, who had spoken of Secretary Morganthau's "bread and buttering of the situation," which had enabled the French to keep the exchange rate from getting out of hand, had been paid tribute to the Bank of England for the help in aching the speculation in gold.

While there was no direct information available here regarding this phase of the situation, there was seen in the remarks an added evidence of a cooperative spirit in the direction of international currency stability, of which there had been cumulative evidence since the recent address by Secretary Morganthau inviting an initiative in stabilization negotiations.

In some quarters there is a feeling that with the French crisis over, a period of quiet in

international exchange possibly will begin. Such a situation, with the various governments subscribing to agreed financial restrictions, would represent a de facto stabilization over a long period with the possibility of discussions concerning final stabilization soon to follow.

### Viewed as Good Business.

In making its heavy purchase of francs the conversion into gold the Treasury was not particularly concerned about the possible delay in finding shipping space and insurance, and with France in possession of more than \$5,000,000,000 of gold she did not face any element of risk.

With the United States on its present form of international gold-bullion standard and enjoying a relatively satisfactory share of foreign trade, it was also felt to be a common-sense business deal to go to the aid of France and do what was possible to avert disastrous and disturbing international exchange developments.

If France had received the necessary aid and been forced in an extreme situation would have been created, some quarters believe, that would have resulted in a devaluation was that francs derived 25 per cent of their value might have followed a development that would have put this nation at a disadvantage in world trade.

The attitude of this government was said to be that to check such a situation at this time was a matter of good, hard business sense.

There have been many indications that the administration is satisfied with the present value of the dollar, and believes that final international currency stabilization can be accomplished with the dollar at its present level, unless unforeseen developments occur.

In aiding France, the administration is said to have felt that if future developments made a general devaluation inevitable, with France being dragged off gold, it would prefer to be in a position to take the time when such action would be taken, rather than be forced to decide upon what it would do about the dollar with a gun at its back.

The effectiveness of the steps taken by the Treasury in giving aid to France has been demonstrated, it is felt, by the fact that there have been no gold movements of consequence for a week, with all indications that the French crisis definitely has been passed.

There is a feeling here also that the British Parliament, realizing fully the disadvantages of a devaluation rate such as might have followed if France had been forced off gold.

### Seen as Part of Broad Policy.

In some quarters the action by this government was pictured as part of a broad policy in which it was prepared to move to the aid of other nations by either purchasing or selling gold when such action tended to aid in currency stabilization.

Since it went on the present form of international gold-bullion standard, the Treasury has freely purchased gold whenever the currency as a gold standard country passes the export point, and has as freely permitted the export of gold for the settlement of international balances when frustration of the dollar value in international exchange called for such action.

If she had offered to sell a part of its huge gold stock of more than \$5,000,000,000 to other countries that would finance such purchases such sales have been made to Mexico and other southern countries.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, June 18, 1935.  
6/17/35

Press Service  
No. 5 - 19

Secretary of the Treasury Morgenthau announced today (June 17) that the issue of Treasury Notes of Series B-1940, as a result of the exchange of Treasury notes maturing June 15 and August 1, 1935, amounted to \$738,373,400. The subscription books for this issue were closed on June 13, 1935. About \$14,000,000 of the notes maturing June 15, and about \$18,000,000 of the notes maturing August 1, were not exchanged. Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Subscriptions Received (June Notes)</u>	<u>Subscriptions Received (August Notes)</u>	<u>Total Subscriptions received and allotted</u>
Boston	\$ 7,469,600	\$ 6,181,300	\$ 13,650,900
New York	289,051,200	268,243,700	557,294,900
Philadelphia	10,152,200	3,500,300	13,652,500
Cleveland	9,518,900	2,102,100	11,621,000
Richmond	21,609,900	3,726,100	25,336,000
Atlanta	198,000	8,340,000	8,538,000
Chicago	34,252,700	32,657,100	66,909,800
St. Louis	7,895,700	5,068,400	12,964,100
Minneapolis	2,938,700	647,000	3,585,700
Kansas City	4,857,200	3,620,700	8,465,900
Dallas	2,387,700	359,800	2,747,500
San Francisco	10,434,500	484,100	10,918,600
Treasury	1,943,500	745,000	2,688,500
Total	\$402,638,800	\$ 335,683,600	\$738,373,400

17

June 18th

Jefty O'Connor came in to see Mr. Morgenthau to-day and told him James Farley wants Mr. Marshall R. Diggs, one of his assistants who is on the payroll of Federal Deposit Insurance and who gets a salary of \$12,000 a year, to be made co-ordinator for patronage at Louisiana with the idea of firing 1200 federal employees.

Mr. Farley had called Mr. Morgenthau about this and Mr. Morgenthau had referred Farley to O'Connor.

In discussing this with Mr. O'Connor to-day, Mr. Morgenthau told him that he felt it was a great mistake and that a man who is on the federal payroll, gets his money from Congress and is put there to protect the depositors should not be assigned to look after the patronage at Louisiana.

Mr. Morgenthau also told Mr. O'Connor that no one could say that he was not interested in getting the Huey Long thing straightened out as a couple of weeks ago Congressman Jared Y. Sanders came in to see him and told him that he had waited three hours outside of Farley's office and then couldn't see him. At that time Mr. Morgenthau had Steve Gibbons straighten out the differences between Farley and Congressman Sanders. Mr. Morgenthau advised Mr. O'Connor against letting Diggs go down to Louisiana.

\* \* \* \* \*

Mr. Morgenthau called Senator Pittman and told him that he had read on the ticker that Senator McCarran and others were going to ask to come down to see him on silver. If they do ask for an appointment shouldn't Mr. Morgenthau also ask the 5 or 6 Senators who were kind enough to come down at the last meeting we had here in the Treasury on silver? Senator Pittman absolutely agreed and the attached is an exact record of their conversation.

June 18, 1935.  
Tuesday.

6

H.M.Jr: Hello.

Key  
Pittman: Hello.

H.M.Jr: How are you?

P: Fine, thank you.

H.M.Jr: Key, I want a little advice. I see on the news ticker -  
Hello -

P: Hello.

H.M.Jr: I see on the news ticker that Senator McCarren and these  
other four Senators may come down to see me, although  
they have not yet asked for an appointment.

P: Yes.

H.M.Jr: I - it was running through my head that if they should  
ask for an appointment, why shouldn't I ask the other five  
or six Senators who were kind enough to come down here  
last time to be here at the same time.

P: I would.

H.M.Jr: See?

P: I would. I see no reason why I should object to it. If  
they want to make an appointment, see -

H.M.Jr: Yes.

P: I would simply say I would be very glad to make an  
appointment and at the same time I would like to call in  
the - what is generally determined the rate of the silver  
bloc.

H.M.Jr: Right. That was my hunch, but I wanted your reaction.

P: Now you're troubled about it. If you call in those four  
fellows and you don't take everything they say down in  
shorthand, they're going to come back and say what they  
please to the President.

H.M.Jr: Right.

P: There's no doubt about it. I don't know who the other  
three are, but that makes no difference.

H.M.Jr: No, but if the other gentlemen who are here who were here  
last time, I mean, - we all got along very well.

P: Well, you can - I think I would - I think I would phone up

to the others, you understand phoning to me -

H.M.Jr: Yes.

P: And say that someone has sent us - I wouldn't mention the name has asked for a conference with you on the silver situation and ask them whether they would like to come down to the same conference if you can fix one.

H.M.Jr: I see.

P: Then when McCarren and these fellows call you up, say yes, I've discussed it with other Senators also a conference, see,

H.M.Jr: Yes.

P: And I'd be very glad to have you all down here together as soon as I can fix it.

H.M.Jr: Now, you know, they haven't asked yet, you know.

P: No, well, I'd get ready for it.

H.M.Jr: That's right.

P: I'd get ready for it by phoning probably to Borah.

H.M.Jr: Yes. Now, what about having - what about having Senator Walsh of Massachusetts here? You know, he considers that he represents the users of Silver.

P: The what?

H.M.Jr: He considers that he represents the users of silver - the silver manufacturers. I've never had him in, but he's been coming down here quite often now. You know, he introduced a bill.

P: Yes. Well - I don't know about that.

H.M.Jr: You don't know about that.

P: That's a different subject.

H.M.Jr: I see.

P: You might get up a controversy down there that wouldn't end.

H.M.Jr: Well, my position with Senator Walsh has been a very fine one. I told him, Senator, I could not take any position on what you want me to do as long as the Silver Act in on - is a law. So, if you introduce your bill, I can't take any position one way or the other.

P: Well, the bill won't be reported out -

H.M.Jr: Well -

P: I know that.

H.M.Jr: Well, Key, that's my position and he said, that's fair, I understand.

P: can't take any position

H.M.Jr: That's all, and I said, I can't get into this question and I said, if you asked me to write a memorandum on the bill, I'll simply have to say that I'm very sorry; I'm carrying out one act and I can't consider another.

P: Well, in the meantime, I'll just simply say I don't know when we can arrange the conference.

H.M.Jr: Yes, and that would give me a chance.

P: Well, I don't know whether we can arrange it, but I would probably have Borah called up. I and say, now Senator, some of the Senators are asking for a conference and I want to know if you want to be present at that conference, if and when it's arranged.

H.M.Jr: Well, thanks, Key.

P: The same thing to those other fellows and they'll all say yes.

H.M.Jr: Sure.

P: Then if and ask definitely for a conference, you can say yes, other Secretaries have been sent in the - this act. I'd also stated they'd like to be present conference and I'll arrange a conference for you gentlemen, well, whenever you want it, see?

H.M.Jr: Thank you very much.

P:

H.M.Jr: Fine.

P: All right.

H.M.Jr: I thank you.

June 19, 1935.

† A

H.M.Jr: Hello.

Senator King: Hello.

H.M.Jr: Senator King?

K: Yes.

H.M.Jr: Henry Morgenthau, Jr.

K: Is there anything left in the Treasury?

H.M.Jr: Anything left?

K: (Laughing) Yes.

H.M.Jr: Oh, yes, we've got just one thing left.

K: What's that, my dear fellow?

H.M.Jr: Our sense of humor.

K: (Laughing) Well, I've lost all mine, Henry.

H.M.Jr: I see. Well, they can't take mine away from me unless they perform an operation.

K: The Lord has blessed you with and poise which blessing at night many of us pray and watch for.

H.M.Jr: (Laughing) Well, I don't know -

K: Well, what have you got on your mind?

H.M.Jr: Well, I want a little advice.

K: Go ahead -

H.M.Jr: I read in the paper every day for the last week or ten days that Senator McCarren and his committee are going to call on me and nothing happens and I was just wondering if they should decide to ask to call on me, how would it be if I asked you and the other Senators who were here the last time to come at the same time?

K: (Laughing) I don't think that they would welcome that.

H.M.Jr: Well, after all, I can invite to come whoever wants to.

K: I think it's all right.

H.M.Jr: Think it's all right?

K: Yes, I do.

H.M.Jr: Well, if I get a call from McCarran then I'm simply going to say, well, of course if you come, why then I want the Senators who live in the silver states.

K: Exactly.

H.M.Jr: They don't raise much silver in South Carolina.

K: I don't know what - what in the devil's getting the matter with those fellows. We - the President and you did such magnificent work and gave us that Silver Bill and a lot of these fellows, you know, that want  
I don't understand it at all.

H.M.Jr: Well -

K: Well, I'm standing by you, Mr. Secretary.

H.M.Jr: All right. And things have been going along very nicely.

K: I'm sure, and I'm glad we punished a lot of those damn speculators.

H.M.Jr: Well, we've punished them plenty. And the Government is making the money now instead of the speculators.

K: Exactly. That was a fine wholesome thing and a lot of these - and a lot of this talk comes from these damn speculators, in New York and a lot from Shanghai.

H.M.Jr: Why, of course.

K: Well, give 'em hell.

H.M.Jr: Thank you.

K: All right.

H.M.Jr: Goodbye.

June 19, 1935.  
Wednesday.

8C

H.M.Jr: -I'm sorry. After I put my call in to you the President called me.

Sen. Wm.  
King:(?) Well, that's all right.

H.M.Jr: So, I - I - what I wanted to call up about was this. I read in the papers that Senator McCarren and some of his friends are going to have a silver meeting this afternoon.

K: Yes.

H.M.Jr: And I also notice that you're not among that group. Now, what I wanted to ask your advice was this, supposing they decide that they do want to call on me, see -

K: Yes.

H.M.Jr: What would you think of the idea if I would invite the group of Senators, which you were one, who didn't pay me the courtesy of calling on me about a month ago to come at the same time.

K: Come at the same time?

H.M.Jr: Yes.

K: Well, I should think that would be proper.

H.M.Jr: I mean, if McCarren and his crowd come down, supposing I ask you other gentlemen if you wouldn't come at the same time.

K: Well, I don't - I should think that would be proper. We're all supposed to be interested in the proposition.

H.M.Jr: Yes. Well, I wanted to see how you felt about it. I haven't - up to date, no one asked to see me.

K: Yes.

H.M.Jr: And I - but, I've just been reading the paper each day that they're going to do something and then nothing happens.

K: Yes. Well, that'll likely convince them.

H.M.Jr: Well, but then, then you think, I mean, if they should say they want to come down that I call you and the other gentlemen up, you think it would be all right?

K: I feel - I think that's entirely proper.

H.M.Jr: Well, thank you very much, sir.

K: All right.

H.M.Jr: Thank you.

## U. S. Attitude On Stabilization More Friendly

### Treasury Ready to Repeat Op- eration Which Aided French And Belgian Currencies

### Britain Held Only Barrier

BY W. R. HUFF

Staff Correspondent of THE WALL STREET JOURNAL

WASHINGTON—A much more positively friendly attitude toward currency stabilization than any heretofore expressed was indicated by government officials yesterday in their comment on disclosures that the United States Treasury had come to the assistance of the franc when that currency was under strong pressure at the end of May.

The state of feeling here was seen in the following:

The strongly held belief that international currency stabilization could be undertaken now if it were not for Great Britain's unwillingness to cooperate.

The clear indication that the Treasury which it has been revealed has come to the support of the franc and belga would intervene in future situations should they arise.

The revelation that President Roosevelt along with Senators Pittman (Dem., Nev.) and McNary, Ore., Senate Republican leader, had approved the extension of aid to weakening currencies.

It is frankly stated in high quarters that the avoidance of currency crises is to the advantage of American business.

Although Secretary Morgenthau stated that the treasury was still on a 24-hour basis with respect to monetary policy, the attitude of leading officials demonstrated more plainly than at any time heretofore the complete turn-about on the money question since the world currency conference in 1933.

It has been pointed out here that not a single man who had anything to do with that conference is any longer an official of the Treasury Department. The time is ripe for another conference, it is felt, although it is hoped that such a meeting would be unattended by the ballyhoo of the last parley. One official expressed the view that three men, already in Washington, could accomplish effective currency stabilization overnight if England would consent to stabilize.

#### Morgenthau Pleased

The fact that the Treasury had come to the aid of the franc was first disclosed in The Wall Street Journal of last Friday. Subsequently Jean Tannery, governor of the Bank of France, confirmed that aid had been given.

Secretary Morgenthau expressed pleasure over the "graceful" statement made by Governor Tannery in which he thanked the American Treasury for its assistance. The Secretary also praised the Guaranty Trust Co. for the part it played in handling the gold shipments.

#### \$100,000,000 Involved

The transaction between the Treasury and the Bank of France involved approximately \$100,000,000. The decision to support the franc came from the Bank of France, and the latter's word was enough to warrant the Treasury's action.

On May 30, the Bank of France found itself unable to buy francs quickly enough to offset demands for dollar exchange. Technical considerations were largely responsible for the difficulty, with shipping and insurance facilities momentarily inadequate. The Guaranty Trust

Please Turn to Page Two

## U. S. and Stabilization

*(Continued from First Page)*

Co., the only private bank participating in the gold movement for considerations of profit, found itself restricted for legal reasons from further metal shipments. The bank already had gold in transit up to 25% of its capital and surplus.

The Treasury stepped in and bought gold from the Bank of France, thus supplying the dollars needed in the market and enabling the bank to continue its operations. The gold, has already arrived in New York.

It was understood in Washington that the French situation was near collapse before the Treasury's intervention and that a renewal of currency devaluation competition was an acute threat. Devaluation of the French franc by 20% to 25% was being freely discussed, it was said.

The American government's attitude toward currency stabilization is that this country's financial position is so strong as to enable it to "call the turn" on future developments and to avoid being pushed into a difficult exchange jam. There is good reason to believe that the Treasury will intervene in future situations, should they arise. Opinion here is divided as to whether France and other gold bloc countries ought to devalue their currencies, but in any event aid probably will be forthcoming should those countries want it.

The federal reserve bank of New York extended a loan of \$25,000,000 to Belgium during its recent crisis. The belge was later devalued but a financial panic in Belgium was averted. All in all, however, Washington looks for a fairly quiet summer in international exchanges.

June 18th

10

At the 9:30 conference this morning Mr. Oliphant read the Tax Message which he prepared for the President. H.M.Jr. made several changes and asked that it be written in more simple style.

At this conference H.M.Jr. said that he did not want the Inheritance Tax to retire the public debt. He thinks these taxes ought to be used to balance the budget or to take place of "nuisance taxes".

A second draft of the message was prepared by Mr. Oliphant, copy of which is attached herewith, and at 2 o'clock to-day H.M.Jr., Mr. Oliphant, Mr. Jackson and Mr. Bell were called to the White House to discuss this message.

The time has come for the Government to make needed major improvements in its tax structure. Looking forward to replacing temporary and emergency levies with sound and permanent taxes and looking forward also to balancing the budget and to reducing the national debt, I recommend for your consideration three measures which will produce substantial revenues for these purposes.

In considering changes in our tax laws, we should, while providing the needed revenues, seek to bring about a fairer distribution of the burden of governmental costs; and we should seek also to eliminate those weaknesses in our tax structure that have incidentally produced undesirable social consequences.

To treat income as a measure of the benefits of government and of ability to pay is a sound and wholesome policy. It should be the guiding principle of permanent Federal taxation. As in the case of many of the emergency taxes which I have asked Congress to extend, the use of other tax measures is often justifiable, particularly for temporary periods; but, as a permanent policy, taxation according to income provides the most effective means of obtaining just contributions from those best able to make them.

A good government must have a tax system that will produce ample revenue. A just government must distribute the cost of government fairly. The full social consequences of tax laws can not be measured by the revenues they produce. Taxation in any form has many collateral effects throughout our whole economic and social life. Since taxes can not be laid without these collateral results, and since they must be laid, there is a national duty to avoid tax laws which produce undesirable social consequences, and a like duty to correct evils produced by existing legislation as they become apparent. Tax legislation has too often neglected these considerations. The measures which I am recommending are designed, while providing substantial revenue, to remove discriminations and to eliminate some of the major exemptions and special benefits conferred upon particular groups.

## I

Handing on vast fortunes from generation to generation is not consistent with the ideals and sentiments of the American people. The desire to provide security for one's family is natural and wholesome, but the unchecked privilege to bequeath vast wealth far beyond the needs of security is a growing menace to democratic institutions. It perpetuates concentration of power in the hands of a few over the lives and welfare of millions. Such inherited economic power is as

offensive to this generation as the inheritance of political power was to the generation that formed our Government.

Nearly 30 years ago, President Theodore Roosevelt, in laying of the cornerstone of the House Office Building, said:

"It is important to this people to grapple with the problems connected with the amassing of enormous fortunes, and the use of those fortunes, both corporate and individual, in business. We should discriminate in the sharpest way between fortunes well-won and fortunes ill-won; between those gained as an incident to performing great services to the community as a whole, and those gained in evil fashion by keeping just within the limits of mere law-honesty. Of course, no amount of charity in spending such fortunes in any way compensates for misconduct in making them. As a matter of personal conviction, and without pretending to discuss the details or formulate the system, I feel that we shall ultimately have to consider the adoption of some such scheme as that of a progressive tax on all fortunes, beyond a certain amount, either given in life or devised or bequeathed upon death to any individual — a tax so framed as to put it out of the power of the owner of one of these enormous fortunes to hand on more than a certain amount to any one individual; the tax, of course, to be imposed by the National and not the State government. Such taxation should, of course, be aimed merely at the inheritance or transmission in their entirety of those fortunes swollen beyond all healthy limits."

I recommend to the Congress that those receiving inheritances and gifts beyond reasonable exemptions, be taxed thereon at graduated rates like our income tax rates; and, preferably, that these rates be made to vary directly with the recipient's entire income.

## II

My second proposal relates to the tax rates on large individual incomes. The income tax law very properly applies the principle of graduated rates varying with the size of the income, to the end that taxes may be levied in accordance with ability to pay.

But the application of this principle stops at one million dollars of annual income; and, even before this point is reached, our top bracket rates on very large incomes rise very slowly. Thus, while the top bracket rate for a man with a \$6,000 income is double the rate for one with a \$4,000 income, and the top bracket rates rise from 4 per cent to 54 per cent between taxable net incomes of \$4,000 and \$100,000, the top bracket rates thereafter increase very slowly. From just over \$100,000 to anything in excess of one million dollars of annual income, the top bracket rate increases only from 56 to 63

per cent; and thereafter it does not increase at all, being the same for an annual income of one million and one dollars, two million, or five million dollars.

The principle of fixing the rate according to ability to pay is obviously not consistently applied when incomes approaching or exceeding one million dollars are reached because it is clear that those who enjoy incomes of such size are most able to pay. This source of added revenue should no longer be neglected.

I recommend for your consideration, therefore, that the rates and brackets of our individual income tax be so adjusted as to remove the long-standing discrimination in favor of vast incomes by applying the principle of graduation progressively to annual incomes approaching and exceeding one million dollars.

### III

The object of my first two proposals is both to increase the Federal revenues and to extend the principle of taxation in accordance with ability to pay. My third proposal is identical in aim, but it relates to the taxation of corporations.

Incorporated businesses, like individuals, should be taxed according to ability to pay. We have all been aware of the growing domination of our economic life by a relatively small number of huge corporate enterprises, which often exercise the powers of monopoly. These giant business organizations are now subject only to the same flat corporation income tax rate as that paid by their smaller competitors. In addition, the dividends that they receive from subsidiary and affiliated corporations are exempt from all Federal taxation. This exemption has encouraged the creation of inter-corporate relationships, the results of which have been most unwholesome in many cases.

The size of some of these huge business aggregations is far greater than that necessary for technical efficiency; and the main object of such undue size has often been to achieve monopoly control and to wield large amounts of economic power. Moreover, there have been many instances of pyramided control whereby a few individuals with a relatively small investment have been able to control the savings of many. The result of this development has been to divorce control from the risks and responsibilities of ownership.

Our economic stability is jeopardized by such enormous business aggregations, whether operated as a single corporation or group of corporations. Certain rigidities in our economic

structure which have retarded recovery are traceable to their existence. Smaller business enterprises, which have always played a vital part in American economic life, have been placed at a growing disadvantage as more and more of our national wealth has passed into the control of a few great units, which have not borne their due share of the burden of Federal taxation.

To meet this situation and to extend to the field of corporate business the principle of taxation according to ability to pay, I propose for the consideration of the Congress the substitution of a corporation net income tax graduated according to size of corporate incomes in place of the present uniform rate of 13-3/4 per cent.

The income tax rate for smaller corporations might well be reduced to 10-3/4 per cent of net income, and that of larger corporations graduated up to 16-3/4 per cent, with such classification of business enterprises as the Congress may deem in the public interest.

As an adjunct to this graduated tax on corporate incomes, provision must be made to prevent evasion of such tax through the device of numerous subsidiary or affiliated corporations, each of which might technically qualify as a small concern, even though all were actually operated as a single organization. The most effective method of preventing such evasions would be a tax on dividends received by corporations.

Moreover, such a dividend tax would provide revenue from incomes which so far have borne no part of the Federal tax burden, since dividends received by corporations not only are exempt from the ordinary corporation income tax, but, when withheld from individual stockholders, escape all surtaxes.

To give time for the necessary readjustments of corporate structures, this tax should begin at a low rate and be increased in succeeding years. Bona fide investment trusts that submit to public regulation and perform the function of permitting small investors to obtain the benefit of a diversification of risk may well be exempted from this tax.

— 0 —

In addition to proposing for your consideration at this session of the Congress the three changes in our tax policies that I have outlined above, I desire also to recommend certain others for study and future legislative action. The first of these relates to the possibility of discouraging the accumulation of unwieldy and unnecessary

corporate surpluses. Another relates to the possibility of encouraging the distribution to stockholders of excessive or unnecessary corporate assets already accumulated. And finally, there is the problem of tax-exempt securities, the existence of which provides a shelter from taxation and impairs the ability of State and local governmental units as well as the National Government to bring about a more equitable distribution of the burden of the cost of government. In this connection, I have asked the Treasury Department to make a preliminary survey of the whole field of conflicting and overlapping taxation. It is now working on this study in cooperation with the newly organized Tax Revision Council, whose members include representatives of Federal, State, and local governments.

There is urgent need for simplification and clarification of our revenue laws, together with a greater certainty and with less delay in their execution. I want to acknowledge the timely efforts of the Congress in laying the basis for many needed improvements in our tax legislation and administration by the careful studies of the organization and operation of the revenue system of our own and other countries which its committees have made.

June 18, 1935.  
Tuesday.

15A

H.M.Jr: - I've been in with the President on this tax business,  
see - Hello -

Sen. Pat  
Harrison: Yes.

H.M.Jr: - and he told me that I could tell you this that before -  
that as far as the resolution goes it passed the House -  
the Treasury is for that. When it comes to anything-new  
taxes, he has every reason - I mean, I can say that he  
has every - that he expects to send for you and Doughton,  
see, and call -

H: Anyway you want this darn resolution passed over here?

H.M.Jr: Yes, sir.

H: And to keep down any members you can.

H.M.Jr: That - as far as I know; now get me, I'm not - I can't -  
I mean, if this was something that was in my hands and I  
had control, I could give you yes or no, see?

H: Yes.

H.M.Jr: You understand me ?

H: But, the idea is to pass the resolution as it is.

H.M.Jr: Yes, sir.

H: All right.

H.M.Jr: Now, let me get this -

H: Yes.

H.M.Jr: So you and I can-always get along. We won't ask you to  
change it, but I don't know whether somebody else will.

H: Well, all I want to know is what the viewpoint up there  
was and then I'll tell them myself and get the boys on  
the committee to try to do that.

H.M.Jr: But, as far as the Treasury's concerned, that resolution  
includes all the taxes, all the revenue that we included  
in the President's Budget message.

H: I see.

H.M.Jr: And that is everything that we figured on.

H: Yes.

H.M.Jr: Everything that we figured on -

H: And anything else that comes up it's got to come up later.

H.M.Jr: It's got to - it'll have to come from the White House.

H: All right.

H.M.Jr: Now, this is just between the two of us -

H: Yes.

H.M.Jr: - but that is the absolute lowdown and you know that I never give you anything but that.

H: Yes.

H.M.Jr: Is that all right?

H: Yes, that's what I want to hear. I don't want to

H.M.Jr: Well, now as far as the Treasury's concerned, that's that.

H: All right. Much obliged.

H.M.Jr: Thank you.

Secretary's suggestions should have been transmitted to the President in order that the President and Secretary could reach a definite agreement on the following matters:

- (1) The proposed construction of two 20-story, 200-foot high buildings for the West Coast, commencing with the first building a letter to the President on May 10, and the Secretary of the Navy had visited the President on May 10.
- (2) The proposed construction of two laboratory buildings for the National Institute of Health at the site presently located in the Treasury of Bethesda, Md. This project is to take the place of the present group of laboratory buildings and located immediately east of the present lower hospital and west of General Hospital. The project should be approved by the Navy and the Secretary of the Navy and approved by the President of the United States.
- (3) The proposed construction of two 20-story, 200-foot high buildings for the West Coast, commencing with the first building a letter to the President on May 10, and the Secretary of the Navy had visited the President on May 10.



## TREASURY DEPARTMENT

WASHINGTON

June 18, 1935.

Memorandum of Conference  
In the Office of the Secretary of the Treasury,  
10:45 a.m., Tuesday, June 18.

Present: Secretary Morgenthau, Assistant Secretary Roche, Admiral Hamlet, Dr. Cumming, Dr. L.R. Thompson, and Mr. McReynolds, for the Treasury Department; and Assistant Secretary H. L. Roosevelt, Admiral P. S. Rossiter, and Captain W. G. DuBose, for the Navy Department.

Secretary Morgenthau stated that he was instructed by the President to confer with the Navy and work out a definite agreement on the following projects:

- (1) The proposed construction of two 25-knot, 250-foot patrol boats for the Coast Guard, concerning which he had addressed a letter to the President on May 19, and the Secretary of the Navy had written the President on May 27;
- (2) The proposed construction of new laboratory buildings for the National Institute of Health on the site recently donated to the Treasury at Bethesda, Md. This project is to take the place of the present group of laboratory buildings now located immediately west of the present Naval Hospital and Medical School. The project involves turning over to the Navy the buildings and sites now occupied by the buildings of the Institute of Health.
- (3) The allotment of \$3,496,000 required to complete the seven Coast Guard cutters now under construction at Navy yards.

It was agreed that the order of precedence on these projects would be: first, the cost of completion of the seven Coast Guard cutters; second, the construction of the new laboratory for the National Institute of Health; and, third, the construction of two 25-knot patrol boats for the Coast Guard.

The only question raised that would affect the practicability of any of these projects was with respect to the laboratory for the Institute of Health. Dr. Cumming expressed the opinion that the project was in every sense desirable from the Public Health standpoint in the location proposed, but that it would not be practicable for the Public Health to abandon the present laboratory until the new project had progressed to the point where occupancy of the new buildings would be practicable. Admiral Rossiter stated, for the Navy, that this arrangement would be entirely satisfactory.

Secretary Morgenthau suggested that those present retire to Assistant Secretary Roche's office and prepare a memorandum for the President to be signed by him and the Secretary of the Navy, recommending these three projects as agreed on, and that a separate memorandum for the President be prepared calling attention to the fact that on the same day that he requested an allotment of funds for the completion of the Coast Guard cutters he had turned back to the Public Works Administration the sum of \$3,769,000, previously allotted to the Treasury for the construction of a Federal Power project in New York.

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June 18, 1935.

My dear Mr. President:

Referring to the attached memorandum relating to the proposed allotment of \$3,496,000 for the completion of seven Coast Guard cutters, now under construction by the Navy Yard, attention is invited to the fact that on the same day I addressed the original memorandum to you concerning this matter, the Treasury turned back to the Public Works Administration a balance of \$3,769,000 which had previously been allotted for the construction of a Federal power project in New York.

Respectfully,

Secretary of the Treasury.

The President,

The White House.

June 18, 1933.

The President,

The White House.

My dear Mr. President:

In compliance with your directions in memoranda dated May 29th and June 11th, I have discussed with Assistant Secretary Roosevelt of the Navy and representatives of both Departments the three projects involving the allotment of funds as follows:

1. The sum of \$3,496,000 required to complete the 7 - 328' Coast Guard cutters now under construction in the Navy Yard;
2. The allotment of \$2,500,000 for the building and equipment of a new laboratory for the National Institute of Health on a recently donated site at Bethesda, Maryland. It is proposed that this new laboratory will take the place of the present group of laboratory buildings which are now located immediately west of the present Naval Hospital and Medical School; as, under present conditions, there is not room for the future development of either the Naval Medical School or the National Institute of Health. There is urgent necessity for further development of the National Institute of Health to enable it to fulfill the conditions of the duties imposed by law upon the Public Health Service. It is considered by both Departments that it would be most advantageous to move the National Institute of Health laboratory to the new site which has been recently donated to the Government on Wisconsin Avenue just beyond Bethesda.
3. The allotment of \$4,530,000 for the construction of two 25 knot patrol boats for the Coast Guard. One of these boats is to be propelled by steam turbine and the other by Diesel electric power, for the purpose of working out the possibility of these two methods of propulsion.

Our two Departments are in agreement that these projects, while all urgently necessary and desirable, should be considered in the order of priority given above.

Respectfully yours,

Secretary of the Treasury.

Approved:

Secretary of the Navy.

DEPARTMENT OF THE NAVY  
OFFICE OF THE SECRETARY  
WASHINGTON

27 May 1935

THE WHITE HOUSE  
Washington

May 29, 1935.

MEMORANDUM FOR  
THE SECRETARY OF THE TREASURY

Please see enclosed letter from the Secretary of the Navy of May 27th. I suggest that a definite project be worked out between the two Services.

F. D. R.

The estimates were not prepared by the Navy Department, but they do not appear to be very far out of line, the consideration being given to costs of labor and material as well as to today, together with some maintenance relative to future needs. The difference between costs of geared turbines and diesel engines is also indicated. The special indicated requirements should also be reported under present conditions.

Navy Department officials have furnished the Navy Dept's preliminary information required for a study of the possibility of combining torpedo tubes and anti-aircraft machine guns on vessels of this size and type should they become available to the Navy in time of war.

To obtain the 25-knot speed on a 250-foot boat definitely indicates that a large proportion of the cost and

DEPARTMENT OF THE NAVY  
Office of the Secretary  
Washington

22

L11-6/ET14(350520)

27 May 1935

My dear Mr. President:

Referring to your memorandum of May 20, 1935, relative to the building of two 25-knot, 250-foot patrol boats for the Coast Guard and to the Secretary of the Treasury's letter to you on the same subject:

During the past months officials of the Coast Guard have consulted with representatives of the design bureaus of the Navy Department relative to coast guard patrol boats. These consultations have covered generalities rather than design details of specific boats. The discussions have covered various lengths of boats from 150 to 300 feet, and various speeds from 17 knots to 30 knots. More recently some of the general discussions focused around 25-knot boats of about 250-foot length.

The question of speed has been discussed informally and the Navy Department representatives indicated that there was no special virtue in 25 knots so far as the Navy Department is concerned, it being noted that this is the speed intermediary between the designed speeds of our battleships, gunboats, and submarines on the one hand, and the cruiser, destroyer and carrier classes on the other.

The question of speed is a very vital one in connection with cost, particularly if diesel electric machinery is contemplated. This is evidenced by the \$780,000 differential between the geared-turbine boat and the diesel electric boat mentioned in the Secretary of the Treasury's letter.

The estimates were not prepared in the Navy Department, but they do not appear to be very far out of line, due consideration being given to costs of labor and material as they exist today, together with some uncertainties relative to future costs. The difference between costs of geared-turbine drive and diesel electric drive for the speeds indicated represents about what is to be expected under present conditions.

Navy Department officials have furnished the Coast Guard preliminary information required for a study of the possibility of mounting torpedo tubes and anti-aircraft machine guns on vessels of this size and type should they become available to the Navy in time of war.

To obtain the 25-knot speed on a 250-foot boat definitely indicates that a large proportion of the cost and

weight would go into machinery (particularly in diesel drive). It further appears that the battery that could be carried would have to be correspondingly reduced.

As a matter of cooperation between the Departments concerned, the Navy Department would be glad to undertake construction of these vessels in the Navy Yard, Charleston, South Carolina.

It is the Navy Department's understanding that the design referred to herein is merely in the tentative and formative stage, so that it is impracticable to submit either satisfactory or complete answers; nevertheless, the design bureaus of the Navy Department will be very happy to cooperate with the Treasury Department in connection with the development of the design at any time such action is desired by the Coast Guard authorities.

Sincerely yours,

Claude S. Swanson

The President,  
The White House.

## TREASURY DEPARTMENT

Washington

My dear Mr. President:

The Coast Guard is now laying down designs of 25-knot patrol boats, for offshore duty, the patrol boats to be about 250 feet long with alternate propelling machinery consisting of steam geared-turbine drive and Diesel-electric drive. Inasmuch as only a single patrol boat of each type is now proposed, thus eliminating the advantage of multiple production obtained by several duplicate boats, the latest estimated cost is \$1,925,000 for the geared-turbine patrol boat and \$2,705,000 for the Diesel-electric patrol boat; these estimates include the cost of outfitting and equipping the boats and approximately 4% for administrative purposes. Under the circumstances, therefore, it is respectfully requested the Federal Emergency Administrator of Public Works approve a new Coast Guard Federal Project to be identified as "Two 25-knot Patrol Boats," with an allotment of \$4,630,000 for the project from the appropriation available in the National Industrial Recovery Act, approved June 16, 1933.

Respectfully,

H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

TREASURY DEPARTMENT

25

Inter Office Communication

Date June 1, 1935.

To Secretary Morgenthau  
From Miss Roche

I attach hereto detailed memorandum from the Surgeon General regarding the transfer of the National Institute of Health site and buildings to the Navy Department. This transfer is satisfactory on the following conditions:

1. Allotment of \$2,500,000 for the building and equipment of a new laboratory for the National Institute of Health on recently donated site at Bethesda, Maryland. The value of the present buildings is over \$1,000,000 and \$750,000 has been requested under the works program for an addition to them as they are inadequate and much of the Institute's work has to be housed in the Administration Building, occupying space intended for personnel and administrative uses.
2. Assured occupation by the Institute of Health of the present location until the new quarters are fully completed and equipped, since any interruption of the Institute's work would seriously impair or ruin vitally important biological control work and experiments now under way.

Josephine Roche  
Assistant Secretary of the Treasury

JR/r

TREASURY DEPARTMENT  
Public Health Service  
Washington

26

May 31, 1935.

Memorandum for the Secretary of the Treasury.

I am in receipt, by your reference, of a letter dated April 24, from the Secretary of the Navy to the President of the United States, recommending that the present site of the National Institute of Health with the buildings thereon be turned over to the Navy Department for use as a Navy Medical School and that funds be provided the Public Health Service for the erection of new buildings on the site being donated to the Public Health Service by Mr. Luke I. Wilson of Bethesda, Md.

The National Institute of Health is at present housed in four buildings. Two of these have been constructed recently, the others are older, one having been built in 1901. These buildings are fully occupied and the limited area of approximately 5.10 acres leaves no room for further necessary expansion.

Because of the limited facilities at the National Institute of Health, the central offices of Public Health Service activities having to do with field researches in malaria, industrial hygiene and the like are located in the Public Health Service administration building at 19th and Constitution Avenue, occupying space which was originally intended for departmental personnel and which is now needed for this purpose.

It is obvious, therefore, that there is need for increased physical facilities for the research activities of the Public Health Service. This need will become even more urgent with the passage of the Social Security Bill which provides for an annual appropriation of \$2,000,000 for further research into the cause and prevention of disease.

The site which Mr. Wilson is donating to the Public Health Service comprises 45 acres. Under the authority granted to the Secretary of the Treasury and the Postmaster General in the Emergency Appropriation Act, Fiscal Year 1935, \$100,000 has been set aside for the construction of an animal building. The site, however, is of such acreage as to allow adequate room for the development of the laboratory units and for quarters for both officers and attendants. In addition, the site is so close to Washington, being about  $1\frac{1}{2}$  miles from Chevy Chase, Md., as not to interfere with the requirements of the National Institute of Health.

There is naturally, a certain amount of sentiment attached to the present National Institute of Health as it has

been developed both physically and scientifically through the labors of the officers and scientists of the Service. I can not, however, question the wisdom of the recommendation of the Secretary of the Navy that the ground be made available for expansion of the Navy medical activities. I likewise feel that a complete compact unit to include both the laboratory and field researches of the Service would be very advantageous.

It is fortunate that plans and specifications used in construction of the two new buildings of the National Institute of Health are available so that immediate construction work could be started. It should be understood that the Public Health Service must continue to occupy the buildings on the present site until the new proposed buildings are available for occupancy and fully equipped.

Accurate estimates can be furnished in a few days requiring approximately \$2,500,000 for the construction of the complete unit. The completed project would include the administration building, laboratory buildings, field offices, quarters for officers and attendants, sewage disposal plant, road construction and necessary landscaping. Part of this, namely the quarters, would be self-liquidating in as much as officers occupying quarters receive no rental allowances.

D. F. Draper  
Acting Surgeon General

THE SECRETARY OF THE NAVY  
Washington

28

April 24, 1935.

My dear Mr. President:

Adjoining the Naval Hospital Reservation, Washington, D. C. to the west, are 5.10 acres of land, turned over by the Navy Department to the Public Health Service in 1901, on which are now erected several buildings of the National Institute of Health. These buildings are obsolete, with the exception of two, recently erected as part of a new plan.

As the National Institute of Health is largely engaged in experimental work for the Public Health Service, necessitating the use of large numbers of laboratory animals, the housing of these animals - dogs, monkeys, rabbits, sheep, etc., in close proximity to the hospital, is noisy and highly undesirable within the city limits.

It is understood that a considerable tract of land has recently been obtained for the National Institute of Health in the vicinity of Rockville, Maryland, and it is recommended that the present site of the National Institute of Health, with the buildings thereon, be turned over to the Navy Department for use as a Naval Medical School, for which space is badly needed, as part of the development in connection with the new hospital, and that funds be provided, from Relief construction work sources, to provide for the erection of such buildings as may be necessary for the National Institute of Health on the Rockville site.

It is believed that the proposed plan will be of material advantage to both the Navy and the National Institute of Health.

Sincerely yours,

Claude S. Swanson

The President,  
The White House.

June 18, 1935

HM, Jr took this to the White House today. It is draft of proposed message to Congress from the President.

The message... changes in our tax laws... the social services... the Federal Government... the social life...

In direct income as a basis of the... the Federal Government... the social life... the Federal Government...

Legal government must have a... the Federal Government... the social life... the Federal Government...

Working on that... the Federal Government... the social life... the Federal Government...

The time has come for the Government to make needed major improvement in its tax structure. Looking forward to replacing temporary and emergency levies with sound and permanent taxes and looking forward also to balancing the budget and to reducing the national debt, I recommend for your consideration three measures which will produce substantial revenues for these purposes.

In considering changes in our tax laws, we should, while providing the needed revenues, seek to bring about a fairer distribution of the burden of governmental costs; and we should seek also to eliminate those weaknesses in our tax structure that have incidentally produced undesirable social consequences.

To treat income as a measure of the benefits of government and of ability to pay is a sound and wholesome policy. It should be the guiding principle of permanent Federal taxation. As in the case of many of the emergency taxes which I have asked Congress to extend, the use of other tax measures is often justifiable, particularly for temporary periods; but, as a permanent policy, taxation according to income provides the most effective means of obtaining just contributions from those best able to make them.

A good government must have a tax system that will produce ample revenue. A just government must distribute the cost of government fairly. The full social consequences of tax laws can not be measured by the revenues they produce. Taxation in any form has many collateral effects throughout our whole economic and social life. Since taxes can not be laid without these collateral results, and since they must be laid, there is a national duty to avoid tax laws which produce undesirable social consequences, and a like duty to correct evils produced by existing legislation as they become apparent. Tax legislation has too often neglected these considerations. The measures which I am recommending are designed, while providing substantial revenue, to remove discriminations and to eliminate some of the major exemptions and special benefits conferred upon particular groups.

## I

Handing on vast fortunes from generation to generation is not consistent with the ideals and sentiments of the American people. The desire to provide security for one's family is natural and wholesome, but the unchecked privilege to bequeath vast wealth far beyond the needs of security is a growing menace to democratic institutions. It perpetuates concentration of power in the hands of a few over the lives and welfare of millions. Such inherited economic power is as offensive to this generation as the inheritance of political power was to the generation that formed our Government.

- 2 -

Nearly 30 years ago, President Theodore Roosevelt, in laying of the cornerstones of the House Office Building, said:

"It is important to this people to grapple with the problems connected with the amassing of enormous fortunes, and the use of those fortunes, both corporate and individual, in business. We should discriminate in the sharpest way between fortunes well-won and fortunes ill-won; between those gained as an incident to performing great services to the community as a whole, and those gained in evil fashion by keeping just within the limits of mere law-honesty. Of course, no amount of charity in spending such fortunes in any way compensates for misconduct in making them. As a matter of personal conviction, and without pretending to discuss the details or formulate the system, I feel that we shall ultimately have to consider the adoption of some such scheme as that of a progressive tax on all fortunes, beyond a certain amount, either given in life or bequeathed upon death to any individual — a tax so framed as to put it out of the power of the owner of one of these enormous fortunes to hand on more than a certain amount to any one individual; the tax, of course, to be imposed by the National and not the State Government. Such taxation should, of course, be aimed merely at the inheritance or transmission in their entirety of those fortunes swollen beyond all healthy limits."

I recommend to the Congress that all inheritances and gifts beyond reasonable exemptions, be subjected to progressive rates of taxation comparable to those of our income tax laws; and that these rates be made to vary directly with the recipient's entire income.

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My second proposal relates to the tax rates on large individual incomes. The income tax law very properly applies the principle of graduated rates varying with the size of the income, to the end that taxes may be levied in accordance with ability to pay.

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- 3 -

The principle of fixing the rate according to ability to pay is obviously not consistently applied when incomes approaching or exceeding one million dollars are reached because it is clear that those who enjoy incomes of such size are most able to pay. This source of added revenue should no longer be neglected.

I recommend for your consideration, therefore, that the rates and brackets of our individual income tax be so adjusted as to remove the long-standing discrimination in favor of vast incomes by applying the principle of graduation progressively to annual incomes approaching and exceeding one million dollars.

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The object of my first two proposals is both to increase the Federal revenues and to extend the principle of taxation in accordance with ability to pay. My third proposal is identical in aim, but it relates to the taxation of corporations.

Incorporated businesses, like individuals, should be taxed according to ability to pay. We have all been aware of the growing domination of our economic life by a relatively small number of huge corporate enterprises, which often exercise the powers of monopoly. These giant business organizations are now subject only to the same flat corporation income tax rate as that paid by their smaller competitors. In addition, the dividends that they receive from subsidiary and affiliated corporations are exempt from all Federal taxation. This exemption has encouraged the creation of fantastic inter-corporate relationships, the results of which have been most unwholesome in many cases.

The size of some of these huge business aggregations is far greater than that necessary for technical efficiency; and the main object of such undue size has often been to achieve monopoly control and to wield large amounts of economic power. Moreover, there have been many instances of pyramided control whereby a few individuals with a relatively small investment have been able to control the savings of many. The result of this development has been to divorce control from the risks and responsibilities of ownership.

Our economic stability is jeopardized by such enormous business aggregations, whether operated as a single corporation or group of corporations. Certain rigidities in our economic structure which have retarded recovery are traceable to their existence. Smaller business enterprises, which have always played a vital part in American economic life, have been placed at a growing disadvantage as more and more of our national wealth has passed into the control of a few great units, which have not borne their due share of the burden of Federal taxation.

- 4 -

To meet this situation and to extend to the field of corporate business the principle of taxation according to ability to pay, I propose for the consideration of the Congress the substitution of a corporation net income tax graduated according to size of corporate incomes in place of the present uniform rate of 13-3/4 per cent, and the enactment of an inter-corporate dividend tax.

The income tax rate for smaller corporations might well be reduced to 10 percent of net income, and that of larger corporations graduated up to 20 per cent, with such classification of business enterprises as the Congress may deem in the public interest.

This dividend tax would provide revenue from incomes which so far have borne no part of the Federal tax burden, since dividends received by corporations not only are exempt from the ordinary corporation income tax, but all, when withheld from individual stockholders, escape all surtaxes.

Moreover, an inter-corporate dividend tax is a necessary supplement to a graduated corporation income tax to prevent avoidance of the latter tax by the creation of numerous subsidiary corporations, each of which might technically qualify as a small concern, even though all were actually controlled by a single organization.

To give time for the necessary readjustments of corporate structures, this tax should begin at a low rate and be increased in succeeding years. *Bona fide* investment trusts that submit to public regulation and perform the function of permitting small investors to obtain the benefit of a diversification of risk may well be exempted from this tax.

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There is urgent need for simplification and clarification of our revenue laws, together with a greater certainty and with less delay in their execution. I want to acknowledge the timely efforts of the Congress in laying the basis for many needed improvements in our tax legislation and administration by the careful studies of the organization and operation of the revenue system of our own and other countries which its committees have made.

The Commission on the Organization and Administration of the Internal Revenue Service, created by the Executive Order of August 11, 1934, has the honor to submit to you its report on the subject of the organization and administration of the Internal Revenue Service, together with its recommendations for the improvement of the same.

The Commission was organized to study the organization and administration of the Internal Revenue Service, and to report to the President and the Congress on the results of its study. It has held numerous public hearings and has received many suggestions from the public. It has also conducted extensive research into the various problems connected with the organization and administration of the Internal Revenue Service.

The Commission believes that the organization and administration of the Internal Revenue Service can be improved by the adoption of the following recommendations: (1) The creation of a new Department of the Treasury, to be known as the Department of Internal Revenue, which shall be responsible for the collection and administration of the internal revenue laws. (2) The creation of a new position of Director of Internal Revenue, to be appointed by the President and confirmed by the Senate. (3) The creation of a new position of Assistant Director of Internal Revenue, to be appointed by the President and confirmed by the Senate. (4) The creation of a new position of Chief Counsel to the Director of Internal Revenue, to be appointed by the President and confirmed by the Senate. (5) The creation of a new position of Chief of the Bureau of Internal Revenue, to be appointed by the President and confirmed by the Senate. (6) The creation of a new position of Chief of the Bureau of Tax Administration, to be appointed by the President and confirmed by the Senate. (7) The creation of a new position of Chief of the Bureau of Tax Collection, to be appointed by the President and confirmed by the Senate. (8) The creation of a new position of Chief of the Bureau of Tax Exemption, to be appointed by the President and confirmed by the Senate. (9) The creation of a new position of Chief of the Bureau of Tax Appeals, to be appointed by the President and confirmed by the Senate. (10) The creation of a new position of Chief of the Bureau of Tax Research, to be appointed by the President and confirmed by the Senate. (11) The creation of a new position of Chief of the Bureau of Tax Education, to be appointed by the President and confirmed by the Senate. (12) The creation of a new position of Chief of the Bureau of Tax Statistics, to be appointed by the President and confirmed by the Senate. (13) The creation of a new position of Chief of the Bureau of Tax Information, to be appointed by the President and confirmed by the Senate. (14) The creation of a new position of Chief of the Bureau of Tax Enforcement, to be appointed by the President and confirmed by the Senate. (15) The creation of a new position of Chief of the Bureau of Tax Compliance, to be appointed by the President and confirmed by the Senate. (16) The creation of a new position of Chief of the Bureau of Tax Administration, to be appointed by the President and confirmed by the Senate. (17) The creation of a new position of Chief of the Bureau of Tax Collection, to be appointed by the President and confirmed by the Senate. (18) The creation of a new position of Chief of the Bureau of Tax Exemption, to be appointed by the President and confirmed by the Senate. (19) The creation of a new position of Chief of the Bureau of Tax Appeals, to be appointed by the President and confirmed by the Senate. (20) The creation of a new position of Chief of the Bureau of Tax Research, to be appointed by the President and confirmed by the Senate. (21) The creation of a new position of Chief of the Bureau of Tax Education, to be appointed by the President and confirmed by the Senate. (22) The creation of a new position of Chief of the Bureau of Tax Statistics, to be appointed by the President and confirmed by the Senate. (23) The creation of a new position of Chief of the Bureau of Tax Information, to be appointed by the President and confirmed by the Senate. (24) The creation of a new position of Chief of the Bureau of Tax Enforcement, to be appointed by the President and confirmed by the Senate. (25) The creation of a new position of Chief of the Bureau of Tax Compliance, to be appointed by the President and confirmed by the Senate.

The time has come for the Government to make needed major improvement in its tax structure. Looking forward to replacing temporary and emergency levies with sound and permanent taxes and looking forward also to balancing the budget and to reducing the national debt, I recommend for your consideration three measures which will produce substantial revenues for these purposes.

In considering changes in our tax laws, we should, while providing the needed revenues, seek to bring about a fairer distribution of the burden of governmental costs; and we should seek also to eliminate those weaknesses in our tax structure that have incidentally produced undesirable social consequences.

To treat income as a measure of the benefits of government and of ability to pay is a sound and wholesome policy. It should be the guiding principle of permanent Federal taxation. As in the case of many of the emergency taxes which I have asked Congress to extend, the use of other tax measures is often justifiable, particularly for temporary periods; but, as a permanent policy, taxation according to income provides the most effective means of obtaining just contributions from those best able to make them.

A good government must have a tax system that will produce ample revenues. A just government must distribute the cost of government fairly. The full social consequences of tax laws can not be measured by the revenues they produce. Taxation in any form has many collateral effects throughout our whole economic and social life. Since taxes can not be laid without these collateral results, and since they must be laid, there is a national duty to avoid tax laws which produce undesirable social consequences, and a like duty to correct evils produced by existing legislation as they become apparent. Tax legislation has too often neglected these considerations. The measures which I am recommending are designed, while providing substantial revenue, to remove discriminations and to eliminate some of the major exceptions and special benefits conferred upon particular groups.

## I

Handing on vast fortunes from generation to generation is not consistent with the ideals and sentiments of the American people. The desire to provide security for one's family is natural and wholesome, but the unchecked privilege to bequeath vast wealth far beyond the needs of security is a growing menace to democratic institutions. It perpetuates concentration of power in the hands of a few over the lives and welfare of millions. Such inherited economic power is as offensive to this generation as the inheritance of political power was to the generation that formed our Government.

Nearly 30 years ago, President Theodore Roosevelt, in laying of the cornerstones of the House Office Building, said:

"It is important to this people to grapple with the problems connected with the amassing of enormous fortunes, and the use of those fortunes, both corporate and individual, in business. We should discriminate in the sharpest way between fortunes well-won and fortunes ill-won; between those gained as an incident to performing great services to the community as a whole, and those gained in evil fashion by keeping just within the limits of mere law-honesty. Of course, no amount of charity in spending such fortunes in any way compensates for misconduct in making them. As a matter of personal conviction, and without pretending to discuss the details or formulate the system, I feel that we shall ultimately have to consider the adoption of some such scheme as that of a progressive tax on all fortunes, beyond a certain amount, either given in life or bequeathed upon death to any individual -- a tax so framed as to put it out of the power of the owner of one of these enormous fortunes to hand on more than a certain amount to any one individual; the tax, of course, to be imposed by the National and not the State Government. Such taxation should, of course, be aimed merely at the inheritance or transmission in their entirety of those fortunes swollen beyond all healthy limits."

I recommend to the Congress that all inheritances and gifts beyond reasonable exemptions, be subjected to progressive rates of taxation comparable to those of our income tax laws; and that these rates be made to vary directly with the recipient's entire income.

## II

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The size of some of these huge business aggregations is far greater than that necessary for technical efficiency; and the main object of such undue size has often been to achieve monopoly control and to wield large amounts of economic power. Moreover, there have been many instances of pyramided control whereby a few individuals with a relatively small investment have been able to control the savings of many. The result of this development has been to divorce control from the risks and responsibilities of ownership.

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Draft II 6/18/35

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To meet this situation and to extend to the field of corporate business the principle of taxation according to ability to pay, I propose for the consideration of the Congress the substitution of a corporation net income tax graduated according to size of corporate incomes in place of the present uniform rate of  $15\frac{3}{4}$  per cent, and the enactment of an inter-corporate dividend tax.

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June 18th

35

Attached herewith are the following data in regard to the bill before the Judiciary Committee and Federal Alcohol Control Bill:

1. Memorandum from Mr. Oliphant dated May 29th concerning meeting with Greenbaum, Gaston, Graves, Oppen, Berkshire, Frank, Klaus and Harlan.
2. Conversations with Choate.
3. Extracts from H.M.Jr's Press Conferences.
4. Report prepared by Hester outlining his testimony on the hill.
5. Upham's Report relative to meeting before Ways and Means Committee.
6. Statement prepared by Graves on bulk sales of liquor.
7. Statement prepared by Oliphant as to why FACA should not be in the Treasury.
8. Confidential report prepared by Upham, dated June 21st, after spending about 7 hours on the hill. This report fills in the story form fairly well.

June 18, 1935.  
Tuesday.

35 A

Choate: Hello.

H.M.Jr: Hello, Mr. Choate. I tried to call you yesterday and today; I just want to let you know and I'm sure you have every reason to believe me that what they're doing on the Hill in regard to Federal Alcohol Control is entirely without my knowledge or approval.

C: I - I don't know what they're doing.

H.M.Jr: Well, all - I've heard it through subterranean paths of channels that they're drafting their own bill and they're putting that - the authorization of the Treasury.

C: Well, I just heard this morning that the -

H.M.Jr: Pardon me?

C: I just heard this morning that that is no longer so; that they have finally decided to put in a new bill -

H.M.Jr: Yes, sir.

C: - setting up an independent commission and generally following our lines - how closely following our lines, I don't know.

H.M.Jr: Well, I just wanted - again reassert that Mr. West has told us nothing, but I under - I was told that they have a bill - and I - I don't want it in the Treasury, that's the long and the short of it.

C: Good.

H.M.Jr: I mean, it gets in the social aspects; we're not interested, we don't - that isn't what I mean, I - I mean, that isn't the word - we don't think -

C: That's the word we have to use; we can't think of anything else.

H.M.Jr: Well, I mean, not interested from an administrative standpoint.

C: inconsistencies there you ought not to be bothered with

H.M.Jr: Well, we're responsible for collecting the taxes, and that's enough.

C: Under any circumstances.

H.M.Jr: All right. Well, I just wanted to let you - again reassert my position.

C: Thank you very much.

H.M.Jr: Goodbye.

## TREASURY DEPARTMENT

## Inter Office Communication

36

Date: May 29, 1935.

To Secretary Morgenthau

From Herman Oliphant

Pursuant to the request you made of me yesterday, I have discussed the situation affecting FACA as created by the decision in the Schechter case in a conference with Greenbaum, Gaston, Graves, Oppen, Berkshire, Frank, Klaus and Harlan. Greenbaum and I later discussed this matter with McReynolds, and later still with Fred Lee, after an extended telephone conversation which Greenbaum had with Mr. Choate wherein Mr. Choate expressed his general ideas and referred us to Fred Lee for further particulars.

After reviewing these discussions, Greenbaum and I have decided to formulate the following tentative suggestions to serve as a basis of discussion with the President. When the basic questions of policy thrown up by these tentative suggestions have been settled one way or the other, the necessary legislation can be whipped into shape by the legal staffs of the Treasury and of FACA within a few days:

(1) That an organization such as the FACA be retained, headed by an administrator with a deputy and a general counsel in lieu of the present board.

(2) That the administrator be given power to license firms in the various branches of liquor industry, the granting and the continuance of these licenses being made conditional upon adherence to all the desirable statutory requirements which may be constitutionally enacted under the commerce clause, postal and liquor taxing power, and the Twenty-first Amendment. There is ample constitutional basis for adequate control requirements.

(3) That effective enforcement be assured by giving the administrator power to refuse and to revoke licenses, this power being safeguarded by appropriate administrative safeguards embodied in the proposed legislation. Upon refusal or revocation of license, the applicant or licensee should be given the right to appeal to the Federal Trade Commission. The Commission would pass merely upon the adequacy of the record, on the law and the facts, to support the refusal or revocation in question. Adequate provision would be made in the proposed statute to guarantee against any undue delay in this review by the Federal Trade Commission.

(4) Those provisions directly affecting the collection of liquor taxes should be embodied also in an amendment to the Revenue Act, thus vesting concurrent power as to them in the

Treasury and Federal Alcohol Control Administration.

(5) This program will need to be coordinated with the provisions in the Pure Food and Drug Bill now before Congress.

(6) The whole program, including these amendments to the Revenue Act and this setup of a statutory FACA, should be submitted simultaneously.

(7) The code arrangement constituting FACA was, as the liquor codes themselves state, set up as a temporary device to serve until Congress had opportunity to enact permanent legislation for liquor control following the repeal of the Eighteenth Amendment. The setup here suggested should also be looked upon as a tentative and experimental one, and, accordingly, the statute should provide for its termination after the lapse of an appropriate period of time.

HERMAN OLIPHANT.

June 18, 1935.  
Tuesday.

38

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C: Good.

H.M.Jr: I mean, it gets in the social aspects; we're not interested, we don't - that isn't what I mean, I - I mean, that isn't the word - we don't think -

C: That's the word we have to use; we can't think of anything else.

H.M.Jr: Well, I mean, not interested from an administrative standpoint.

C: inconsistencies there you ought not to be bothered with

H.M.Jr: Well, we're responsible for collecting the taxes, and that's enough.

C: Under any circumstances.

H.M.Jr: All right. Well, I just wanted to let you - again reassert my position.

C: Thank you very much.

H.M.Jr: Goodbye.

June 20, 1935.  
Thursday.

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- Choate: It's nice to hear your voice, because I stopped at the White House and they told me you were here and would - I was to wait here, see whether you wanted to see me or not.
- H.M.Jr: No, no, I don't know how they got - I called your office; I just wanted -
- C: Yes, you did and they called me and I immediately called you back from here, the White House.
- H.M.Jr: Oh. Mr. Choate, I just wanted to know whether you were satisfied the way the hearing went last night.
- C: Well, I was absolutely satisfied with the attitude that Mr. Graves and Mr. Mellott and Mr. Hester took, but as far as the bulk provisions go, I was anything but satisfied. I think their - I think that the - that situation is as dangerous as could possibly be.
- H.M.Jr: But, I mean, as far as the Treasury presenting it?
- C: Yes, but I must say that I didn't think that the - I didn't think the Committee was. The Committee was in the most extraordinary state of mind I have ever seen.
- H.M.Jr: But, how was our boys on it?
- C: I think they were fine.
- H.M.Jr: Yes, and they were all right on this business as to where Federal Alcohol Control was to be located?
- C: Certainly. They were as flat-footed as anybody could be, but they -
- H.M.Jr: I heard that Mr. - the Chairman flatly contradicted Mr. Hester.
- C: Yes, they just didn't - they didn't seem to believe it.
- H.M.Jr: But, Hester stood by his guns.
- C: Perfectly.
- H.M.Jr: What?
- C: Perfectly.
- H.M.Jr: It was a most unusual situation.
- C: It was a most extraordinary situation I ever saw. They - you know, they made the statement that on the - they had it on the highest possible authority expressed by - not the President and not by you - that the Treasury wanted the thing.

H.M.Jr: Yes.

C: And they admitted that that would shape their and that they were - their questions were frequently picked along the line of when had the Treasury changed its mind.

H.M.Jr: Well, isn't it a fact that they're in a hole and are trying to hang it on somebody?

C: I suppose that's it.

H.M.Jr: What?

C: I suppose that's it.

H.M.Jr: I know they said that. Now, I don't know what he meant.

C: I don't know -

H.M.Jr: He has been certainly - he stated our position, didn't he -

C: Yes.

H.M.Jr: - as straightforward as anybody -

C: All three of them did.

H.M.Jr: Yes. But, on the bulk sales thing, that looks bad.

C: Yes, well, I'll tell you what I think is needed. There are two things that are needed badly. In the first place, the absence of the memorandum of law for the - for the Treasury - in support of the Treasury regulations was very unfortunate. That has got to be furnished and backed up if you're going to succeed. Then, the other thing that was unfortunate is that nobody there except me and has ever made the argument that Cooke's boys don't lose anything by this set of regulations. The figures on that can be made very impressive because they really sell just as many barrels now as they ever would. The only barrels they don't sell are the little barrels which wouldn't amount to anything anyhow in the legitimate industry, but used to amount to a lot during bootleg days.

H.M.Jr: Yes. Well, I'm seeing Harold Graves at noon and I'll have a talk with him.

C: Yes.

H.M.Jr: All right.

C: Now, then you - do you want to talk to me personally or not? I don't know that it's at all necessary.

H.M.Jr: Hello.

C: Yes.

H.M.Jr: I didn't quite get that.

C: I said, you don't want me to come over then?

H.M.Jr: Well, I - you got the message; I didn't leave any such message, but I'm always delighted to see you.

C: No, I don't think it's necessary at all.

H.M.Jr: I - I didn't leave any such message, Mr. Choate, I just called your office and said that when you got there, I'd like to talk to you and that's all.

C: It's just come to my attention that Mr. Doughton himself said emphatically that he was through with leaving - with hearing anybody from the Treasury except the Secretary. That was certainly the attitude of Vinson and two or three of the others.

H.M.Jr: Well -

C: You are -

H.M.Jr: I'm going to leave at four o'clock to go home and I've had no message from Mr. Doughton to date -

C: Yes.

H.M.Jr: And the Treasury people who are there strongly advised me against going up.

C: I see.

H.M.Jr: They say it's such - it's gotten to be such a fight. I mean, as to who says what.

C: Yes.

H.M.Jr: They think I'd better keep out of it, but if Mr. Doughton calls me and I can go at the time I'm here, I'll go.

C: Yes, all right.

H.M.Jr: Now, if there's anything up from now until four o'clock that I can help on, please call me.

C: All right. Thank you very much.

June 3d Conference

- Q: Have you got anything else here that's affected by the decision?
- A. All I know of is the Federal Alcohol Control.
- Q. Any chance of the Treasury taking over that?
- A. They're also working on that now; off the record, I think Mr. Choate is in Mr. Oliphant's room right now. I think any publicity on that should come from him, but the boys are working on it hard and have worked through Saturday and Sunday.
- Q. You are already supervising that outfit?
- A. No, no--I'm talking off the record; we think that gets into the social side, and I don't want to get anything into the Treasury that does not have to do with fiscal things. We want to collect the taxes and protect the taxes and raise the money and we're not anxious to get in anything now. If we could some day, I'd like for the Treasury to be purely a fiscal organization, but this gets into the social side of liquor and Choate has done a swell job and if he wants to continue, I hope he will.
- Q. There isn't any reason that you shouldn't say that there's some plan being worked on for FACA?
- A. I'd rather have you put it, if you wish, that the Treasury is cooperating with the FACA.
- Q. It might involve some legislation, wouldn't it Mr. Secretary?
- A. You can draw that conclusion yourself, if you want to.

Extract from H.M., Jr's Press Conference of June 17th

Q. Mr. Secretary, can you tell us anything about the legislation which will take the place of the FACA?

A. Only, I'd be glad to be quoted on this--that I am very anxious to see Mr. Choate's organization continue; he has done a grand job and I hope Congress will see fit to continue it.

Q. Will you take his advice about taxes?

A. Not taxes; I'll take his advice on liquor regulations, if he will leave the taxes to me.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING PAPERS,  
Monday, June 24, 1935.  
6-22-35.

Press Service  
No.5-20

Secretary of the Treasury Morgenthau is today offering to the people of the United States an additional issue of 3 percent Treasury Bonds of 1946-48, in the amount of \$100,000,000, or thereabouts, and is inviting tenders therefor at not less than par and accrued interest. The bonds will be sold to the highest bidders. Tenders will be received at the Federal Reserve banks and branches thereof up to 12 o'clock noon, Eastern standard time, on Wednesday, June 26, 1935. Tenders will not be received at the Treasury Department, Washington.

The bonds for which tenders are now invited will be an addition to and will form a part of the series of 3 percent Treasury bonds of 1946-48, issued pursuant to Department Circulars No.512,dated June 4, 1934,and No. 541,dated May 27, 1935; they will carry the same tax exemptions, and otherwise will be identical in all respects therewith except that interest on the additional bonds issued will accrue only from June 15, 1935. The bonds will mature June 15, 1948, but may be redeemed at the option of the United States on and after June 15, 1946. Interest will be payable semiannually on June 15 and December 15.

Each tender must state the face amount of bonds bid for, which must be \$1,000 or any even multiple thereof, and the price offered, which must be stated exclusive of accrued interest and must be expressed on the basis of 100, with fractions expressed as 32ds of 1 percent in accordance with the usual practice - for example, 103-16/32. Tenders at less than par will not be considered, and tenders not received at a Federal Reserve bank or branch before 12 o'clock noon, Eastern standard time, Wednesday, June 26, 1935, will be disregarded. Tenders will be accepted without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others

must be accompanied in every case by a deposit of 5 percent of the amount of bonds bid for, except where the tender is accompanied by an express guaranty of payment by an incorporated bank or trust company. If the tender is accepted, in whole or in part, the deposit will be applied toward payment for the bonds, and if the tender is rejected the deposit will be returned to the bidder.

Tenders should be made on the printed forms and forwarded in special envelopes, which will be supplied by the Federal Reserve banks. Incorporated banks and trust companies not located in a city where a Federal Reserve bank or branch is located, may, in their discretion, submit tenders by telegram.

Immediately after the closing hour for the receipt of tenders on Wednesday, June 26, 1935, all tenders received at the Federal Reserve banks and branches up to the closing hour will be opened, and public announcement of the acceptable prices will follow as soon as possible thereafter. In considering the acceptance of tenders, the highest prices offered will be accepted in full down to the amount required, and if the same price appears in two or more tenders, and it is necessary to accept only a part of the amount offered at such price, tenders for smaller amounts may be accorded preference and tenders for larger amounts prorated to the extent necessary in accordance with the respective amounts bid for. The Secretary of the Treasury expressly reserves the right, however, to reject any or all tenders or parts of tenders and to award less than the amount bid for, and any action he may take in any such respect or respects shall be final.

Payment for any bonds allotted on accepted tenders must be made or completed in cash or other immediately available funds on or before July 1, 1935, and must include the face amount, and the premium which the bidder has agreed to pay, together with accrued interest on the face amount from June 15 to July 1, 1935.

The text of the official circular follows:

UNITED STATES OF AMERICA

3 PERCENT TREASURY BONDS OF 1946-48

Dated June 15, 1934, with interest from June 15, 1935

Due June 15, 1948

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER JUNE 15, 1946

Interest payable June 15 and December 15

ADDITIONAL ISSUE

1935  
Department Circular No. 544

TREASURY DEPARTMENT,  
Office of the Secretary,  
Washington, June 24, 1935.

Public Debt Service

The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, offers to the people of the United States \$100,000,000, or thereabouts, 3 percent Treasury Bonds of 1946-48, and invites tenders therefor at not less than par and accrued interest from June 15, 1935, to July 1, 1935.

Description of Bonds

The bonds now offered will be an addition to and will form a part of the series of 3 percent Treasury Bonds of 1946-48 issued pursuant to Department Circulars No. 512, dated June 4, 1934, and No. 541, dated May 27, 1935; will be freely interchangeable therewith; and (with the exception that interest on the bonds issued under this circular will accrue from June 15, 1935) are identical in all respects therewith and are described in the following quotation from Department Circular No. 512:

"The bonds will be dated June 15, 1934, and will bear interest from that date at the rate of three percent per annum, payable semiannually, on December 15, 1934, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1948, but may be redeemed at the option of the United States on and after June 15, 1946, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

"The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes,<sup>1</sup> and (b) graduated

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

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

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

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

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

As interest on the bonds issued under this circular will accrue from June 15, 1935, coupon bonds will be delivered hereunder with coupons Nos. 1 and 2, dated December 15, 1934, and June 15, 1935, respectively, detached.

Tenders and Allotments

Tenders will be received at the Federal Reserve banks and branches thereof to 12 o'clock noon, Eastern Standard time, Wednesday, June 26, 1935, and unless received by that time will be disregarded. Tenders will not be received at the Treasury Department, Washington. Each tender must state the face amount of bonds bid for, which must be \$1,000 or any even multiple thereof, and the price offered. The price offered must be stated exclusive of accrued interest from June 15, 1935, to July 1, 1935; and must be expressed on the basis of 100, with fractions expressed as 32ds of 1 percent, in accordance with usual practice, e.g., 103-16/32. Tenders at less than par will not be considered.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied in every case by a deposit of 5 percent of the face amount of bonds bid for, except where the tender is accompanied by an express guaranty of payment by an incorporated bank or trust company. If the tender is accepted, in whole or in part, the deposit will be applied toward payment for the bonds, the balance to be paid as hereinafter provided. If the tender is rejected, the deposit will be returned to the bidder.

Tenders must be enclosed in envelopes, securely sealed, addressed to the Federal Reserve bank, or branch, of the district, and plainly marked "Tender for 3 percent Treasury Bonds of 1946-48". The Federal Reserve banks will supply printed forms and special envelopes for submitting tenders. Incorporated banks and trust

companies not located in a city where a Federal Reserve bank or branch is located may, in their discretion, submit tenders by telegram, but such telegrams must be received at the Federal Reserve bank or branch before the time fixed for closing.

Immediately after the closing hour for the receipt of tenders on June 26, 1935, all tenders received in writing or by telegraph at the Federal Reserve banks or branches thereof up to the closing hour (12 o'clock noon, Eastern Standard time) will be opened. The Secretary of the Treasury will determine the acceptable prices offered and will make public announcement thereof as soon as possible after the opening of tenders. Those submitting tenders will be advised by the Federal Reserve banks of the acceptance or rejection thereof, and payment on accepted tenders must be made as hereinafter provided. In considering the acceptance of tenders, the highest prices offered will be accepted in full down to the amount required; and if the same price appears in two or more tenders and it is necessary to accept only a part of the amount offered at such price, tenders for smaller amounts may be accorded preference and tenders for larger amounts prorated to the extent necessary in accordance with the respective amounts bid for. The Secretary of the Treasury expressly reserves the right, however, to reject any or all tenders or parts of tenders, and to award less than the amount bid for, and any action he may take in any such respect or respects shall be final.

Payment

Payment for any bonds allotted on accepted tenders must be made or completed on or before July 1, 1935, in cash or other immediately available funds, and must include the face amount, and the premium which the bidder has agreed to pay, together with accrued interest on the face amount from June 15, 1935, to July 1, 1935.<sup>2</sup> In every case where payment is not so completed, the 5 percent deposit with application shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States.

General Provisions

Federal Reserve banks, as fiscal agents of the United States, are authorized and requested to receive tenders, to make allotments as indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid allotments, and to perform such other acts as may be necessary to carry out the provisions of this circular. Pending delivery of the definitive bonds, Federal Reserve banks may issue interim receipts.

The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the receipt of tenders and the sale of bonds under this circular, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,  
Secretary of the Treasury.

<sup>2</sup> Accrued interest from June 15, 1935, to July 1, 1935, on \$1,000 face amount is \$1.311475.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Thursday, June 27, 1935.

Press Service  
No. 5-22

Secretary of the Treasury Morgenthau today announced the result of the offering by the Treasury on Monday of \$100,000,000, or thereabouts, of 3 percent Treasury bonds of 1946-48, tenders for which were received at the Federal Reserve banks up to 12 o'clock noon, on Wednesday, June 26.

Tenders for \$461,341,000 face amount of bonds were received, of which \$112,669,000 was accepted at prices ranging from 103-24/32 down to 103-17/32, and accrued interest from June 15 to July 1, 1935. The average price of the bonds to be issued is about 103-18/32, and a total premium of \$4,005,378.13 will be received. Based on the average price at which the bonds are to be issued on July 1, 1935, the yield is about 2.62 percent to the earliest call date, June 15, 1946, and about 2.67 percent to maturity, June 15, 1948.

MEMORANDUM FOR THE SECRETARY'S FILES

June 27, 1935.

Re: Public Hearings on H.R. 8539,  
creating the Federal Alcohol  
Control Administration.

At the public hearings held on this bill by the Ways and Means Committee on the evening of June 19, 1935, Mr. Graves, Mr. Mellott, and I appeared and presented the views of the Treasury Department. Mr. Graves advised the Committee that the Secretary was and always had been in favor of the establishment of the Federal Alcohol Control Administration as an independent establishment instead of making it a division in the Treasury Department. Mr. Graves also advised the Committee that the Treasury Department was very much opposed to the provisions of the bill authorizing the sale of liquors in bulk. Mr. Mellott likewise testified on this point.

I was requested by Representative Hill to advise the Committee as to the present authority of the Secretary of the Treasury to prohibit sales in bulk. I stated that the Secretary is authorized under H.J.Res. 370 approved June 18, 1934, to control and regulate the sale of liquor in containers of five gallons or less; and that the Treasury Department has construed a number of sections of the Revised Statutes as authorizing the Secretary to prohibit the sale of liquor in containers of over five gallons. I was requested to furnish the Committee with references to these statutes. Since then we have prepared, and will shortly submit to the Committee, for incorporation in the record of the public hearings, a memorandum showing the authority of the Secretary to issue T.D. 4557 and T.D. 4558, dated June 3, 1935, prohibiting the sale of liquor in bulk.

During the course of Mr. Graves' statement to the Committee that the Secretary was and always had been in favor of the establishment of the Federal Alcohol Control Administration as an independent establishment in the Government instead of as a division in the Treasury Department, the Chairman expressed his surprise at the advice that the Secretary did not want the Federal Alcohol Control Administration placed in the Treasury Department. At that moment, Mr. Choate, beside whom I was sitting, turned to Mr. Lee, his General Counsel, and said "I told you so". Since we had been previously advised that Mr. Choate had stated to the President that representatives of the Treasury Department were advising the Ways and Means Committee that the Treasury Department was desirous of having the Federal Alcohol Control Administration placed in the Treasury Department, I inferred from Mr. Choate's remark to Mr. Lee that

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the Chairman's statement to Mr. Graves had satisfied Mr. Choate that his statement to the President was correct. I felt it my duty to arise and satisfy the Committee and make the public record clear as to the attitude of the Treasury Department in the matter. Thereupon I nodded to Mr. Vinson, with whom I had previously discussed the matter, and he, inferring from my nod that I wished to say something on the subject, asked that I be recognized. I then advised the Committee that on the day the House passed the new N.R.A. Act we had heard a rumor to the effect that we had been telling the Committee that the Treasury Department wanted the Federal Alcohol Control Administration placed in the Treasury Department (the NRA was passed the day after Mr. Choate's statement to the President); that immediately upon hearing this rumor I was instructed to advise the Committee as to the attitude of the Treasury Department. I endeavored to get in touch with the Chairman of the Committee, but at the moment he was in charge of a session of the committee in the Ways and Means Committee room in the Capitol. I then telephoned to the Chairman's assistant, Mr. Price, who was attending the committee meeting, and asked him if he would step outside as I wished to talk to him about a very important matter. He met me outside the door and I advised him fully in regard to the matter, and asked him to advise the Chairman. He said he would. Meanwhile, Mr. Vinson stepped outside the door and I discussed the matter fully with him. I asked him if any representative of the Treasury Department had ever advised the Committee that the Treasury Department wanted the F.A.C.A. placed in the Treasury Department. He said emphatically "no", and that he would be very glad to see Mr. Oliphant or the Secretary personally and advise them to that effect. After I had made this statement to the Committee, Mr. Vinson publicly confirmed my statement and gave the Treasury Department a clean bill of health in the matter.

Mr. Doughton inquired as to why I had not consulted him. I again stated that I had endeavored to get in touch with him several times, and not being able to do so, thought the next best thing to do was to talk to his assistant, Mr. Price and members of the Committee, which I did. (One of these members was Mr. Fuller, who proposed the bulk sales provision of the bill). Nevertheless, Mr. Doughton stated "There is no doubt in the Committee's mind, not the slightest in the mind of the Committee, but that information came reliably from the Treasury Department. The Chairman makes that statement". About 15 minutes later, Mr. Doughton came down from the bench—I thought for the purpose of expressing displeasure at my remarks—and inquired if we wished to offer any further testimony. I told him that we did not, and seized upon the opportunity to talk to him about the matter. I told him that I hoped that I had not incurred his displeasure, but that I felt it my duty to arise and make the record clear as to the position of the Treasury Department, and that if he was disturbed about it, I humbly apologized. He finally put his hand on my shoulder and smiled and said that everything was all right.

Hester

June 24, 1935.

The Secretary and other Treasury people met with the Democratic members of the House Ways and Means Committee in the Committee Room in the Capitol Building at 8:00 P.M.

Those present from the Treasury were:

Mr. Morgenthau, Jr.

Mr. Gaston

Mr. Oliphant

Mr. Helvering

Mr. Mellott

Mr. Graves

Mr. Haas

Mr. Opper

Mr. Crowell

Mr. Hester

Mr. Upham

The members of the committee who were present were:

Chairman Doughton

Mr. Hill

Mr. Cullen

Mr. Vinson

Mr. Cooper

Mr. McCormack

Mr. Fuller

Mr. Boehne

Mr. Dingell

Committee Clerk Hoffman

Assistant Clerk Price

Assistant Legislative Counsel O'Brien.

Charles West was also present.

The Secretary explained that it was a matter of regret to him that there had been any misunderstanding between the Treasury and Ways and Means Committee and said that he and Mr. Doughton had agreed that there just couldn't be any real conflict between the two.

The whole situation with respect to the Alcohol Control Bill was discussed with the members of the committee for about two hours. Mr. Doughton brought up the matter of the Secretary's comment at the press conference and that was explained.

Mr. Vinson expressed himself with considerable vigor on the confusion as to whether the Alcohol Control agency should be within the Treasury or outside of it and gave the reasons which animated the committee for wishing it to be within the Treasury.

Mr. Morgenthau told the committee that the Treasury had been consistent from the beginning in its desire that the agency be an independent commission. In his opinion, the social aspects of liquor control and such details as the kind of advertising they can do are not directly connected with collection or protection of the revenue and so, in his mind, should be separated preferably from the Treasury. He stated, when questioned, that he did not feel so strongly upon the question of the location of the agency as he does upon the matter of bulk sales.

Mr. McCormack said he had been amazed on the evening of June 19th that the Treasury had been represented by Mr. Graves who seemed to take the position that the Committee and the Congress had nothing to say about the legislation. He expressed the view that Commissioner Mellott should have been the witness if the Secretary did not come himself.

On the matter of bulk sales, Mr. Morgenthau said that he felt the task of enforcing the law would be made practically impossible if the wholesalers and retailers were permitted to have on their premises barrels of whiskey. The Case for bulk sale of the whiskey was expressed mainly by Congressman Fuller who seemed to have two reasons for his attitude, (1) a desire to provide a market for oak staves, and, (2) a desire to provide good cheap whiskey for the people of the country.

During the discussion between the Secretary and Mr. Fuller with respect to the price of whiskey, the Secretary expressed the opinion that one reason for the high price of aged whiskey was due to the limited quantity of 4 year old stock. Mr. Fuller disagreed with Mr. Morgenthau that whiskey could be purchased in the liquor stores for \$1.25 a quart.

Mr. Holvering, Mr. Gaston and Mr. Crowell left the meeting and returned with 4 quarts of whiskey, 3 of which they purchased at \$1.25 a quart and 1 at \$1.00 a quart.

Mr. Doughton seemed to be considerably impressed by a statement made by the Secretary that if bulk sales were permitted he would have to go to Chairman Buchanan of the Appropriations Committee for an additional \$5,000,000.

The discussion was ended with no conclusions having been reached but it seemed an even chance that the Committee would insist upon placing the agency in the Treasury Department but perhaps be agreeable to giving up their idea of permitting bulk sales.

C.B. Upham

June 21, 1935.

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At the request of the Secretary, who telephoned from the farm, I went to the Hill about 10 o'clock to discover what I could about the attitude of the Ways and Means Committee toward placing the successor agency to the FACA in the Treasury Department and the attitude with respect to bulk sales.

I talked to Charles West and to Chairman Doughton of the House Ways and Means Committee and returned to the Secretary's office at 11:30 when he was to 'phone for a report.

I reported to the Secretary that members of the Ways and Means Committee had understood up until about two weeks ago that the decision as to whether the new FACA was to be an independent commission or in the Treasury, rested with their committee. They had the idea that about two weeks ago there was a conference in the Treasury between Treasury officials and FACA officials, at which time it was agreed that the agency should be an independent commission. Then a few days later Mr. Choate was on the President's train coming down from West Point and converted him to the idea of an independent commission. I found considerable confusion of thought on the Hill as to just what the situation is and a little resentment on frequent changes of opinion and sentiment down town.

It was explained to me that there seemed to be some jealousy on the Hill between the Ways and Means Committee and the Judiciary Committee. Some people had the idea that the bill to enforce the 21st amendment before the Judiciary Committee is drafted along lines similar to those of the FACA bill. The Ways and Means Committee took out of the FACA bill most of the social aspects of liquor control they maintain and put in some revenue features and so are of the opinion that the agency belongs in the Treasury.

Mr. Doughton was considerably disturbed over the fact that the Secretary, instead of giving his views in person to the Ways and Means Committee, had discussed them at a press conference. I explained to Mr. Doughton that the Secretary was merely reiterating the position which he had asked Treasury representatives to take the night before in open hearings before the committee and that his statement was in reply to questions as to whether those representatives had accurately stated his position. Mr. Doughton emphasized the fact that the decision rested with Congress and that they didn't like to be subjected to too great pressure from down town.

C. B. Upham.

The pending bill in its present form would place the Federal Alcohol Control Administration in the Treasury Department. There apparently has been some misunderstanding as to the views of the Department on this matter, and one of my purposes in coming here tonight is to do what I can to clear up this misunderstanding. It has always been my view that the Treasury Department has as large and difficult a task as it should be required to perform in looking after the revenue aspects of the liquor business. It is our duty to supervise the production, distribution and sale of beverage spirits from one angle only, that is, the angle of tax collection. The duty of the Treasury Department has never gone beyond seeing that the Government collected its revenue from the liquor industry.

When the Federal Alcohol Control Administration was established more than a year ago, certain very definite objects were in mind. In the first place, it was feared that there would be a great rush on the part of hundreds, if not thousands, of people to come into the field as distillers or rectifiers or wholesale liquor dealers with a view to making quick and easy profits from the liquor business, and one of the objects of the Federal Alcohol Control Administration was to keep this situation in some semblance of control. A permit system was to be established, largely to prevent over-production. The business of producing distilled spirits was to be fairly allocated to the different sections of the country and to different producing companies, to prevent the evils which would result from unlimited production.

As I understand it, other things which were in mind when the Federal Alcohol Control Administration was established were the maintenance of fair competition among members of the various industries, and protection to the public against improper advertising, unfair trade practices and the other evils which had always characterized the liquor industry in its purely social and economic aspects.

- 2 -

Since these functions of the Federal Alcohol Control Administration were only incidentally related to the function of tax collection, it was my view that they should be entrusted to an agency entirely independent of the Treasury Department, and this view prevailed when the Administration was created by Executive order.

The bill which is now before the Committee would reinstate the Federal Alcohol Control Administration, and would define for that agency substantially the same functions which it has performed during the past eighteen months under the authority of the National Industrial Recovery Act and the Agricultural Adjustment Act. These functions are outlined in some detail in the bill. The bill provides for a licensing system for distillers, rectifiers, wine makers, importers, brewers, bottlers, and wholesale liquor dealers. It provides for the issuance of licenses to these classes of operators by the Administration and it provides also for their suspension or revocation for proper cause. The bill undertakes to define the scope of the subject matter which is to be dealt with by the Administration in issuing, revoking, or suspending licenses. I would like to call the Committee's attention especially to section 5, in this connection.

Section 5 sets down a number of abuses and unfair practices which have been found in the liquor industry almost from time immemorial, and makes these unlawful to the extent that they touch upon interstate or foreign commerce. Under this section, it would be unlawful for any producer or distributor by contract to require a retail liquor dealer to handle his products exclusively. It would be unlawful for any producer or distributor to control or maintain a proprietary interest in any retail outlet. It would be unlawful for any producer or distributor, by giving any bonus, premium, or compensation to a retail liquor dealer or his employees, to induce such retail liquor dealer to handle his products exclusively. It would be unlawful for any producer or distributor to sell his products on consignment, or conditionally with the privilege of return. This Section would also prohibit false and unfair advertising and the infringement of trade

marks or trade or brand names by producers or distributors. This section likewise contains provisions prohibiting the use of labels calculated to mislead the consumer or to infringe the rights of any competitor.

My conclusion, from an examination of this Section is that the functions and duties to be entrusted to the Federal Alcohol Control Administration, under the proposed bill, have little or no connection with the functions performed by the Treasury Department in the collection of taxes upon beverage spirits. The bill looks mainly to the protection of the consumer against misbranded or adulterated products, protection of the members of the various industries from unfair trade practices on the part of their competitors, and the protection of the public generally against the return of the abuses which unfortunately have made this industry notorious in the years gone by.

These functions are exceedingly important. They should be entrusted to officers thoroughly versed in the merchandising system, the methods of competition, and the general trade practices which are employed by the various branches of the beverage spirits industry. While the Bureau of Internal Revenue has had supervision of the industry from the point of view of tax collection for many generations, and contains a body of men thoroughly conversant with the Federal revenue laws and regulations, we do not have in the Bureau of Internal Revenue the kind of experience or the kind of personnel which would be necessary to handle the problem from the point of view of protecting the public and preventing unfair trade practices in the industry. The problems dealt with by this bill are social and economic problems and not revenue or tax problems. As I see it, they constitute an aspect of the whole liquor question which is certainly of sufficient size and importance to justify the creation of an establishment with the sole function of administering it, and my hope is that the Committee will conclude, when it finally deals with this subject, to entrust these functions to an agency independent of the Treasury.

The thought occurs to me, and I lay it on the table for what it may be worth, that the F. A. C. A. might be continued for two years. In that time experience might indicate very clearly the Department to which it should then be attached. It might belong under Agriculture perhaps working in association with the Pure Food and Drug law enforcement. It might

even be attached to the Federal Trade Commission. Or it might be beyond dispute by that time that it belonged under the Treasury.

I would like to say, however, that should reasons appear to the Committee for imposing duties of this character upon the Treasury Department, now they will be discharged to the full extent of our ability.

The Federal Alcohol Control Administration has reported that all inventories of distilled spirits in the United States were inventoried. The Treasury Department has also reported that the only reason for this requirement was that it was possible to prevent the withdrawal of spirits from the market now before you. The only objection to maintaining this requirement is our fear that it will render unworkable the other very valuable provisions in this act.

Under the regulations which were in force prior to the adoption of the Prohibition Amendment, whiskey would be produced in barrels by volume and here, and shipped to customers from these packages. Although now in these days there was a good deal of blending of whiskeys or cutting drinks from bulk containers, it was chiefly through the introduction of water or cheap spirits of inferior grade, and it is probable that no great loss in the revenues resulted.

Even the liquor industry was handicapped after the repeal of the Prohibition Amendment, for while prohibited under the Federal Alcohol Control Administration continued restrictions against bulk sales. The Treasury Department was not concerned when these restrictions were imposed, but I take it that the objections of the Federal Alcohol Control Administration and the Commercial Department to bulk sales grew out of the fact that there was at the time a large, successful element in the country which through the years of prohibition had accumulated the liquor habit, and which was still prepared to compete with the legitimate

House Resolution 8539, the Federal Alcohol Control Act is a broad, comprehensive measure, intended to regulate an industry beginning with the manufacturing plants and continuing through the wholesale outlets. We in the Treasury have examined the Act with the care its great importance deserves. It is our opinion that one short paragraph, namely Subsection F of Section Four, will throw overboard at least one-half of the rest of the Act, including some of its most valuable provisions. I am appearing before you to submit the facts upon which that opinion is based. Subsection F would permit the sale, either at retail or wholesale, of distilled spirits in or from wooden barrels, casks or kegs of one or more wine gallons capacity, except where state laws prohibit such sale.

The Federal Alcohol Control Administration had required that all deliveries to retailers be made in glass or earthenware containers. The Treasury regulations make the same requirement. The only reason for this requirement was that it made possible precisely the enforcement provided for in the measure now before you. The only objection to abolishing that requirement is our fear that it will render impossible the other and very valuable provisions in this Act.

Under the regulations which were in force prior to the adoption of the Prohibition Amendment, whiskey could be purchased in barrels by saloons and bars, and dispensed to customers from these containers. Although even in those days there was a good deal of cheating of customers by serving drinks from bulk containers, it was chiefly through the introduction of water or taxpaid spirits of inferior grade, and it is probable that no great loss to the revenues resulted.

When the liquor industry was reestablished after the repeal of the Prohibition Amendment, the codes promulgated under the Federal Alcohol Control Administration contained restrictions against bulk sales. The Treasury Department was not consulted when these restrictions were imposed, but I take it that the objections of the Federal Alcohol Control Administration and the industries themselves to unlimited bulk sales grew out of the fact that there was at the time a large unlawful element in the country which through the years of prohibition had monopolized the liquor market, and which was still prepared to compete with the legitimate

industry. It was obviously necessary under these conditions to impose restrictions, not only to protect the revenues of the Government, but to protect the industries themselves against the competition of illicit distillers, smugglers, and bootleggers.

During the months when the code provisions were in effect, there can be no question that the restriction against bulk sales constituted one of the strongest weapons employed by the Treasury in fighting the bootlegger. So beneficial were these limitations that when the M. R. A. decision was handed down, wiping out the codes by which the liquor industry was regulated, Treasury Decisions were issued providing that no liquor could be sold in bulk packages except by one distiller to another, and excepting to rectifiers generally. These regulations remain in effect. They would, of course, be nullified by the provisions of the pending bill.

All whiskey and other beverage spirits produced at distilleries is placed in oak barrels for storage or ageing, or both. Liquor is now being produced at the rate of approximately 15 million gallons monthly, and at the present time there is approximately 150 million gallons of beverage spirits in bonded warehouses, virtually all of which is stored in oak barrels of 50-gallons capacity.

The Treasury regulations have the effect of requiring that before beverage spirits may move into the hands of the wholesale or retail liquor dealer, it must be packaged in glass or earthenware containers. The bottling of spirits for sale at retail under these regulations must be done either by the distillers themselves or by concerns which have qualified as rectifiers under the internal revenue law. The total number of distillers and rectifiers is less than 700. In other words, there are fewer than 700 places at which spirits may be removed from barrels and placed in bottles. All these places are attended by storekeeper gaugers of the Bureau of Internal Revenue, and all bottling operations are carried on under the immediate supervision of these officers. The bottles are supplied by manufacturers licenses to make liquor bottles by the Treasury Department. These bottle manufacturers are also under the supervision of Government officers, and all bottles must be blown with the license number of the manufacturers and the registry number of the distillers or rectifiers. At the time of bottling, all bottles and cases must be marked, labeled, and stamped in

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accordance with Treasury regulations, and under the supervision of Government officers.

This is the backbone of the system now employed by the Treasury Department to guard against the distribution of illicit untaxpaid liquor by the bootlegging element. Legitimate liquor can be sold at retail stores only in bottles manufactured under Government supervision, and bearing the familiar red strip stamps as a further protection both to the Government and the consumer. These red strip stamps are serially numbered. So far as domestic spirits is concerned, they can be sold by collectors of internal revenue only to the 700 qualified distillers and rectifiers. At the time of sale, they are required to be registered by the collector of internal revenue in the name of the distiller or rectifier. At the time of sale, they are not delivered to the rectifier or distiller, but are sent by registered mail to the Government officer in charge of the distillery or rectifying plant, and are issued by him from day to day to meet current requirements. Since the spirits are bottled under the officer's supervision, it is obvious that there is virtually no danger of stamps being improperly issued, or of stamps being affixed to spurious or untaxpaid liquor.

The places of business of wholesale liquor dealers and retail liquor dealers, including hotels and taverns, are periodically inspected by internal-revenue officers. Since these places may not, under the regulations, purchase tax-paid spirits in bulk packages, the presence of bulk spirits on the premises is conclusive evidence of its illicit character, and the Department has been able during the past 15 months to reduce to negligible proportions the traffic in bootleg spirits by unscrupulous retail dealers.

We feel that, very largely as the result of this system of control, we are making real headway against the bootlegger in all parts of the country. There has been a steady increase in the sales of legitimate liquor ever since these methods were adopted.

I have here a statement showing the steady increase in the sales of legitimate liquor, and these figures mean, of course, a decrease in the sales of bootleg liquor.

I am naturally very reluctant to see any action taken which would in the least jeopardize the success of our

enforcement activities. The bill which is before the Committee would destroy the most effective safeguard which the Department is now employing: It would authorize the sale of beverage spirits in barrels and kegs not only to wholesale liquor dealers and to hotels, clubs, restaurants, tap-rooms, and package stores, but to the public generally. It would permit the bottling of spirits by wholesale liquor dealers, of whom there are now almost 5,000. If the Department should undertake to continue its supervision of bottling operations, we estimate that this would add approximately 5 million dollars to our administrative costs without adding one cent to the revenue collected.

I regard this additional cost, however, as relatively unimportant compared with the fact that the approximately two hundred thousand retail liquor dealers now qualified under the internal revenue laws would be permitted to purchase and to have on their premises whiskey and other distilled spirits either in the original 50-gallon containers, or in 5-, 10-, 15-, 20- or 25-gallon kegs. At the present time, it is a matter of extreme difficulty for any tap-room proprietor to introduce illicit spirits on his premises in any quantity because he is under the necessity of putting the bootleg product in the individual bottles at the bar, a slow and tedious process and one which may readily be detected by Government officers in making their inspections. On the other hand, if tavern keepers are to be put in a position where they can lawfully have bulk containers on their premises, we are removing practically all these difficulties. It will be a relatively simple matter for the bootlegger to bring in bulk spirits dilute them to the proper proof, and pour them into the supposedly legitimate barrel. By being careful to reduce the proof of the bootleg spirits to the proof of the original contents of the barrel, it would be easy for the tavern keeper to carry on this operation indefinitely, mixing his cocktails and highballs from this illegitimate and untaxed product. He would be virtually safe against detection by any Government officer in the process of his periodical inspection.

Bulk sales, would, I think, defeat that provision of section 5 of the bill which has to do with the labeling of distilled spirits for the protection of the consumer. The labeling provisions of the bill would protect consumer against misleading descriptive matter on package labels, and against the danger of spurious and adulterated products. The labeling regulations of the former Federal Alcohol Control Administration

went into great detail to accomplish these objects, and they had created a situation under which every purchaser of liquor was made aware of the precise character, quality, and age of the liquor which he was drinking. I need not call your attention to the fact that if indiscriminate bulk sales of spirits are to be permitted, that portion of the bill which undertakes to lay down labeling requirements for the consumer's protection will be utterly without any beneficial effect.

It is my understanding that this provision has been inserted in the hope of reducing the price of legitimate liquor. The cost of packaging spirits in retail containers under the present regulations does not exceed \$1 per case of 12 quarts. This amounts to 9 cents a bottle, or less than one-half a cent per drink as it is customarily dispensed by hotels and taverns. As a matter of fact, the character of the package has very little to do with the price of liquor. This is controlled rather by the usual factors of supply and demand. I am informed that the reason for the high price of liquor of good quality today is that the supply of that liquor was at the time of the repeal of the Prohibition Amendment only a few hundred thousand gallons. The quality of liquor is steadily improving, and the price is steadily coming down.

It is true that before the Eighteenth Amendment to the Constitution was adopted distilled liquor was sold in bulk, as proposed in Subsection F of the pending measure. But conditions are vastly changed. During the life of the Eighteenth Amendment this country did not have prohibition; it had a nation-wide and flourishing trade in alcoholic beverages in complete violation of the law. The business was organized, financed, and firmly entrenched. For only a little more than a year now Government has been re-asserting its control. We are making excellent progress, but we do not feel that the time has come to relax vigilance. The various state authorities, I feel sure, will express the same opinion. We are still engaged in wiping out illicit stills. They stand as the product of the prohibition era, not present conditions, but if we relax our vigilance the temptation to use them again becomes very great.

Our present problem is to bring a major industry under the law; in this effort we are receiving commendable cooperation from thousands of manufacturers, wholesalers, and retailers. Our obligation to them is worthy of serious consideration. A serious error in our system may bring ruin to some of them as the reward of obeying the law. That prospect cannot be viewed with an easy mind.

The purpose of Subsection T as outlined by various members of this committee is wholly commendable. As to purposes we agree. We of the Treasury simply raise a question as to whether that Subsection would not do more harm than good. I have submitted the facts upon which that fear is based, and I leave them before you to speak for themselves. There is not the slightest doubt that our objectives are the same. We are treading new and difficult ground, and I felt it my duty to speak frankly both as to facts and conjectures.

COPY

June 21, 1935  
11:30 p. m.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 19, 1935

To Secretary Morgenthau  
FROM Herman Oliphant

Following a preliminary conference with Graves, Mellott, and Hester, I have just had a conference with West, Choate, Mellott, and Hester at which we worked out a complete agreement as to what is to be said tonight. Choate will go on first and then Graves will say he is authorized to present the Treasury position, which always has been and is that Alcohol Control should be an independent agency.

If he is pressed with the statement that the President has decided otherwise, he will merely say that he just talked with you and that you had stated the position outlined above.

All agreed that we should reserve for a later time any statement about the thing being entirely in the Treasury if it is to be in the Treasury at all.

Hester, Mellott, and McReynolds will be there with Graves.

In the midst of the preparation of the draft, there was held at the White House a conference with the industry leaders, Harrison, Daughton, et al, at which I was told the Secretary was not present. During this period the legislation as in process of being drafted, contained a provision for an independent commission, although I understand the Ways and Means Committee was still being told that such matters as that would be left to their judgment.

The draft was given to McCord Lee, who with copies to Stanley Reed and Tom Sawyer for their check. These copies were returned to Lee. The original was given to West who took it to Daughton. Lee sent seven signed copies to the Treasury, and 20 mimeographed copies to the Ways and Means Committee.

June 21, 1935  
9:30 p. m.

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For the Secretary:

I have just returned from the Hill after a seven hour reconnaissance, and I think I can fill the story in pretty well.

After the Supreme Court decision in the Scheckter case Choate was asked to prepare a draft of legislation for the continuance of FACA.

At a Sunday night White House conference, the Secretary presented a draft of Treasury policy with respect to liquor control.

The following day there was a conference in Oliphant's office between Treasury people and FACA people in an attempt to get the two agencies to agree and to bring the proposed legislation within the limits of the Treasury statement of policy. Apparently FACA got the impression from this meeting and from other things that the Treasury officials wanted the new FACA within the Treasury. During the next few days of perfecting the legislative draft, this impression grew into rumors and a very general understanding on the Hill that the Treasury officials wanted it. This was due partly to statements made by FACA people and partly, it is suggested, by the fact that the Ways and Means Committee has many contacts with various Treasury officials, and are subjected to the influence of a number of Treasury subordinates. It is partly due too, to the fact that the members of Ways and Means had to justify their jurisdiction of the bill against a jealous Judiciary Committee. Partly also to the fact that they did not like Choate any too well.

Up to this time West had been telling the Committee that the President was willing to leave to their judgment the substance of the bill. He did not make any representations to the Committee as to Treasury wishes in the matter, and as a matter of fact, the draft which he took to Doughton provided for an independent commission.

In the midst of the preparation of the draft, there was held at the White House a conference with the Capitol leaders, Harrison, Doughton, et al, at which I am told the Secretary was not present. During this period the legislation as in process of being drafted, contained a provision for an independent commission, although I understand the Ways and Means Committee was still being told that such matters as that could be left to their judgment.

The draft was given to Frederick Lee, who sent copies to Stanley Reed and Tom Corcoran for them to check. These copies were returned to Lee. The original was given to West who took it to Doughton. Lee sent seven typewritten copies to the Treasury, and 20 mimeographed copies to the Ways and Means Committee.

A newspaperman secured one of the mimeographed copies, and a member of the Judiciary Committee secured from an outside source, who is represented as saying that it came from the Treasury, a typewritten copy. The information in this paragraph I have in strictest confidence, and is for the eyes of the Secretary alone

Doughton and the rest of the subcommittee were very much disturbed at the draft being made public, and decided to make their own draft, which they did. There was a meeting of the subcommittee, and a Committee Print (Confidential) prepared. Although it is well known that these committee prints are confidential until and unless released, there are always efforts to secure copies. In this case, there were efforts by representatives of the industry, but unsuccessful, I understand. In any event, it has been revealed all through, and this also is a privileged communication for the Secretary alone, that some of the representatives of the industry stop at nothing.

After the Committee Print had been prepared but before it had been checked at the White House, Choate rode down with the President from West Point and talked the President into the idea of an independent commission.

Then the subcommittee brought its Committee Print to the White House. I do not believe the Secretary was present at that meeting. The draft submitted to the President contained language to the effect that "There is created a division in the Treasury Department to be known as the Federal Alcohol Control Administration". The President said that he preferred to give the new agency more emphasis and independence, that he wanted it to be as independent as the Bureau of Internal Revenue or the Board of Tax Appeals in the Treasury Department. It was suggested that the Board of Tax Appeals was not a part of the Treasury Department, but wholly independent, and the President said that he wanted it as independent as it could be as a division of the Treasury. He changed the language of the sentence to read that "there is created a Federal Alcohol Control Administration as a division in the Treasury Department".

There seems to have been some confusion, I speculate, between the expression "independent agency" and "outside the Treasury Department". My guess is that the President stated that he was for an "independent commission" and that the Secretary translated that into "outside the Treasury", whereas what the President had agreed to was an independent commission but within the Treasury.

In any event when Choate saw the draft of the Committee Print he went again to the President, and the President then asked that Choate and the Secretary get together and present a united front to the Committee. What they were to get together on seems to be other language in the bill to which Choate objected, under which the Treasury would have control over the rules and regulations of the Commission and over its personnel. Choate thought that those provisions destroyed the independent status.

The Secretary must have understood that the President was for an independent commission in the sense that it would be outside the Treasury. <sup>62</sup>

Then came the public hearings. The subcommittee understood that the President had agreed to an independent commission within the Treasury. The Treasury representatives were of the opinion that the Treasury wanted the agency wholly outside the Treasury. Something must be wrong. As a result, the Committee was pretty hard on the Treasury witnesses.

The next day newspapermen came to Doughton and the others with what they regarded as a lecture to the Committee given in a press conference, and giving the position of the President as contrary to what they had had direct from the President in the conference they had with him. Doughton was hurt and the rest of the members of the subcommittee aroused. It hurts some of them in their home districts to be shown as in opposition to the Administration. I think most of them like the Secretary, but they were pretty peeved about this incident.

As a matter of fact, they were not very well impressed with the Treasury witnesses. Mellott was not bad, although a little weak. One remark of his to the effect that the Treasury is going to make Christians out of the brewers did not sit very well, especially in view of the Secretary's remarks about keeping the social aspects of liquor out of the Treasury. As a matter of fact, they maintain that the social aspects of liquor that were in the first draft were all removed, and that the present bill is exclusively a revenue protection measure. They say the President knows this and agrees that it is so.

The Committee members, the newspapermen, and others all speak of the "arrogance" with which Graves testified. They maintain that he was contemptuous of the Congress and the Committee. Members of the press who are good mimics and some of whom are very friendly to the Treasury show the way in which he talked. The evening's testimony apparently did damage to the good will we have had. Incidentally, the members of the Ways and Means Committee are a little hurt that the Treasury should have discussed its stabilization fund operations with Senate leaders rather than with them. They feel a sort of proprietary interest in the Treasury, they feel that they do a lot for us and that at least Doughton should be pretty closely consulted in advance on all important moves the Treasury makes.

There is a growing resentment on both sides against Executive disregard of Congressional leader advice. The situation is critical. Personally, I think that some harm is being done by Cohen-Corcoran insistence that the White House or Farley interfere constantly with this or that member on every issue that arises. Some of the irreverent are beginning to greet the name of the President or Farley, and even lesser Administration representatives with the Hitler or the Mussolini salute.

At least misunderstandings over unimportances must be avoided.

All my other ideas, advices, and suggestions will be postponed, since it is 10:30.

UPM

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June 11  
66

My dear Mr. Secretary:

Reference is made to the exchange of correspondence between the Department of State and the Treasury Department and to conversations between officers of the two Departments with respect to the interrelation of the financial and monetary policies and problems of the Chinese Government and those of the Government of the United States. I refer particularly to the correspondence and conversations since the receipt by the Treasury on August 21, 1934 of the confidential letter from the Department of State quoting a telegram, under date of August 20, from the American Consul General at Shanghai transmitting a message at the request of Dr. H. H. Kung, Chinese Minister of Finance, and to recent letters from the Department of State in connection with a proposal that our Government appoint a financial expert to the American Legation at Peiping.

In the letter of the Department of State of June 10, 1935, you remark that your Department is giving further consideration to the subject last mentioned in view of the reception from the British Embassy in Washington of a confidential aide memoire, bearing date June 7, 1935, which reports the appointment of Sir Frederick Leith-Ross, K.C.B., K.C.M.G., Chief Economic Adviser to the British Government, as temporary Financial Adviser to the British Ambassador at Peiping.

In that connection you advise in your letter to this Department, dated June 10, 1935, that the aide memoire under reference further states that Sir Frederick will leave England at the beginning of August; requests that the appointment of Sir Frederick be regarded as confidential until announcement thereof is made in the English press; and expresses the hope that the American Government will take similar action with regard to the appointment of a financial expert.

As long ago as December 9, 1934, Dr. Kung requested, in a cablegram of that date, the views of the American Government concerning "some form of cooperation to facilitate currency reorganization" in China. At a conference attended by officers of the Department of State and Treasury Department it was agreed, according to our records, "that it is urgent that if the United States is to show sympathy for China in her plight in an effective manner, action must be taken immediately." Officers of this Department made a careful study of alternative programs of action which might be taken and reduced these programs to four alternative plans which were discussed at considerable length with officers of your Department. As I recall you and the American Minister to China were present at at least one of the meetings. The officers of your Department were opposed to any of the

plans put forward by the officers of the Treasury Department, but were unable to put forward any plan of action of their own when requested to do so. Finally, I took the matter up with the President and subsequently at the request of the Treasury Department, the Federal Reserve Bank of New York sent on December 18 to the Central Bank of China a cablegram suggesting a temporary program with respect to our silver purchases and inviting the Central Bank of China to send a representative at its earliest convenience to discuss this and related matters.

On December 28, 1934, your Department transmitted to the Treasury a communication, bearing date of December 27, 1934, from the Chinese Minister at Washington, in which he quoted the text of a cablegram from the Chinese Minister of Finance. Dr. Kung advised that he was instructed by the Central Bank of China to inform the Federal Reserve Bank of New York that the Central Bank of China would "gladly accept your invitation to send a representative to discuss the matter set forth in your message together with related matters." On December 31 the Chinese Minister in Washington was requested to transmit to the Central Bank of China a cablegram advising of the termination of the temporary silver purchase program but adding that the Federal Reserve Bank of New York would "welcome an opportunity to discuss the whole matter with the representative mentioned in Clause D in our previous cablegram."

You will recall that the Chinese Minister advised me orally that they were delaying sending a representative because of difficulty in deciding whom they should send. He asked me whether the President would be willing to indicate a choice. You will recall further that as a result of conversations with the President, I informed the Chinese Minister that the American Government would be pleased to receive either Dr. Kung, or T. V. Soong, Chairman of the Economics Commission. On January 4 the Chinese Minister read me a cablegram from Dr. Kung expressing regret that the political situation in China prevented his coming to the United States but, if agreeable to the President, T. V. Soong would come, arriving at Vancouver February 2. The officers of your Department were informed promptly of these developments. Certain of your officers, according to my records, took the position that we should do nothing on the ground that if we did nothing, we would not hurt anybody's feelings and would incur no risks. You confirmed to me by telephone that you shared with these officers the view that we should "call off or postpone the whole matter." I then advised you that I had told the Chinese Minister that we had no program and that it was up to them to come here and tell us why we should change our silver buying policy. You replied that, so long as the Treasury Department told them that, your objections were over-ruled. On January 9 the President instructed me to request you to advise the Chinese Minister

that it had been decided that it would be better if T. V. Soong did not come to the United States.

The Chinese Minister of Finance nevertheless opened his cablegram of January 19, 1935 with the statement that "An understanding with the United States concerning the silver purchase program is prerequisite to a decision regarding dealings with the monetary situation." The Minister, after making several general suggestions, stated that the Chinese Government was prepared to transmit an outline of further measures. This cablegram was transmitted to the Treasury Department on January 24, together with a draft of reply which your Department suggested should be sent to the Chinese Government. The draft of reply, after referring to the mandatory character of the Silver Purchase Act, pointed out that in administering that Act this Government endeavored to avoid unnecessarily occasioning hardship to any country and that it was the belief of the American Government that its purchasing procedure took into account the ideas comprised in the suggestions offered by the Chinese Government. On the following day, January 25, I advised your Department that I had no objection to the forwarding of this reply. I ventured to express a doubt, however, whether the proposed reply would "get us anywhere."

On February 5, 1935 the Chinese Minister at Washington transmitted a cablegram received from the Chinese Minister of Finance embodying the further measures referred to in the Minister's earlier message. In this cablegram it was stated that China had considered how it might adjust its monetary and financial policy and program to the American policy and program and had decided that there was no choice but to seek feasible means to abandon the exclusive silver basis and adopt a new currency system by using both silver and gold with a view to linking the currency of China to that of the United States. The Minister added that American cooperation was essential to that end and made certain specific proposals conditioned, however, upon final agreement on a feasible currency program which the Chinese Government earnestly hoped would receive favorable consideration.

I telephoned you to suggest that you and I meet to discuss thoroughly the last-mentioned note. You were about to leave the city for a few days and suggested that I talk with certain of the officers of your Department, charged with the economic aspects of Chinese affairs. Your officers later furnished me with a "tentative draft of the proposed reply to the Chinese Government's note." The draft reply advised the Government of China that the American Government, taking into consideration the history of projects of various characters during the past four decades; and, giving thought to various factors, some economic and some political, felt that it would not be practicable for the United States to enter into an agreement with China such as was envisaged in the outline of the program under reference. The draft continued that the Secretary of State was moved to suggest that if, upon further consideration, the Chinese Minister of Finance should deem it advisable to offer suggestions simultaneously to the governments of several of the foreign powers, the American Government would be prepared to cooperate with the other governments and with the Chinese Government in exploring the possibility of collective rendering of the assistance sought by China.

In a conference with officers of your Department held on February 13, I was regretfully obliged to advise them that I did not feel that their proposed reply to the Chinese Minister of Finance would produce any effective results. I told them that so long as it was the position of your Department that the matter under discussion was political and exclusively within the province of your Department, I would, of course, raise no objection to any reply which you desired to send. I added, however, that if the time should come when the Department of State reached the conclusion that the question was primarily monetary and should, therefore, be handled directly by the Treasury Department, I was ready to proceed vigorously to handle the matter. I pointed out that, as you and I are responsible to the President, his approval of the important steps taken by our Departments within their respective spheres would assure coordination of our activities.

In the light of the foregoing, I will return now to your recent letters. Under date of April 11, 1935, your Department requested the comments of the Treasury Department with respect to a suggestion, which you were informed by the American Embassy at London the British Government had brought forward, to the effect that the American and Japanese Governments, and possibly the French Government, send to their respective diplomatic missions at Peiping a bank economic technician who, in collaboration with the Central Bank of China, would investigate and diagnose the economic and financial ailments of China. Your Department expressed the wish, before attempting to come to a conclusion with regard to the matter, both to be informed (desirably through the British Government) of the views of the Chinese and Japanese Governments and to have the benefits of an expression of the views of my Department. You stated it as your thought, based upon such information as was then available, that if the other Governments concerned approved the British suggestion, the American Government might, after the British appointee has left for China, proceed with the selection of an American technician and that in so doing consideration might be given to the advisability of appointing a financial expert already acquainted with the field of study and, if possible, one who was then in China. Your letter, bearing date of June 10, states that your Department is giving further consideration to the subject under discussion.

In view of the position of the Department of State that the subject now under discussion is primarily political and within its province rather than monetary and, therefore, within the province of the Treasury Department, my Department has refrained from commenting upon the British suggestion. Moreover, if the matter is to be handled as a political one, this Department does not feel that it is sufficiently informed of the political program to express an opinion whether the appointment of a financial expert to the American Legation at Peiping would make possible effective action or would rather involve the danger of leading this Government and that of China into assuming that effective action had been or would be taken as the result of a step which might prove to be of such relative unimportance.

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On the other hand, the doubts which I entertain might be resolved were the State Department to receive from the British Government a clear-cut response to questions made along the following lines:

The American Government, after considering carefully the British suggestion that a financial expert be attached to the American Legation at Peiping, has concluded that such a step would be advisable only if there were grounds for believing that prompt and effective action would result from such an appointment. The American Government would, therefore, welcome an expression of the views of the British Government as to the possibilities of such action, and, if the British Government is of the opinion that effective action will be taken, the American Government would appreciate an indication of the specific measures comprising the program envisaged by the British Government. The American Government would further appreciate an indication whether the problems to be considered by the financial expert to the British Legation are of a political or of an economic and monetary nature, and, if of the latter, whether it is the desire of the British Government that the expert to its Legation should discuss monetary matters of a character other than those peculiar to China.

With the way opened for prompt and effective action from the economic and monetary point of view, the Treasury Department will take such action and send to China, when such a step, in its opinion, is calculated to produce constructive results, the ablest financial expert which it can find. In such event, the Treasury Department would, of course, be pleased to consult and cooperate with the State Department and be guided by your advice upon all related political matters.

Sincerely yours,

Secretary.

The Honorable

The Secretary of State.

JGL/kk

6.18.35

A telegram (No. 262) of June 11, 1935, from the American Minister at Peiping, reads substantially as follows:

During the course of a conversation on June 11 the British Minister referred to Sir Frederick Leith-Ross' appointment as financial adviser to the British Legation and stated that the position and character of Ross showed the importance which the British Government attaches to the matter. The British Minister said that he had informed T. V. Soong and the Nanking Government and that Mr. Soong had replied that the appointment was too late. The British Minister was of the opinion, however, that the Chinese after (?) seeing (?) themselves through the Dragon Boat Festival settlement would be able to carry on for two or three more months and that the arrival of advisers would be helpful as they could appraise the situation and, if a plan should offer, they would be available to confer among themselves and with the Chinese.

The British Minister said that Sir Frederick would not arrive in China before August and that it was the hope of the British Government that the American Government might be able to send a similar expert to be available on the spot in case there should be an opportunity to work out a plan for the Chinese Government's rehabilitation.

The American Minister is of the opinion that the sending to China by the British Government of a man of the caliber of Sir Frederick Leith-Ross indicates that that Government is concerned seriously about China's financial situation and perhaps its effect on British interests in general.

A HAVAS despatch invites attention to Sir Frederick's appointment and connects it with the consortium as showing that the consortium powers are ready to take some financial action looking to the relief of China. Newspaper correspondents in Peiping are interested in the significance of the British move and in our attitude but the American Minister has made no comment. The American Minister believes that soon there will be reactions from Japan.

From statements made to him during his recent visit to Nanking and Shanghai the American Minister is persuaded that the Nanking Government is somewhat desperate over the financial situation and that already a point has been reached where China's paper money may be considered as irredeemable as it is not believed that the Chinese Government has enough bullion reserve or coin to effect redemption. The Minister, therefore, is of the opinion that it is only a matter of a short time before the Chinese Government will be obliged to give up its present plan of maintaining the Chinese dollar approximately at 41. The Minister does not know the significance of Soong's remark to the British Minister that the appointment of technical experts was now too late but states that it may relate either to the hopelessness of China's financial situation or to the Sino-Japanese

situation.

The American Minister is in accord with the British Minister's opinion that if the powers are ready to consider China's plan or any plan for financial assistance it would be advisable to have present in China responsible experts of the type of Sir Frederick Leith-Ross but he (the American Minister) thinks that the sending of such a delegate would be useless unless there is some hope that the presence of such experts will lead to something concrete and he is not able at present to foresee that contingency.

The American Minister remarks that of course we should not forget that the British are in a sense forcing our hand in this matter and he assumes that the Department will see to it that the responsibility for failure be not saddled on us merely on account of the fact that we have no one present capable of examining the situation. On account of the common belief that the American silver policy has affected adversely the entire financial establishment in China the American Government is already in an unfavorable position.

Personal and Confidential.

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The Honorable Henry Morgenthau, Junior,  
Secretary of the Treasury,  
Washington.



My dear Mr. Morgenthau:

Since the past few weeks have been of more than usual interest from an international financial viewpoint, I have thought that you might care to have the following unofficial chronology covering developments as far as Paris was concerned.

On May 24 I cabled you that there was little confidence that the raising of the Bank of France rate, from 2-1/2 to 3 per cent on May 23, could stop speculation against the franc and effectively check flight of capital. I mentioned lack of public faith in the Flandin Government obtaining special powers and using them effectively. That officials were nervous was evidenced by the fact that I was asked by the Ministry of Finance for considerable data on laws enabling devaluation in the United States.

Your cablegram, addressed to me on May 24 and received on May 25, asked that, in view of the situation, I remain in Paris and close to the centers of news over the weekend and report fully.

In my cablegram of May 25, I described in considerable detail the perturbed state of the Paris exchange market and remarked that, while the technical

measures which the Bank of France had taken, including a further raise in the discount rate that day from 3 to 4 per cent, might quiet the exchange market, continued political procrastination might keep it excited until decisions could finally be reached.

There was nothing of special interest to communicate to you on Sunday, but on Monday, May 27, I sent another rather long message indicating that the Paris exchange market was considerably upset and that approximately thirty million dollars had been purchased here that day in flight from the French franc.

On the morning of May 28 I visited M. Cariguel at the Bank of France. He let me know that the Bank of France gold losses on the preceding day had totalled one billion 237 million francs. He also told me confidentially that it had been decided on Monday night that if pressure continued to be excessive on Tuesday morning the official Bank rate would be raised at once to six per cent. The Regents were to meet at 12 noon, in special session, to decide on this point. On this visit, Cariguel said that the Bank of France was determined to do its part in stopping the gold outflow. He was obviously unhappy over the plan of the Government to refer its program to the Parliamentary Financial Committee for consideration, since this would involve delay. Delay bred suspicion, and with confidence lacking hoarders would continue to withdraw gold, irrespective of discount rates.

In my second telegram of May 28, sent at 5 p.m., I confirmed that the Regents had raised the discount

rate to six per cent and other money rates accordingly.<sup>75</sup>  
The immediate effect was a slight lessening in the pressure on the franc, but this relief was short-lived. Demand for dollars was heavy throughout the day, the Guaranty Trust having sold twenty-seven million by 5:15 in the evening. About that time, you telephoned me from Washington, remarking that you had been kept informed upon the financial situation but that information was lacking with respect to the French political outlook. I told you of the communiqués given out during the day by the Cabinet in an effort to check rumors about devaluation and flight from the franc. In a third message, dated 8 p.m., I summarized the proposal which had been made during the afternoon by the Government to the Chamber, asking extended powers with the view to achieving improvement of public finances, the recovery of economic activity, and the defense of public credit. I remarked that the speech of Finance Minister Germain-Martin, who presented the proposal, pictured somewhat incompletely the factors in the situation and gave indications as to the ends to be achieved, but failed to disclose the details of the Government's plan therefor. The project was to be studied at once by the Finance Committee. At 6 p.m. on the same evening, the Embassy sent the Department a political cablegram, No. 440, summarizing developments of the preceding few days.

On the morning of May 29, I visited Cariguel quite early. He said that the net gold losses of the Bank on May 28 had reached a total of 1 billion 171 million francs. Of this, 92 million went to Belgium, 330

million to London, of which part would eventually move to New York, 450 million to New York, and the balance was withdrawn for domestic hoarding. Before I went out to the Bank, I talked with Mr. Saint-Germain, the exchange trader of the Guaranty Trust, who told me that dollar sales here on the preceding day had reached 32-1/2 million. He doubted whether his Bank would be physically able alone to meet the situation if the existing tendency continued. When I arrived at the Bank of France, I found that Cariguel and Saint-Germain had already talked over this matter. Just as I was leaving the Bank of France, Cariguel was called by Governor Tannery.

At 12 o'clock Cariguel telephoned me that he had discussed the situation with Governor Tannery and that they thought it would be exceedingly helpful to them if my people would place at the disposal of the Bank of France up to 200 million dollars. They felt that the practice which had been followed of allotting daily, through the Federal Reserve Bank at New York, a fixed but comparatively small amount might conceivably fail to take care of the situation if pressure on the franc continued to grow. It would be the understanding that there would be no change in the method of earmarking gold automatically as dollars were sold for the account of the United States, the big authorization being utilized in the same manner as a daily allotment. Cariguel told me that he was authorized to speak for Governor Tannery in guaranteeing orally that the gold that might be earmarked would be free for export and that there would be no risk whatever even if an embargo should be imposed.

While I was at the Bank of France, Cariguel had brought up this matter and had even suggested that, if my people were the least hesitant in making available such a large sum, the Bank of France would be willing to ship the gold daily to England. 77

On my way back to the Embassy from the Bank of France, I visited Rueff at the Ministry of Finance. I told him that I had under consideration a recommendation to make in favor of the Bank of France, but I wanted such information as he could give me in confidence in regard to the political outlook and especially as to whether any immediate devaluation or gold embargo was being considered. Rueff assured me that there would be no question of holding up gold earmarked for official account of the United States, even if an embargo should be imposed. He told me that the real test would occur on that day, when the Finance Committee was to consider the project of law deposited the preceding evening with the Chamber. He told me in strict confidence that Flandin had decided that if the Committee at its meeting on that morning should be so opposed to his policies that defeat appeared inevitable he would tender the resignation of the Government that afternoon. While over at the Ministry of Finance, I took advantage of the occasion, and perhaps the circumstances, to prevail upon the Chief of the Office of the Minister of Finance to telephone the Foreign Office in my presence that he would that day transmit to the Foreign Office the data which I had been seeking of him for almost two months, for your utilization in connection with a New York

customs fraud on straw hat shipments, and that the Foreign Office should get the information to me the same night. I received the information on scheduled time. 78

You will recall that Wednesday, May 29, was a half-holiday in Paris, the banks remaining open only until noon. By that hour, however, the Guaranty had sold 21-1/2 million dollars. This showed the seriousness of the situation. The Guaranty trader thought the outlook for the end of the week was most dangerous, but believed that if the Bank of France had authorization to sell 200 million dollars the market could be stopped.

The following day, Thursday, May 30, was to be a holiday on both the New York and Paris markets, but the London exchange would be open. The Bank of France looked to the Guaranty branch in London to buy against dollars such francs as might be offered at London on that day.

On the afternoon of Wednesday, May 29, you telephoned me and I described to you the proposition of the officers of the Bank of France as above outlined. As you were especially anxious to know how the London market was to be taken care of the following day, as to how much gold the Bank of England held under earmark in Paris, and what would be the dead-line for an American decision on the request of the Bank of France, I got Cariguel on another phone and was in communication with him while talking with you. Cariguel said that the Bank of England had roughly about 30 million pounds of gold here. He would like an American decision on May 30; it would be imperative before trading opened on the morning of May 31. During the conversation I also received word over my

second telephone, from the Ministry of Finance, that the 79 Finance Committee had rejected by a vote of 25 to 15 Flandin's project for extended powers, which it had been studying that day, but that he would go before the Chamber to fight the issue, rather than resign. You told me that you would have to consider the Bank of France proposition and that you would call me back at 8 the same evening. You asked me to have Cariguel present.

Throughout the day I had kept in touch with Paris American banks, which reported heavy withdrawals in deposits and difficulty by their depositors in planning to meet their end-of-month commitments. Paris banks had been stripped of foreign banknotes, and gold sovereigns and eagles had been cleaned out of the market in spite of the premium thereon. It was generally understood that the French Government had procured enough funds to pay its employees for May only by borrowing from the Crédit Lyonnais and other big Paris banks. The Guaranty Trust had taken the precaution of shipping out of France all the gold which was being released to it that day. That is, that which could not be placed on steamers sailing from French ports that day was transshipped to England for loading on transatlantic vessels.

At 8 o'clock you telephoned. Cariguel was with me at the Embassy. You said that the Bank of France proposition had been carefully studied and that the United States would take under consideration opening a joint credit to the Bank of France to the extent of 200 million dollars, provided the Bank of England took a quarter interest therein. You said you would be

interested in learning whether the Bank of England would go in to this extent. You had me put this up to Cariguel for a decision as to whether the Bank of France wanted to approach the British. You said that for very obvious reasons you wanted this to be a three-cornered affair. You said that if there were any technical questions the Bank of France could ask them directly from the Federal Reserve Bank. Cariguel raised the point that the British might not have the dollars. You replied that if the British did not have the necessary dollars you would lend them to the British. You let it be understood, however, that you would prefer not to have this situation arise. Cariguel did not want to operate through pounds. It was understood that Cariguel would have to refer the question to Governor Tannery for decision as to whether any approach should be made to the British.

After our conversation with you Cariguel and I walked home from the Embassy, up the Champs-Elysées to the Etoile, near which we both live. You have never met Cariguel. I should explain that he is not the high-strung nervous type of Frenchman. He is a strongly-built, red-faced, cool-headed Breton. He spent several years in London, where he studied economics and was employed by a French bank. He has held his present position as Manager of the foreign business of the Bank of France between fifteen and twenty years. His colleagues in Central Banking circles recognize Cariguel as an excellent technician and a dependable contact. Governor Tannery is said to depend upon him more than upon anyone in the Bank of France for matters of policy

well as technique. Cariguel is frank if he trusts one, but gifted in circumlocution and evasion if he is not convinced of the other's sincerity.

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As we walked home Cariguel was tired and worried. He realized that we were trying to help him and that he would need our assistance. On the other hand he was dubious about drawing the British into the proposition.

The next morning, which was Memorial Day, Cariguel telephoned me at the Embassy and asked if I could come out to the Bank to discuss their decision. I went out immediately. While on preceding days the Bank had been a lively place, with hoarders standing in line awaiting their turn to carry out gold bars in sacks, suitcases or oil-cloth market bags, and with guards with fixed bayonets patrolling every entrance and exit, this Ascension Day morning it was deserted. The old concierge let me in with a tremendous key, and I found Cariguel alone.

Cariguel told me that the Bank of France was as anxious as anyone to see the British stabilize, but that they did not think that they should make an approach to the Bank of England at this time that might be interpreted as a move to force such action. He said that after consultation between Governor Tannery, Under-Governor Fournier, and himself, the opinion was expressed that the Bank of France should not approach the Bank of England with the view to securing agreement from the latter to enter a joint operation with Americans to buy gold from the Bank of France, beginning Friday, up to a total of two hundred million dollars, of which it had been

suggested that the British should provide twenty-five per cent. Cariguel said the Guaranty was operating for the Bank of France on London market that day with comparatively slight need for intervention. He said that the Bank of France felt that the British had been cooperating fully in the past days, buying very large amounts of francs on their own account and earmarking gold when francs were delivered to them by the market. Since sterling is not linked to gold, the Bank of France considered solicitation of British intervention by it as unwarranted. The Bank of France stressed the point that no credit was being sought, but merely the working of the gold standard between two gold standard countries. With Paris banks, with the exception of one, the Guaranty, failing to fulfill their functions to effect gold arbitrage between Paris and New York, the Bank of France was compelled to seek Federal Cooperation to buy gold from it in order to provide dollars, which were necessary to prevent a very grave mishap in the exchange market, which might have most unfortunate consequences on the monetary regime of the country.

The Bank of France renewed its offer to send to England daily such gold as it might earmark for Federal account or offered to earmark such gold for the account of the American Embassy in Paris and/or, if necessary, actually to deliver the gold to the American Embassy in Paris. Furthermore, if it was thought that a French Government undertaking that such gold was free for export in any circumstances was required, the Bank of France was quite willing to obtain it.

The Bank of France emphasized its determination to break the market trend, and felt that by cooperation of French banks toward making borrowing of francs extremely difficult on Friday, which would be end-of-month settlement day, they could do this. They would undoubtedly require important intervention by the Guaranty and would feel much more comfortable if the Treasury could see its way clear to continue its valued and highly appreciated cooperation. If the total suggested, namely, two hundred million dollars, could not be granted, then a generous daily allotment of the character previously granted would be appreciated.

The foregoing explanation of the position of the Bank of France in the premises was given to me orally by Cariguel. I made notes in his office so that there could not possibly be any misunderstanding, and then went back to the Embassy and sent my cablegram No. 448 at 12 noon, in the above sense. I added that upon returning from the Bank I had been told by the Guaranty that in operating on the London market for Bank of France that morning they were required to sell only one-half million dollars. Furthermore, the Guaranty in Paris was selling to the Guaranty at New York its gold in transit so that the Guaranty, Paris, should have available a considerable sum for operations in Paris on Friday. Whether its facilities could control the situation on Friday and over the weekend in view of the upset political and monetary situation was very questionable.

You understood, of course, that in the last few days of the crisis which culminated on May 31, all of the banks which usually arbitrated gold had dropped out of the market because of fears of devaluation or an embargo of some sort, except the Guaranty Trust. This one bank was faced with the difficulty of possibly going beyond the percentage of capital which the French law permits it to have out, without or against security, if it shouldered the full burden of supplying dollars to the Paris market. It was to free its capital as soon as possible, and thus make it freshly re-available on the Paris market that the above mentioned sales were made of transit gold. On the few preceding days the allotments from the Treasury had been utilized in supplying dollars, so as to conserve as much as possible of the Guaranty resources to meet the expected rush of May 31, if your much desired help, through a tremendous sum, might not be forthcoming.

At 5:10 on the afternoon of May 30 I put in a long-distance call for you, but before I got connection your call from Beacon reached me, at 6 p.m. The Ambassador was in my office with me when you spoke. You had not yet received my cablegram No. 448, so I paraphrased it to you.

I also let you know that the Guaranty Trust, intervening at London for the Bank of France, had had a comparatively light day, having been obliged to sell only around 2 million dollars. It was reported that the franc had been fairly strong against sterling. The British Control had not, therefor, bought francs. On the

contrary, it had actually disposed of approximately 10 million francs to arrest the decline in sterling.

I told you that the Ambassador was present and wanted to know if you wished him to take the phone. You then spoke to him and asked him what he thought of the proposition which I had advanced in behalf of the Bank of France. Mr. Straus warned you to go carefully with these people. He also asked whether you could do something to let Mr. Altschul know the resentment on the part of the Bank of France that Lazard Frères were incurring through certain operations, pretending to offer dollars here, but buying them back simultaneously in London.

You stated that you would discuss the subject of the cablegram, and that you would call the Embassy back at 10:30 p.m. You requested that the Ambassador be present at the conversation.

I then told the Ambassador that he and I should come to an agreement on our recommendation to you before you called again. He agreed with me that we could take the risk of a French embargo, but he argued for a long time that we should not pay as much as \$35 per ounce for the gold. I explained that this was our legal price and we could not vary therefrom. He said we would never get that much for it eventually, and that we should pay less in a "distress" sale of this sort. He finally yielded to my views on gold merchandising and we went to our homes for dinner.

At 10:30 on the night of May 30 you called again. I gave you the latest political information, namely, that

Premier Flandin had addressed the Chamber; that his speech had not been well received; that Germain-Martin's resignation as Finance Minister had been announced by Flandin; that Flandin would hold the portfolio of Finance Minister provisionally, pending a vote of confidence; that the chances were strongly against the Flandin Government procuring a vote of confidence; that the Government would probably fall during the night; and that before morning the members would submit their resignation to the President of the Republic. 86

You said that you were considering the giving of a credit of 150 million dollars to the Bank of France and opening a revolving credit of 50 million dollars in favor of the Guaranty Trust, the latter against gold to be delivered to the Federal in London. You asked me if I recommended such a course. I replied that I did, and that I honestly believed that the Bank of France would protect the American position, and that there would be no loss through any embargo. You asked me if the Ambassador agreed with me. The Ambassador told me to tell you that we had argued the question out in the afternoon and that we were in agreement.

You then had the line kept open while you talked with the President. In a few moments you replied that you had spoken with the President and that you authorized me to say to Mr. Cariguel that the President of the United States and the Secretary of the Treasury had sufficient confidence in the Bank of France to open the described credit in the sum of 150 million dollars, and also that the 50-million-dollar revolving credit would

be opened in favor of the Guaranty Trust. In answer to my question, you said that telegraphic instructions were prepared and would now be sent. In answer to a second question, as to whether any statement in regard to this operation would be given out in the United States, you said that no statement would be given out there and that none should be given out in Paris unless it came from the Bank of France. It was up to the Bank of France to decide this point. You asked whether I thought the utilization of such information here would save the Flandin Government. I replied that the situation of the French Government was obviously hopeless and that this could not be utilized at such a late hour.

I added that the Ambassador confirmed my belief that the transaction above described would be carried out from the French side. That is, there would be no failure on the part of the French to meet the terms of the agreement.

The Ambassador then spoke with you and it was further confirmed that no publicity should be given to the arrangement by the American Government either in the United States or through its Embassy at Paris.

At 10:45, in the presence of the Ambassador, I telephoned the above-described message to Mr. Cariguel and also repeated it to Mr. James Nicely, Vice-President of the Guaranty Trust at Paris. Before we left for home the Ambassador impressed upon me that we had just made recommendations involving a considerable sum of money, and asked that I obtain written assurances the following morning from both the Bank of France and the Ministry of Finance that the gold which our Treasury was to purchase would not be subjected to any embargo. I told him that

we already had received as complete assurance as possible, and that the Federal would undoubtedly prescribe all the legal stipulations in its cablegram of instructions to the Bank of France. He asked that I get from the Bank of France a copy of the contract. 88

The Flandin Government was overthrown at 1 a.m., May 31, by a vote of 353 to 202. Contrary to rumors, all banks and markets opened for business on the morning of the thirty-first. With no Government established, and with transatlantic ships booked to their gold limit, the day opened dismally for the franc.

I called at the Bank of France early in the forenoon and found deep appreciation of the message given them the preceding night in regard to Treasury cooperation. Cariguel told me that following my call he had gone to sleep, for the first time in three nights. He said that the Bank of France would now be able to continue to do its part to keep the franc at its gold parity, which it considered to be the Bank's duty. He showed me the Federal's cable of authority, but I sought no copy thereof.

May 31 witnessed a tremendous rush for dollars and, to a lesser degree, for sterling, but with both currencies offered in sufficient quantities to meet offers of francs, the franc rate was held. When the day ended Cariguel telephoned me at 6:30 that 33 million 625 thousand dollars had been utilized under your authorization.

On the following morning I called Cariguel at the Bank of France and found him immensely pleased with himself. He said that with the Treasury's 150 million dollars at his disposal he went out to the exchange market

on May 31, feeling like he had just won the grand lottery<sup>99</sup> told stories, joked with the traders, especially the well known big speculators, loafed around throughout the session, and successfully put over the impression of a man who did not have a worry in the world. He said that we should not judge the seriousness of the threat to the franc by the total dollar business transacted, although 33-2/3 millions was a sizeable amount. He said that the Guaranty resources could have met this sum -- if it had been known that it might not have gone greatly beyond this limit. He insisted, however, that it was only by his bold intervention, offering dollars promptly and fully to every customer, that the mad rush was broken. Had not the right impression been created from the start, the speculators would have swept past the Guaranty limit long before the day was over and a depreciated franc would have been the result. With no Government instituted, and with Reynaud and his increasing followers clamoring for devaluation, this might very shortly have resulted. That is, once the franc had gotten out of hand, an embargo or exchange control might have come, and resultant depreciation would eventually have been ratified. Cariguel did not hesitate to say that the Treasury action saved the situation.

Under date of May 31 Governor Tannery wrote the Ambassador a very cordial letter of thanks for the Embassy's part in the arrangement.

Our telegrams provide you with the story from June 1 to date, including the setting up of the Bouisson Government on the morning of June 1, only to be defeated by two votes when seeking special powers; successive attempts to

constitute a Government, until Laval finally accomplished it and then procured the special powers. During this period the franc fluctuated but the heavy speculation had been broken on May 31. You continued to make funds available to the Bank of France, but the demand for dollars was not excessive and the Guaranty was able to meet it without your funds being utilized.

The gold which you acquired was duly shipped, as soon as space could be procured, and the Bank of France frowned upon any suggestion that it be resold here, when rates became such, before part of it departed, as to make such a transaction possible, with a profit to you. The Bank wanted to carry its contract through to completion. Throughout the period of political upset the Bank of France had used its best efforts toward calling for a Government with ample powers and determination to save the franc. The Laval Government is now formulating its economy degrees, which should begin appearing about July 1. The problem of the franc is not solved, but the recent crisis is passed. The future now depends upon the Government's success in righting the Treasury and budget situation.

On Sunday afternoon, June 16, those Central Bank Governors who are also B.I.S. Directors, met for their usual monthly gathering at the Bank for International Settlements in Basel. At the close of the meeting Governor Tannery issued to the press a communiqué, of which the following is a translation:

AT THE BANK FOR INTERNATIONAL SETTLEMENTS.

THE FRENCH MONETARY CRISIS.

At the meeting of Central Bank Governors which was held June 16 at the B.I.S., the Governor of the Bank of France made a complete explanation of the monetary crisis which has just been overcome in France.

First, recalling that in accordance with traditional policy the Bank of France primarily tried to assure absolute freedom of gold movements, M. Tannery showed that although at times of normal, even very important, exodus of capital the Bank had quite often not even raised the discount rate, it was not at all the same thing when flight was of speculative origin.

At the beginning of the present crisis, which dates from the end of March, no defensive measure was taken because of the moderate amount of gold losses and in order not to neutralize the effect of raises decided upon by the Netherlands Bank.

But while in April and during the first week of May losses had not surpassed 60 million a day, they passed 85 million during the second week, 500 the third, almost a billion the fourth; a total, May 4, to June 7, of 9,900 million, half of it destined to the United States, the other half to Europe.

Confidence crisis, a vast speculative manoeuvre: the latter revealed by the widening of the premiums on foreign currencies, which went as high as an annual rate of 68 per cent, and by active demand for franc credits for purchases of gold and exchange.

The Bank of France reacted vigorously:

- (1) By raising the discount rate from 2-1/2 to 6 per cent between May 23 and 28;
- (2) By an active supervision of exchange movements for the purpose of assuring the free play of gold shipments.

At this point of his exposition, M. Tannery emphasized the importance of the assistance which had been extended him by the American Treasury, thanks to Mr. Morgenthau's broad understanding, which constantly supplied the market with dollars in order to avoid the dangerous consequences of a cessation of gold purchases.

- (3) By strong restriction of credit in the banks. This policy, happily, has been supported by spontaneous intervention by the Bank of England on the London market.

In spite of these restrictions, the portfolio rose in one month from 4 to 8 billion. This figure is, however, lower than that witnessed before the war; and it will be

noted, moreover, that the increase did not surpass an average ten per cent of the presenting banks' portfolios, a proportion which shows the extent of their liquidity. It tends, however, to diminish, and has been reduced by 300 million during the past week. 92

In summary, from May 10 to June 7 the gold stock diminished 9 billion; discounts and advances increased 5 billion; and credit contraction reached 4 billion, 3-1/2 billion due to withdrawals on current accounts and 500 million to reduction in circulation. The relative importance of the decrease in current accounts shows clearly the tightness of the money market, which technically contributed greatly to strangling speculation.

But the crisis was also caused by budgetary deficit, Treasury difficulties, and a lively campaign in favor of devaluation.

Exceptional powers which the Government has obtained will permit it to remedy the budgetary deficit and reestablish public credit.

The Government's decisions are drawn up and the first will soon be made public. They will put a definite end to a monetary and financial crisis which has lasted only too long, and will be accepted by those concerned, these latter realizing, in fact, that a moderate sacrifice is preferable to the total ruin which would result from monetary devaluation.

Thus the hopes of some, the fears of others -- of all those who know that an aggravation of monetary disorders would cause grave harm not only to France but to world economy -- will vanish.

The Governor of the Bank of France ended by reiterating his intention to maintain the normal play of the gold standard and to support the Government's effort by all means within his power, expressing the belief that the success of the French effort contributes toward preparing for reestablishment of world economic equilibrium by currency stabilization and resumption of normal commercial relations between the various nations.

Clarence Streit, who comes to Basel from Geneva each month to cover the B.I.S. meetings for the NEW YORK TIMES, did not reach our hotel until almost 8 o'clock Sunday night. I gave him the above communiqué and told him that it had been arranged for Governor Tannery to accord him a special interview on the subject. Unfortunately the Governor had gone to a Japanese dinner and had not become

available for an interview by 1 a.m., when Streit had to telephone the story to Paris for relay to the Monday morning edition of the TIMES. The nice reference which the Governor had made in the communiqué would have fallen a little flat if the story to the American press did not carry enough color to get it off of the market page. Consequently it was necessary to anticipate slightly Governor Tannery's interview, but he came across in good style the next morning and corroborated everything that you read at your breakfast table.

Some of my friends who were present at the Sunday meeting of Central Bank Governors told me that Governor Tannery referred even more generously in his oral account than he did in the above communiqué to "the importance of the assistance which had been extended him by the American Treasury, thanks to Mr. Morgenthau's broad understanding, which constantly supplied the market with dollars in order to avoid the dangerous consequences of a cessation of gold purchases."

While it is unusual for a Central Bank Governor to give out an individual communiqué with respect to what has transpired at a B.I.S. meeting, I heard no objection to Governor Tannery's action in this instance. On the contrary, the gold-bloc leaders at Basel were delighted to have it made known that the United States Treasury had effectively cooperated with a gold-bloc member when its currency was in danger. These gold-bloc representatives were not unduly prone to interpret this as any significant change in American policy or as any positive alignment of the United States with the gold bloc, but they did draw

much encouragement from the reported assistance. Non-gold-bloc representatives were also glad to see that technical means had been offered towards preventing a currency from depreciating and possibly being devalued. While perhaps there was not uniform and unanimous approval of French monetary and political policies, the Central Bankers at Basel all considered it desirable that a currency should not fall through failure of Central-Bank or gold-standard mechanism to function. That is, if devaluation must come, they hold that the proper way is for the responsible legislative bodies to take the decision, rather than have it forced upon them through any event which might possibly be attributed to faulty management on the part of the Central Bank.

Without passing upon the question as to whether the gold-bloc countries may be able to maintain the parities which they are now struggling to preserve, Basel observers thought that American and British action in preventing exceptional fluctuations or extreme depreciation through the working of their stabilization funds has been in the right direction. That is, if currencies are maintained through such means at their actual parities over a considerable period, de facto stabilization may thus come to pass without any too-conspicuous notice thereof.

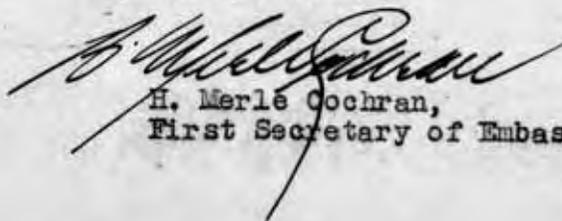
When I returned from Basel on Tuesday morning, June 8, Cariguel telephoned me. He said that the communiqué had gone over exceptionally well in the French press; that correspondents had been seeking in vain for more details; that speculators were trying to draw him out

on the subject; and that it had been remarked in Cabinet circles that the Bank of France seemed to get on better with the Americans than does the Government. Cariguel thinks our cooperation has, among other results, given the speculators a good lesson and politicians a good example.

Press reaction over here to the communiqué has been uniformly splendid, except that certain British papers, most particularly the FINANCIAL NEWS, have tried to deprecate the American cooperation. These are the British papers which have been so forcibly insisting on gold-bloc devaluation. The French press has seen the improvement in the franc and the bolstered French courage that have followed Governor Tannery's Basel revelations.

Whatever may be the eventual fate of the franc, this recent American intervention will stand on record as a timely, effective and appreciated measure.

Faithfully yours,



H. Merle Cochran,  
First Secretary of Embassy.

HMC/P

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 19, 1935

To Secretary Morgenthau  
FROM Herman Oliphant

At your direction, the Legal Department of the Treasury has been working for some months on the legal aspects of the question of additional taxes, and, in particular, on the problems of constitutional law involved.

Attached hereto for the Department's files is a copy of the final draft of the document which was prepared in the Legal Department of the Treasury in cooperation with Dr. Haas and others, and which was submitted to the President as a suggested basis for any message to Congress recommending such taxes.

*Herman Oliphant*  
General Counsel.

The time has come for the Government to make needed major improvements in its tax structure. Looking forward to replacing temporary and emergency levies with sound and permanent taxes and looking forward also to balancing the budget and to reducing the national debt, I recommend for your consideration three measures which will produce substantial revenues for these purposes.

In considering changes in our tax laws, we should, while providing the needed revenues, seek to bring about a fairer distribution of the burden of governmental costs; and we should seek also to eliminate those weaknesses in our tax structure that have incidentally produced undesirable social consequences.

To treat income as a measure of the benefits of government and of ability to pay is a sound and wholesome policy. It should be the guiding principle of permanent Federal taxation. As in the case of many of the emergency taxes which I have asked Congress to extend, the use of other tax measures is often justifiable, particularly for temporary periods;

but, as a permanent policy, taxation according to income provides the most effective means of obtaining just contributions from those best able to make them.

A good government must have a tax system that will produce ample revenue. A just government must distribute the cost of government fairly. The full social consequences of tax laws can not be measured by the revenues they produce. Taxation in any form has many collateral effects throughout our whole economic and social life. Since taxes can not be laid without these collateral results, and since they must be laid, there is a national duty to avoid tax laws which produce undesirable social consequences, and a like duty to correct evils produced by existing legislation as they become apparent. Tax legislation has too often neglected these considerations. The measures which I am recommending are designed, while providing substantial revenue, to remove discriminations and to eliminate some of the major exemptions and special benefits conferred upon particular groups.

I

Handing on vast fortunes from generation to generation is not consistent with the ideals and sentiments of the American people. The desire to provide security for

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one's family is natural and wholesome, but the unchecked privilege to bequeath vast wealth far beyond the needs of security is a growing menace to democratic institutions. It perpetuates concentration of power in the hands of a few over the lives and welfare of millions. Such inherited economic power is as offensive to this generation as the inheritance of political power was to the generation that formed our Government.

Nearly 30 years ago, President Theodore Roosevelt, in laying of the cornerstone of the House Office Building, said:

"It is important to this people to grapple with the problems connected with the amassing of enormous fortunes, and the use of those fortunes, both corporate and individual, in business. We should discriminate in the sharpest way between fortunes well-won and fortunes ill-won; between those gained as an incident to performing great services to the community as a whole, and those gained in evil fashion by keeping just within the limits of mere law-honesty. Of course, no amount of charity in spending such fortunes in any way compensates for misconduct in making them. As a matter of personal conviction, and without pretending to discuss the details or formulate the system, I feel that we shall ultimately have to consider the adoption of some such scheme as that of a progressive tax on all

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fortunes, beyond a certain amount, either given in life or devised or bequeathed upon death to any individual -- a tax so framed as to put it out of the power of the owner of one of these enormous fortunes to hand on more than a certain amount to any one individual; the tax, of course, to be imposed by the National and not the State government. Such taxation should, of course, be aimed merely at the inheritance or transmission in their entirety of those fortunes swollen beyond all healthy limits."

I recommend to the Congress that those receiving inheritances and gifts beyond reasonable exemptions, be taxed thereon at graduated rates like our income tax rates; and, preferably, that these rates be made to vary directly with the recipient's entire income.

## II

My second proposal relates to the tax rates on large individual incomes. The income tax law very properly applies the principle of graduated rates varying with the size of the income, to the end that taxes may be levied in accordance with ability to pay.

But the application of this principle stops at one million dollars of annual income; and, even before this point is reached, our top bracket rates on very large incomes rise very slowly. Thus, while the top bracket rate for a man with a \$6,000 income is

double the rate for one with a \$4,000 income, and the top bracket rates rise from 4 per cent to 54 per cent between taxable net incomes of \$4,000 and \$100,000, the top bracket rates thereafter increase very slowly. From just over \$100,000 to anything in excess of one million dollars of annual income, the top bracket rate increases only from 56 to 63 per cent; and thereafter it does not increase at all, being the same for an annual income of one million and one dollars, two million, or five million dollars.

The principle of fixing the rate according to ability to pay is obviously not consistently applied when incomes approaching or exceeding one million dollars are reached because it is clear that those who enjoy incomes of such size are most able to pay. This source of added revenue should no longer be neglected.

I recommend for your consideration, therefore, that the rates and brackets of our individual income tax be so adjusted as to remove the long-standing discrimination in favor of vast incomes by applying the principle of graduation progressively to annual incomes approaching and exceeding one million dollars.

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## III

The object of my first two proposals is both to increase the Federal revenues and to extend the principle of taxation in accordance with ability to pay. My third proposal is identical in aim, but it relates to the taxation of corporations.

Incorporated businesses, like individuals, should be taxed according to ability to pay. We have all been aware of the growing domination of our economic life by a relatively small number of huge corporate enterprises, which often exercise the powers of monopoly. These giant business organizations are now subject only to the same flat corporation income tax rate as that paid by their smaller competitors. In addition, the dividends that they receive from subsidiary and affiliated corporations are exempt from all Federal taxation. This exemption has encouraged the creation of inter-corporate relationships, the results of which have been most unwholesome in many cases.

The size of some of these huge business aggregations is far greater than that necessary for technical efficiency; and the main object of such undue size has often been to achieve monopoly control and to wield large amounts of economic power. Moreover, there have been many instances of pyramided control whereby a few individuals with a relatively small investment have been able to control the savings of many. The result of this development has been to divorce control from the risks and responsibilities of ownership.

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Our economic stability is jeopardized by such enormous business aggregations, whether operated as a single corporation or group of corporations. Certain rigidities in our economic structure which have retarded recovery are traceable to their existence. Smaller business enterprises, which have always played a vital part in American economic life, have been placed at a growing disadvantage as more and more of our national wealth has passed into the control of a few great units, which have not borne their due share of the burden of Federal taxation.

To meet this situation and to extend to the field of corporate business the principle of taxation according to ability to pay, I propose for the consideration of the Congress the substitution of a corporation net income tax graduated according to size of corporate incomes in place of the present uniform rate of 13-3/4 per cent.

The income tax rate for smaller corporations might well be reduced to 10-3/4 per cent of net income, and that of larger corporations graduated up to 16-3/4 per cent, with such classification of business enterprises as the Congress may deem in the public interest.

As an adjunct to this graduated tax on corporate incomes, provision must be made to prevent evasion of such tax through the device of numerous subsidiary or affiliated corporations, each of which might technically qualify as a small concern, even though all were actually operated as a single organization. The most effective method of preventing such evasions would be a tax on dividends received by corporations.

Moreover, such a dividend tax would provide revenue from incomes which so far have borne no part of the Federal tax burden, since dividends received by corporations not only are exempt from the ordinary corporation income tax, but, when withheld from individual stockholders, escape all surtaxes.

To give time for the necessary readjustments of corporate structures, this tax should begin at a low rate and be increased in succeeding years. Bona fide investment trusts that submit to public regulation and perform the function of permitting small investors to obtain the benefit of a diversification of risk may well be exempted from this tax.

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In addition to proposing for your consideration at this session of the Congress the three changes in our tax policies that I have outlined above, I desire also to recommend certain others for study and future legislative action. The first of these relates to the possibility of discouraging the accumulation of unwieldy and unnecessary corporate surpluses. Another relates to the possibility of encouraging the distribution to stockholders of excessive or unnecessary corporate

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assets already accumulated. And finally, there is the problem of tax-exempt securities, the existence of which provides a shelter from taxation and impairs the ability of State and local governmental units as well as the National Government, to bring about a more equitable distribution of the burden of the cost of government. In this connection, I have asked the Treasury Department to make a preliminary survey of the whole field of conflicting and overlapping taxation. It is now working on this study in cooperation with the newly organized Tax Revision Council, whose members include representatives of Federal, State, and local governments.

There is urgent need for simplification and clarification of our revenue laws, together with a greater certainty and with less delay in their execution. I want to acknowledge the timely efforts of the Congress in laying the basis for many needed improvements in our tax legislation and administration by the careful studies of the organization and operation of the revenue system of our own and other countries which its committees have made.

June 18, 1935.  
Tuesday.

H.M.Jr: Mr. McCormack?

McCormack: Yes. Hello, Mr. Secretary.

H.M.Jr: How are you?

McC: Pretty well, thank you. How are you?

H.M.Jr: I'm all right.

McC: That's good.

H.M.Jr: Look, Mr. McCormack, the President was talking to me about that Fitzgerald up in Boston.

McC: Yes.

H.M.Jr: And I told him that I'd be very glad to sit down with you and with Joe Kennedy and give you the inside picture which I don't think you have, see?

McC: Yes.

H.M.Jr: And I called up Joe and he said he could come at 3:30 tomorrow, and if you care to come down at 3:30 I'd be very glad to confidentially tell you about Mr. Fitzgerald, see?

McC: All right, I'd be glad to. That's awfully nice of you to call and I appreciate it very much.

H.M.Jr: And I - what I'm going to tell you is inside Treasury information.

McC: Yes.

H.M.Jr: And I think it will help you see the picture and I know after you've seen it, I think you'll see - well - at least see how I looked at it. There's a whole inside story there which is not very pretty, which we've kept to ourselves, but the President asked me about it, and he said I think you ought to tell McCormack and Kennedy about it, and he said I think it would make it easier for them.

McC: Yes. Well, all right, thanks. I'll be down at 3:30.

H.M.Jr: Right.

McC: Thanks, Mr. Secretary.

H.M.Jr: Goodbye.

June 19th

H.M.Jr. asked Joe Kennedy to <sup>come over to</sup> see him and that he would explain why James T. Fitzgerald, former Supervisor of Boston, was discharged.

Fitzgerald is an uncle to Mrs. Kennedy and that is why Mr. Kennedy has put up such a fight for Fitzgerald.

Joe Kennedy brought with him Congressman McCormick, who is also interested in Fitzgerald.

H.M.Jr. asked Irey and Helvering to prepare a report which he could read to Kennedy, outlining the reasons why Fitzgerald was let out. (Copy of this report is attached herewith). Steve Gibbons was also present at this meeting.

Congressman McCormick pointed out that Fitzgerald has been a Democrat for 50 years and has given faithful service to the Democratic party. That was all he could say in favor of Fitzgerald.

H.M.Jr. pointed out that it was the Civil Service Commission that fired Fitzgerald and not the Treasury and had Fitzgerald not sworn falsely in the first place about his age he never would have been appointed. Fitzgerald's records show gross incompetence and the situation was so bad in the Boston District that the Treasury had to appoint a capable person to be put in charge and Sidney Sherwood was appointed temporarily in Fitzgerald's place.

Kennedy, all through the meeting, was simply furious and left with the feeling that the Treasury had not treated Fitzgerald fairly. He asked H.M.Jr. if the Civil Service Commission withdrew its letter to the Treasury would the Treasury reappoint Fitzgerald. H.M.Jr. told him that he wanted to go further into Fitzgerald's record and that he would have another meeting with Kennedy.

After the meeting was over, Congressman McCormick went in to see Steve Gibbons and told him that he owed it to Kennedy to put up a fight for Fitzgerald but that he did not care whether the old man was put back or not.

The next day after Staff, H.M.Jr. asked Helvering and Mellott if the Civil Service Commission should withdraw its letter of June 5th in regard to Fitzgerald would they reinstate him and they both very emphatically said "no". H.M.Jr. then asked them why Fitzgerald was not fired long ago if his services had not been satisfactory and Mellott explained that he knew it was a matter of time when Civil Service would fire him and he felt politically it was easier to get rid of him that way.

Irey prepared a further report on Fitzgerald dated June 24th, copy of which is enclosed herewith.

H.M.Jr. talked to the President about his meeting with Kennedy and Congressman McCormick and also gave the President a complete history of the case from the beginning to the end. The President agreed with H.M.Jr. that Fitzgerald ought not to be reinstated.

To please Kennedy, H.M.Jr. arranged for Fitzgerald to be given a 90 day appointment in Customs.

Kennedy met H.M.Jr. at the White House several days later and thanked him for giving Fitzgerald a 90 day appointment and said "perhaps the old man won't live longer than 90 days and then we won't have to worry about him any more".

FORMER SUPERVISOR, BOSTON, MASSACHUSETTS

Prior to his appointment Mr. Fitzgerald was engaged for a period of about thirty years in the business of distributing beer and was a rectifier and conducted a bottle goods store. He openly talks of having formerly been in the liquor business and has been referred to publicly as an ex-saloon keeper and rum dispenser.

In the form 375 filed with his application for appointment he stated he was born April 5, 1869, thereby placing his age below 70 years. The evidence indicates and he admits that he was born April 15, 1861.

He has requested various permittees in his district to give employment to personal friends and has thereby placed a number of persons in such positions and has consequently incurred obligations to the permittees.

He has failed to cooperate with other agencies of the Treasury Department and individual officers who have been sent into his district from Washington. His attitude is curt, impolite, arrogant and hostile. It is impossible to sit down and discuss official problems with him. He is either not interested or does not comprehend the questions and difficulties of his job.

Employees of the office who are believed to be honest have been afraid to talk to investigators from Washington. Some of them, who have requested that their names be kept secret, have stated that Arch McNeil has disrupted the morale of the office by interference in permit matters and by creating the impression that he had "all the men's jobs in his hands."

The principal evidence indicating the incompetency and unfitness of Mr. Fitzgerald for the position of Supervisor is reflected in the person of Inspector Frederick T. Gallagher. This man, who began his association with Mr. Fitzgerald by driving his automobile, soon became his right-hand man and principal confidant, to the extent that Fitzgerald issued orders to other officers and employees of the Service through him. Gallagher might best be described as Fitzgerald's man "Friday". Permits which it was desired be issued were personally made the subject of inspection by Gallagher and favorable report by him. His reports were in some instances untrue, he made favorable recommendations without proper, and sometimes no inspection, and in some instances favorable recommendations were made where unfavorable statements appeared in the reports of former inspections and were of such a nature as to indicate clearly permits should not be issued. In one instance Mr. Fitzgerald personally made an inspection of a plant, in company with Inspector Gallagher, and he issued a permit in spite of the fact that the files showed that the owner of the plant was a bootlegger and had been the subject of unfavorable reports by other inspectors. There was one instance where 100,000 strip stamps were sold on a forged application without any investigation being made, as required by

regulations. This number of strip stamps was probably enough to supply the whole of New England and it was a case in which the office was grossly negligent in failing to have the proper inquiries made.

Mr. Fitzgerald has failed to observe the usual courtesies with reference to confidential communications received by him from the Department with reference to programs and policies of the Department. On several occasions he has sent copies of such letters to members of Congress. In one recent instance a communication was forwarded to him marked "personal and confidential", indicating the necessity for reducing the personnel of the Alcohol Tax Unit. Within twenty-four hours a copy of the letter was in the hands of Congressman McCormick.

Mr. Fitzgerald has proven himself disloyal to the Service and to the Head of the Department. He has addressed personal letters to various persons in which he criticised the administration of the Department severely.

The investigations have shown that in the State of Connecticut, where the association between Arch McNeil and Mr. Fitzgerald was close and Arch McNeil interested himself to a great extent in permits, there was a larger withdrawal of easily cleansed denatured alcohol than in all other states of the New England Division; in fact, withdrawals in Connecticut of this character of alcohol were 83% of the total withdrawals in the entire New England district. There were twenty-one permittees withdrawing this character of alcohol in that State, and immediately after the beginning of the investigation directed by Washington nineteen of these permits were either withdrawn or voluntarily surrendered. Evidence was obtained which showed that promises were made by Gallagher that the permits would be returned after matters had quieted down. The excuses given for the surrender of these permits were lack of business, keen competition, or other trivial reasons, although heavy withdrawals had been made to the limit of the allowance within a few days before the surrender of the permits. It is significant to note that during the first five months of 1934 there were withdrawn in Connecticut 153,540 gallons of such alcohol, whereas during the like period of 1935, after the Departmental investigation, there were withdrawn 12,725 gallons.

The very close connection between Mr. Fitzgerald and Mr. McNeil is shown in the marked pages of the attached report of special agents.



TREASURY DEPARTMENT

WASHINGTON

June 24, 1935.

Memorandum for the Secretary:

It is my opinion that Mr. James T. Fitzgerald should not be restored to his former position of District Supervisor of the Alcohol Tax Unit in Boston for the following reasons:

1. He placed himself under obligations to liquor dealers whose business he was officially required to supervise by requesting them to give employment in their establishments to relatives and personal friends.
2. He granted permits for the withdrawal of large quantities of specially denatured, tax-free alcohol (the types available for beverage purposes) on applications from concerns previously denied such permits without requiring any detailed reports as to the specific uses to which the alcohol was to be devoted; he objected to investigations being undertaken of any of these permittees by other agencies; and when it became apparent that these permittees were to be investigated in spite of his objections many of them surrendered their permits rather than submit their accounts and records to examination and investigation.

The above facts indicate to me that effective administration of the tax laws relating to alcohol cannot be anticipated under the jurisdiction and control of Mr. Fitzgerald.

JAMES T. FITZGERALD  
FORMER SUPERVISOR, BOSTON, MASS.

June 24, 1935.

Mr. Fitzgerald is not qualified under the Civil Service requirements for appointment to the position of District Supervisor, in that he is over the age limit of seventy years. While no birth certificates are available, Special Agent Stayton examined a certificate of graduation from the Elliot Grammar School, which indicated that he completed grade school work on June 2, 1874. This would place his age at at least thirteen years in 1874, and would have made him seventy-two in 1933 when he was appointed. Mr. Fitzgerald later admitted that he was born April 15, 1861, and was therefore seventy-two years of age at the time of his original appointment in 1933. He concealed this disqualification by means of false statements in his own handwriting on his personal history statement, submitted with his application, in which he gave the date of birth as April 15, 1869.

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Mr. Fitzgerald solicited employment for friends with liquor companies and permittees who were subject to his official jurisdiction as Supervisor, and thereby incurred obligations. He admitted his activities in this respect as follows:

- (1) His son was employed by the Felton Distilling Company at Boston, and while Mr. Fitzgerald denies soliciting this employment, he nevertheless had discussions with officials of this distillery as to his son's qualification.
- (2) He sent girls who were friends of his to the various liquor houses in Boston for employment, to wit, S. S. Pierce and Company and Hiram Walker Distillery Company.
- (3) He attempted to secure a position for a personal friend (Tom Boles) with the Northeast Wine Company. Boles was later employed by Jackman and Company, wholesale liquor dealers, owned and controlled by the notorious bootlegger, Ben Lindsey.
- (4) It was a common practice for him to send friends to the Ryan Corporation and John S. Doane Company, wholesale liquor dealers, for the purpose of securing employment.

- (5) He secured a position for another friend in a brewery in Boston.

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Mr. Fitzgerald was curt, hostile, impolite and assumed an arrogant manner toward individual officers sent into his District from Washington and refused his full cooperation with other Treasury Department Agencies. The following instances best illustrate this attitude:

- (1) He seized federal papers from William E. Patterson, Special Agent of the Intelligence Unit and used by Mr. Patterson in conducting an investigation. Mr. Fitzgerald not only rudely seized these papers without asking for them, but examined their contents.
- (2) He refused information on another occasion to Special Agent James Sullivan who was investigating a matter concerning the Supervisor's office, which information was within the knowledge of Mr. Fitzgerald.
- (3) He was very discourteous and refused to afford full cooperation of his office to Special Agent Harry Dengler who was then conducting and supervising a squad of men in an investigation relevant to the Supervisor's office. He told Mr. Dengler in no uncertain terms that his presence was unnecessary in the Boston District.
- (4) He assumed a hostile, impolite and arrogant attitude towards Special Inspector F. E. Philips during his investigation of the Specially Denatured Alcohol situation in Connecticut, part of the Boston District. This hostile attitude was continued even after Inspector Philips had presented proper credentials as to his assignment to function under the direction of the Secretary's office. Mr. Fitzgerald made working conditions very disagreeable and created the impression that he was immune to any official censure and repeatedly stated that his political endorsements were just as good if not better than Inspector Philips'.
- (5) He was discourteous toward Special Agent Walter Murphy when he interviewed Mr. Fitzgerald at Boston in connection with an official matter involving the personnel of the Supervisor's office.

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The principal evidence indicating the incompetency and unfitness of Mr. Fitzgerald for the position of Supervisor is reflected in the person of Inspector Frederick T. Gallagher. This man, who began his association

with Mr. Fitzgerald by driving his automobile, soon became his right-hand man and principal confidant, to the extent that Fitzgerald issued orders to other officers and employees through him. Mr. Fitzgerald assumed complete jurisdiction over specially denatured alcohol permits, and assigned Inspector Frederick T. Gallagher to function for him in this important class of work. Gallagher made inspections and favorable reports on various new applications for specially denatured alcohol, also for increased withdrawals for a number of existing permits against which unfavorable reports had previously been submitted by other inspectors. In the summer of 1933, continuing down through March, 1934, the allowances of certain specially denatured alcohol permittees in the State of Connecticut were increased, and in other instances new permits for large amounts were approved. The files of the Supervisor's office show that twenty-one permits were in existence during this period, and that their maximum monthly allowance and withdrawals of specially denatured alcohol amounted to 31,600 wine gallons. This figure represents a total increase of 22,600 wine gallons per month. Inspector Gallagher personally made investigations on eleven of these permits, which represented increased withdrawals of 22,350 gallons.

It is important to realize the geographical location of these twenty-one permittees in order to appreciate the significance of this situation. The twenty-one permits were all located in or near the four corners of an imaginary parallelogram, the corners being the cities of Bridgeport, New Haven, Hartford, and Waterbury, and the distance between any two of these adjacent cities averages about thirty or thirty-five miles. (Bridgeport is the home of Archibald McNeil). These twenty-one permits, as indicated on the attached Exhibits A and B, accounted for 83% of the total withdrawals in the two formulae 39B and 40, which were allegedly used in a toilet water and hair tonic manufacturing industry. Further comparison indicates that the total withdrawals of these twenty-one permits accounted for 80% of all specially denatured alcohol withdrawn in the entire district covering five states, and used for all industrial purposes.

Nineteen of these twenty-one permits were not in existence between July and October, 1934, during which time this specially denatured alcohol situation was under investigation by investigators from Washington. Inspector Gallagher was again in the foreground on the cancellation or surrender of these permits, and personally supervised the surrender and the resultant cancellations in the Boston office. In most instances the permits were surrendered for trivial reasons such as no business and increased competition, and it is shown in certain instances that Inspector Gallagher dictated the permittees' letters of transmittal surrendering the permits. In many cases a permit would be surrendered on one day and only the day previous the entire current monthly allotment would have been withdrawn and presumably used. The alcohol used by these twenty-one permits has

a very mild denaturant by reason of its use on the human skin, and therefore is readily susceptible to cleaning by slight distillation. During prohibition these two formulas of specially denatured alcohol, 39B and 40, were the main sources for illegal liquor, and close supervision was maintained by the Prohibition Unit over permittees of this character.

It is important to note, however, that Mr. Fitzgerald caused no investigations to be made during the lives of these permits, and it is singular to note that Inspector Gallagher, who made many of the investigations and who accomplished the ultimate surrender of the permits, made no examination or detailed report to Mr. Fitzgerald as to just how tremendous quantities of specially denatured alcohol had been used. The only reports that he would write were very perfunctory, and stated that all alcohol had been accounted for. This is important by reason of the fact that this specially denatured alcohol is tax free when legitimately used in the manufacture of toilet preparations and hair tonics. With twenty-one concerns controlling 83% of the total manufacturing of a particular industry there was bound to be a chaotic condition if these concerns left the industry within a short space of three months. We find no such condition in New England, and no dearth of hair tonics or other toilet preparations by reason of this exodus from the industry. With this thought in mind, the lack of proper investigation when these permits were issued, together with the lack of supervision and accounting when they were surrendered is indicative of negligence in the administration of this matter. Attached hereto are charts indicating the names and the withdrawal allowances of the specially denatured alcohol permits referred to. These exhibits were compiled from the records of the Boston Supervisor's office.

Orderly procedure was not followed in the matter of inspections by Inspector Gallagher or the matter of approval of his reports and the granting of permits or increased withdrawals. Former Chief Inspector Tarr made the statement that in certain cases withdrawals had been increased and permits granted without his ever having seen or approved the reports. Under proper procedure the inspection reports require the approval or disapproval of the Chief Inspector, and the application is either approved or rejected after formal action is taken by the Chief Inspector on the recommendation of the Permissive Assistant Supervisor. Assistant Supervisor Francis Kelly stated that he was generally ignored in the matter of granting specially denatured alcohol permits or increased allowances, and that a number of these cases had been handled entirely by Inspector Gallagher and Supervisor Fitzgerald. The orderly procedure would further provide that after an application was made a memorandum would be prepared by the Permit Clerk, giving whatever information was available in the files with respect to the applicant. In many instances

increased allowances were granted in Inspector Gallagher's report, when the files indicated that the permits should not have been granted due to previous bad record of the applicant, as indicated by previous reports by other inspectors. Inspector Gallagher's reports were incomplete and superficial and in some instances false and they did not provide a proper basis on which affirmative official action was warranted by the Supervisor. In a number of instances reports of Inspector Gallagher bear the approval of Chief Inspector Tarr, but he stated that in certain cases the reports were not received by him until after the permit had been granted by the Supervisor and the Chief Inspector's approval was merely formal to provide a basic record for the action already taken by the Supervisor. He stated that in the latter part of 1933 and the first nine months of 1934, Inspector Gallagher was assigned to the Supervisor, and the Chief Inspector had very little control of his movements. He stated that only in a few cases were Inspector Gallagher's reports routed through his office. In many instances Mr. Gallagher would go direct to the Permit Clerk and issue instructions either for the cancellation or the issuance of a new permit. In ordinary office routine these instructions should have come from the Permissive Assistant Supervisor to the proper subordinate in the Permit Division.

Mr. Tarr referred particularly to the case of the Decmo Products Company, New Haven, Connecticut, where an increase had been granted from 2700 gallons per month to 5400 per month, in February, 1934, as the result of a report of Inspector Gallagher. He stated that this increase had been made after several visits by the permittee to the Supervisor, and that the Supervisor had determined upon the increase. Mr. Tarr stated that he felt this action was clearly unjustified, and that instead of writing "approved" on the inspection report, he merely wrote the word "noted". He stated that his indicated approval in certain other cases was the result of Supervisor Fitzgerald's informing him that he was going to take affirmative action on the application. He also referred to the case of the Continental Trading Company of Springfield, Massachusetts. In this case the application for the permit and the withdrawal form filed with the Bonded Alcohol Dealers all bore the date of April 27, 1934, but there was no report in the files until June 25, 1934, or two months after the permit was in actual operation. Inspector Gallagher stated that he made this inspection at the direction of the Supervisor and reported to him by telephone. Supervisor Fitzgerald personally made the inspection and granted the permit to the Hygienic Pharmacal Laboratory, New Haven, Connecticut, while the permit had previously been denied from reports of inspectors other than Gallagher. The previous unfavorable reports had been due to the fact that the applicant had been convicted of a violation of the National Prohibition Act, and a large quantity of alcohol illegally possessed had been seized from him.

In the fall of last year the permittees involved were examined formally by representatives of the Bureau for the purpose of requiring from them an explanation as to the disposition of the products claimed to have been manufactured from the specially denatured alcohol withdrawn on their permits. Reasonable explanation was not forthcoming. It developed that proper records had not been kept and that proper inspections had not been made. Certain of these permittees stated that they surrendered their permits on representations by Inspector Gallagher that after the pending investigation by the officers of the Bureau had been completed, their permits would be restored to them, and that they might avoid the payment of tax by surrendering their permits.

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Mr. Fitzgerald failed to observe the usual courtesies with reference to confidential communications and has on several occasions transmitted copies of confidential matters to Members of Congress and in other instances, he has openly criticized the administration of the Department. A "personal and confidential" communication pertaining to the reduction in personnel was copied by him and sent to Congressman McCormick.

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In May, 1934, Investigator Joseph C. O'Kane was assigned in charge of the enforcement of Alcohol Tax Laws in Connecticut. In due course he was assigned by Enforcement Assistant Administrator Coyne to investigate charges made by reputable wholesale druggists in Connecticut to the effect that the market was being flooded with illicit alcohol. Investigator O'Kane had barely started with his investigation when he was called on the telephone by Supervisor Fitzgerald who upbraided him for making inquiries with respect to specially denatured alcohol permits. The Supervisor warned Mr. O'Kane that he was to leave permittees alone, that he had the situation well in hand and he told him that powerful interests were in a position to do him great harm. On the same date O'Kane received a telephone call from Mr. Archibald McNeil, National Democratic Committeeman, making inquiry with respect to a brewery matter. At the same time Mr. McNeil told O'Kane that Mr. Fitzgerald had informed him that he, O'Kane, was to be in Boston on Tuesday or Wednesday of the following week. The Supervisor had instructed Investigator O'Kane to report to Boston on the 24th of June but on the day previous he was visited at Hartford by Supervisor Fitzgerald and Inspector Frederick T. Gallagher. On this occasion the Supervisor repeated his warnings to Mr. O'Kane not to interfere with specially denatured alcohol permits. At the conclusion of this conference Mr. Fitzgerald was informed that Mr. McNeil was very much upset at having to wait for the Supervisor but that if the latter would hurry, he could see Mr. McNeil at his hotel. Mr. Fitzgerald left to meet Mr. McNeil

and two days later, on June 26th, Mr. O'Kane received a telephone call from Mr. McNeil from Bridgeport, during the course of which Mr. McNeil told him that Mr. Fitzgerald had told him what had been discussed in their conference the previous day and he said he was very much upset about the matter and he spent \$40 to telephone the Attorney General requesting that Investigators of the Department of Justice be sent to Connecticut to investigate the true conditions with respect to the specially denatured alcohol situation. He said that he had been told by Mr. Fitzgerald to call Mr. O'Kane and to make an appointment for a conference with him and for O'Kane to talk freely and give him the names of everybody concerned. Mr. O'Kane confirmed this appointment by telephoning his Supervisor, and the next day visited Mr. McNeil at Bridgeport. On this occasion Mr. McNeil informed Mr. O'Kane fully as to the subject matter discussed by Messrs. Fitzgerald and O'Kane. During the conversation Mr. McNeil told him that he had obtained the appointments of Investigators McGinness, Russell, Mastrich and Kirby and that Postmaster General Farley had told him that he must "deliver". Mr. McNeil informed Mr. O'Kane that he was on a retainer of \$5000 a year from McKesson and Robbins at Bridgeport, wholesale druggists, and handled all their affairs at Washington, D. C. He said he had been approached on all sorts of matters and he showed him an application of one Thomas Donovan of Waterbury, Connecticut, for a rectifier's permit and also one from Edwin Bove of Old Greenwich, Connecticut. It may be stated that both of these individuals were at that time holders of permits to use specially denatured alcohol but permits were later surrendered while they were under investigation. He also showed Mr. O'Kane a letter from W. H. Truxton of Waterbury, Connecticut, in regard to granting a permit to an individual whose name he did not disclose. Truxton is a bonded alcohol dealer and supplied a number of permittees that were under investigation with specially denatured alcohol. Mr. McNeil was lavish in his praise of Inspector Gallagher, describing him as a big-hearted fine fellow who would give one anything within his power. At about the same time Inspector Gallagher told Mr. O'Kane that four permittees had received increases in allowances on the recommendation of Mr. McNeil and suggested that Mr. O'Kane get in touch with Mr. McNeil.

Archibald McNeil's name appears in the files of many of the permittees and he has frequently attempted to use his influence on behalf of them. It is apparent from the record that Mr. Fitzgerald was unduly influenced by Mr. McNeil in the conduct of his office.

It may be noted that Mr. Fitzgerald granted large withdrawals of specially denatured alcohol without requiring that legitimate needs be shown; that he did not have the proper investigations made to determine whether or not the alcohol withdrawn was being diverted to illegal uses and that attempted to interfere with Investigator O'Kane in his investigation of that matter. He based his official

action in the granting of permits on superficial and incomplete reports of Inspector Gallagher, although in certain cases other inspectors had recommended rejection for good and sufficient reasons. In one instance he personally inspected and approved an application of a permittee who had been denied favorable consideration because of his previous conviction under the National Prohibition Act. This permittee surrendered his permit when an attempt was made to inspect his records. It also appears that he ignored responsible key employees in his organization in matters which normally required their concurrence and that as a result of his irregular procedure his office was constantly in a demoralized condition.

A handwritten signature in dark ink, appearing to be 'J.S.A.', is located to the right of the main text block.

June 19th

H.M.Jr. called the President at a quarter to ten this morning to check the following things with him:

Bell figures that we will need 750 million to carry us through from July 1st to September 15th.

The Open Market Committee meets with Mr. Morgenthau at 11 o'clock this morning. He is going to recommend that we borrow next week 750 million worth of new money on long-term bonds.

H.M.Jr. strongly urged the President to get his tax message up on the hill by 12 o'clock to-day. He feels that it is the psychological moment for the reason that the shock of the President's Tax Message will be over by the time Saturday arrives, when we definitely announce our financing. Then, too, the Finance Committee has postponed its meeting this morning at which they were going to try to boost federal revenue by putting on new levies on the 502 million nuisance tax bill in the Senate. The President's message will just take the bloom off anything this Committee will say at their next meeting.

The President approved of Mr. Morgenthau's borrowing and also agreed to send his message up at noon to-day.

Net

50,000

—

2%

100,000

4%

200,000

6%

400,000

8

600,000

10

800,000

12

1,000,000

20%

1,500,000

25

2

30

2.5

35

3

40

3.5

45

4.0

50

4.5

55

5

60

5.5

65

6.5

75%

7.  
7.5  
8. + over

~~8. + over~~

80%  
85%  
90%

NEW YORK HERALD TRIBUNE

6-19

## Senators Hint Tax Boost on 'Nuisance' Bill

La Follette, Long, Connally  
Make Known Intentions  
for Revenue Increases

Parley at White House

Year's Income Levy Receipts  
Estimated \$1,117,411,000

By The Associated Press

WASHINGTON, June 18.—Plans were made today by liberal Senate Republicans and some Democrats to try to boost Federal revenue by slapping new levies on the \$502,000,000 nuisance tax bill in the Senate.

Approaching the revenue issue from different angles, Senators Robert M. La Follette, Progressive, of Wisconsin, advocate of higher income taxes; Tom Connally, Democrat, of Texas, proponent of heavy inheritance taxes, and Huey P. Long, Democrat, of Louisiana, a capital levy backer, today made known their intentions.

While this move was shaping up on Capitol Hill, a tax talk apparently was in progress at the White House. President Roosevelt conferred for an hour with Treasury and Internal Revenue officials, including Henry Morgenthau jr., Secretary of the Treasury. Those emerging from the conference said the talk involved "Treasury matters."

Meanwhile the income tax thermometer of business activity today indicated a possible rise of \$60,000,000 above January budget estimates for the fiscal year ending June 30. For the twelve-month period, President Roosevelt forecast income tax payments of \$1,000,000,000. On June 15, \$930,336,034 had been collected.

But the Treasury estimate of total June collections on the basis of the first fifteen days was \$972,000,000. Thus far, only \$65,423,413 actually has reached the cash till, although large sums are in the hands of collectors. If the remaining \$106,574,587 of the

estimate comes in as expected, the year's total should reach \$1,117,411,000.

June is the month of second quarter installment payments on 1934 incomes.

Senator Pat Harrison, Democrat of Mississippi, said he would confer with President Roosevelt soon to ascertain the Administration's views on tax legislation. Mr. Harrison is chairman of the Finance Committee, which will consider in executive session tomorrow the resolution to continue two years the \$502,000,000 in nuisance levies. The resolution was adopted yesterday by the House. Mr. Morgenthau sent word to the Mississippian that either he or his representative would appear before the group tomorrow.

June 19, 1935.

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The Executive Committee of the Open Market Committee of the Federal Reserve Board met with the Secretary of the Treasury in his office at 11 A.M. Those present were:

Henry Morgenthau, Jr., Secretary of the Treasury,  
T.J. Coolidge, Under Secretary of the Treasury,  
Marriner S. Eccles, Governor, Federal Reserve Board,  
R.A. Young, Governor, Federal Reserve Bank of Boston,  
W.R. Burgess, Deputy Governor, Federal Reserve Bank of New York,  
G.J. Seay, Governor, Federal Reserve Bank of Richmond,  
M.J. Fleming, Governor, Federal Reserve Bank of Cleveland,  
H.P. Preston, Deputy Governor, Federal Reserve Bank of Chicago,  
D.W. Bell, Commissioner of Accounts & Deposits,  
Geo. C. Haas, Bureau of Research & Statistics,  
C.B. Upham.

Mr. Coolidge said that we ought to have some \$750,000,000 by September 15th. He expressed the feeling that \$750,000,000 is a good deal to ask for on a bid basis and that personally he does not like to sell a big bond issue for cash just now. He is reluctant to give up the bidding method and suggested the possibility of \$500,000,000 on a 3 year note and a continuance of bidding for \$100,000,000 lots. Cash could be adjusted through a reduction in bills if necessary. On the other hand, he said, if we are to stop bidding he would like a large note issue of \$750,000,000 and a conversion of Fourth 4-1/4's. He said he does not like to go through the summer without asking for any bonds.

Mr. Young said that the Executive Committee had talked some among themselves and were of the opinion that we should go ahead

with the bidding. He suggested the possibility of a double proposition later -- the pricing of an issue together with a bid basis offer. He thought the committee was unanimous now for a bid offering of from \$100,000,000 to \$150,000,000.

Mr. Burgess was of the opinion that the Treasury should repeat its bid offer. That would mean a consistent program. The bid program should be slowly developed. The market is in good shape. He said he had been skeptical at the start but now thinks it would be wise to continue. Results on the second offer will be better than on the first. The Treasury will have another string to its bow. He thought, however, that not all new cash should be secured by the bidding method.

Mr. Seay commented that the bonds offered on a bid basis before now show a profit to the bidder or to the secondary buyer.

Mr. Coolidge thought we would get higher bids this time.

Mr. Morgenthau told the group what is running through his mind. He said it is not exactly fear. A few people told him that they like very much the idea of quarterly financing. He feels that the Treasury should take money when it needs it rather than when it is cheap. He commented on the difficulty of certainty in estimating expenditures. The \$750,000,000 which Mr. Bell says he will need is \$400,000,000 less than the estimate given to Mr. Bell by the spending agencies. He said he was frankly a little nervous when the Treasury gets below \$1,000,000,000 cash balance in these times. The French episode might not have gone. A devaluation war might have resulted. It is a comfortable feeling in these difficult times to know that you can turn around for two or three months

without having to go to the market. He instanced the fact that a few days ago the Treasury did not know that the Federal Reserve System had \$150,000,000 notes to turn in -- Mr. Coolidge being away -- and the Treasury broke out into a cold perspiration because of the seeming necessity for a high cash payoff.

Mr. Morgenthau said that no one has criticized us for carrying a heavy balance. People generally seem to expect a dull summer and a good Fall. He is a little pessimistic and not so sure this is right. He does not like to let the balance run down too low but thinks it should be kept at \$1,000,000,000. Shall we offer bonds on a bid basis? Mr. Morgenthau thought no one could say it was a sign of weakness if we asked for new cash now. September 15, 1934 and November of 1933 are not so far back. He said he is a burnt child and will feel better if we get back to a cash balance of \$1,000,000,000, particularly in view of the fact that we can't be too sure about our estimates. He said there might be a war in the Far East tomorrow. We can't tell. He admitted frankly that he has changed his views since the last meeting -- and thinks that maybe we made a mistake and should go back. In any event, he said, the group was entitled to an explanation of his position.

Mr. Young said that he agreed with the Secretary absolutely, that \$1,000,000,000 is the minimum cash balance that should be maintained. He said, and Mr. Burgess agreed with him, that while this attitude may be largely psychological, there nevertheless is good reason back of it.

Mr. Morgenthau said he thought we could sell \$500,000,000 of 2-7/8 bonds.

Mr. Seay asked about the net effect of the retirement of Consols and Mr. Coolidge said that the cash balance would be drawn down by about \$450,000,000. 25

It was agreed that there was a good deal of confusion about how the retirement of the Consols was being handled and it was thought that perhaps it would be well for an explanation but no statement for quotation to be given out in New York by the first of July.

Mr. Morgenthau asked how and when \$750,000,000 could be raised. He suggested \$500,000,000 cash offering, then first week in July and first week in August \$100,000,000 or \$200,000,000 bonds on a bid basis. He suggested the possibility of a \$500,000,000 cash offering of 2-7/8th bonds at 100-1/2 next week.

Mr. Burgess was of the opinion that it was too soon for a big operation in bonds. There have been too many operations recently. The market has taken a lot and there is much still in the hands of the wholesaler.

Mr. Morgenthau asked if July 1 was a good date and Mr. Burgess replied no, that it was awfully close to June 15th and the 4th came in that week. He thought that July 15th was soon enough and that a 3 year note would be a good thing to offer.

Mr. Young thought bonds on a bid basis July 1 and notes on July 15th a good idea.

Mr. Coolidge said the market is expecting a bond. He suggested a \$500,000,000 note issue and bonds at the same time.

Mr. Burgess said it was too soon -- that it would look as if the Treasury does not know its mind. The market would be taken by

surprise, which is always bad. They expect bonds on tenders. It is not just a question of psychology. The trading banks as well as the traders get their portfolio set up on the basis of what they expect.

Mr. Morgenthau said he was surprised that no one had cautioned against a new issue on the grounds that the permanent deposit insurance plan is a disturbing factor.

Mr. Burgess said they care tremendously about that but it does not affect their investment policy.

Mr. Young commented that the Boston bank would lose all of its member banks in Connecticut.

Mr. Seay suggested trying \$200,000,000 on a bid basis at a time.

Mr. Burgess thought that would be a mistake.

Mr. Coolidge suggested \$150,000,000.

Mr. Burgess said the offering ought to be identical with the first -- that a change would make a difference in the price.

Mr. Morgenthau said that wouldn't give him much money.

Mr. Bell said the balance would probably be around \$500,000,000 to \$600,000,000 by July 1st and we might lose \$200,000,000 by July 15th.

Mr. Morgenthau suggested \$100,000,000 bonds and \$100,000,000 notes.

Mr. Burgess said that would be pulling something new and that the dealers have notes on their shelves.

Mr. Seay commented that he had no idea the market was as touchy as that and Mr. Burgess said it is.

Mr. Morgenthau said he wanted a bond instead of a note and he would like to have a bond for the whole \$750,000,000 between now and July 15th.

Mr. Coolidge asked if that meant selling no more bonds until September.

Mr. Morgenthau replied that he didn't know.

Mr. Burgess referred to the conversion of Fourth 4-1/4's as a big operation ahead and suggested that we leave the bond market very much alone. He thought that the part of prudence. He said \$200,000,000 or \$300,000,000 on a bid basis would not do any harm.

Mr. Morgenthau again suggested \$200,000,000 lots on a bid basis and Mr. Burgess said he was sure this should not be done.

Mr. Coolidge said also that if we had a bid offer he would like to have it go as well as possible.

Mr. Burgess said \$200,000,000 would leave a sourtaste but that the market would take \$100,000,000 and like it.

Mr. Morgenthau again said that he would like to combine \$100,000,000 bonds with \$100,000,000 notes.

Mr. Burgess said don't pile it on too fast. He thought the Treasury cash position O.K.

Mr. Coolidge said he was not afraid to do it if we must.

Mr. Morgenthau said he wanted to keep 1939 free for an emergency.

Mr. Bell suggested the open date December 15, 1938.

Mr. Morgenthau commented that he and Mr. Burgess had swapped positions since the last meeting. He asked what the thought was of

confining major financing to four times a year.

Mr. Burgess said that he had never favored that, but that more important than the date is the method. Large offers should be for the most part for subscriptions but not necessarily on quarterly dates.

Mr. Coolidge said he would like to put in a bottom price on bond bids. He would prefer to take \$75,000,000 on a \$100,000,000 offer rather than accept bids below the market.

Mr. Eccles asked if a bottom price didn't indicate what you want and tend to increase the chances that you won't get it.

Mr. Morgenthau said the small banks don't know what to bid but he regarded it as a sign of strength not to have a bottom price.

Mr. Coolidge said he thought the bottom price a sign of strength.

Mr. Young and Mr. Seay expressed agreement with Mr. Morgenthau's view.

Mr. Coolidge said he thought it not important but that it would concentrate the bids close to the market.

Mr. Morgenthau asked for suggestions what to do.

Mr. Eccles favored \$100,000,000 on a bid basis and said we should be prepared to continue that for two weeks, perhaps increasing the amount depending on conditions. He suggested also a \$500,000,000 note between now and the 15th of July maturing in 1939. He said bonds on a bid basis and a note offering are not in conflict together.

Mr. Burgess said the New York market is a big factor. There is a limit of human capacity to deal with two things at once.

Mr. Morgenthau asked Mr. Bell what his <sup>worst</sup> cash balance would look like on the 15th if we had only \$100,000,000 bid bond between now and then, to which Mr. Bell replied that it would be about \$500,000,000.

Mr. Coolidge's hunch is for \$100,000,000 bonds and \$500,000,000 3 year notes at the same time -- the first or the 15th, either one.

Mr. Young said he would wait until the 8th for a note offer.

Mr. Seay said that he would certainly offer the \$100,000,000 bidding bonds but was not prepared to say as to the time of the notes. He thought that could be done together and could be done next week but was willing to defer to the ideas of those close to the New York market.

Mr. Burgess wanted to hold the note offering over until July 8th.

Mr. Preston was for offering both at the same time. He said we have two classes of customers on the <sup>two</sup> securities.

Mr. Coolidge thought a note offer might reassure the people who don't want too many bonds on a bid basis.

Mr. Burgess said there were two objections to a note offer along with the bonds, (1) the notes have not been digested, and (2) it is humanly impossible for telephone operators and market clerks to handle both at once.

Mr. Fleming was for the \$100,000,000 bonds on a bid basis and for waiting to see how the market turns.

Mr. Morgenthau said he didn't like to impose on the committee by asking them to come down too often but that it might be well to postpone definite decision on the whole program for a little while.

Mr. Burgess commented that in the old days these things were frequently decided without any meeting and sometimes without any telephone conversations -- and, he added, sometimes in Pittsburgh or elsewhere.

Mr. Morgenthau said things are not on the same scale now and times are different. He said that the meetings are very helpful to him.

Mr. Burgess replied that they were helpful to them also.

It was agreed that there would be a \$100,000,000 offering on a bid basis next week and that the decision as to a note issue would be deferred.

Everyone but Mr. Coolidge opposed fixing a bottom price for bids on bonds.

Mr. Coolidge asked if it were better to take \$75,000,000 in the case of insufficient bids or to go rather low.

Mr. Seay was for turning down low bids.

Mr. Burgess was of the opinion that there was no need to worry about that.

Mr. Young said he would like to think about it, but he was inclined offhand to say, "take the low bids".

Mr. Morgenthau thought it would be better sportsmanship.

Mr. Burgess said we would get more bids this time than last.

Mr. Morgenthau asked Mr. Burgess if he wanted to sell him any bonds or buy any and Mr. Burgess replied "no", that he was satisfied.

Mr. Coolidge asked if there was any feeling as to the time during which bid offers should remain open. Mr. Morgenthau thought that three days was not too long.

Mr. Young commented that the dealers wait until the last minute and suggested closing without notice.

Mr. Burgess said notice must be given.

Mr. Coolidge said we would get a good price if nothing happens in the coming week to upset the market.

Mr. Morgenthau commented that the Treasury never buys or sells before an issue to affect the market.

Mr. Burgess commented on reports that the Federal Reserve System was converting its long term holdings into short term and said that this is evidence that the Federal Reserve System is not operating for profit.

A group met in the office of Under Secretary Coolidge to discuss the Banking Act of 1935 and the bank recapitalization program. Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,

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

J.F.T. O'Connor, Comptroller of the Currency,

Jesse Jones, Chairman, RFC,

Leo T. Crowley, Chairman, FDIC,

Marriner S. Eccles, Governor, Federal Reserve Board,

John K. McKee, Chief Examiner, RFC,

Sam H. Husbands, Assistant Chief Examiner, RFC,

W.P. Folger, Chief, National Bank Examiner.

Robt. L. Hoguet, Jr.

C.B. Upham.

Mr. Morgenthau asked where Mr. Crowley stood with respect to permanent insurance.

Mr. Crowley reported that they had so far 173 applications for Class A stock. He said some State member banks were threatening to withdraw. There is some agitation among State bank commissioners. A Chicago Tribune story had Illinois depositors frightened. There are two stories from the Hill. One that there must be a joint resolution extending the temporary insurance, the other that the full Banking Bill can be brought out next Tuesday and passed.

Mr. Morgenthau said he thought it important that we all sing the same song and that if we do not that everybody should know it. He referred to the statement that had been issued by Mr. Crowley

and thought the public reaction to it had been good.

Mr. Crowley said that the bill went up on February 6th and that ever since then he had been a messenger running back between the House and the Senate Sub-committee. Title I has been put through with very few changes. Enemies of the bill as a whole are multiplying. The reason Mr. Crowley opposes a joint resolution extending the temporary plan is that you might as well pass Title I now as have the same fight all over again 30 days from now. He is trying to pass the bill now.

There are two elements, he said, those who want no Title II at all and those who want a more radical Title II.

Mr. Morgenthau asked how we could stop the passage of a joint resolution and Mr. Crowley said at least we do not need to advocate it before, say June 29th.

Mr. Eccles agreed with Mr. Crowley absolutely -- that we should not at this time consider an extension of the temporary plan. The Senate can pass the bill fast if they know they must. If we get to June 28th and it seems necessary -- pass a 30 day extension as a last resort. He said the House will not pass a joint resolution extending the temporary plan even then, unless the President requests it.

Mr. Jones said that he was not so hopeful that the bill would be through by July 1 unless split. He suggested that we let nature take its course -- the responsibility is on Congress.

Mr. Crowley said that if there is a 30 day extension it will give non-member banks a chance to get together and withdraw from the temporary fund. The FDIC had 19 withdrawal notices on June 1.

He favors a joint resolution if necessary but is opposed to promoting it.

Mr. Eccles said it would not be so bad to have an extension if the new bill were out of sub-committee but a 30 day extension now will just give the sub-committee 30 days more to keep it buried.

Mr. O'Connor said that he had taken the same position since January and knows that he is in the minority. If the 3 Titles are left together there will be no banking legislation. He made the suggestion that we look at the practical side of the situation and the effect on the Treasury today. He said that if the bill were reported tomorrow by the sub-committee it would be absolutely impossible to pass it before July 1.

Mr. Jones asked why.

Mr. O'Connor said because it was necessary for a conference between the two Houses. In the Senate there are two oppositions, one made up of those who are fighting the President on everything and the other made up of those who are fighting the bill for particular reasons. We must be prepared for permanent insurance on July 1. The Comptroller must appoint a receiver for one National bank in Englewood, Illinois which is 100% liquid. The President of this bank would welcome action by the Government to close his bank.

Mr. O'Connor pointed out that while under general law the Comptroller is not required to appoint a receiver for a bank that is insolvent he must appoint a receiver for every national bank which on July 1st has not become a Class A stockholder in the FDIC even though solvent and wholly liquid.

Mr. Morgenthau asked Mr. O'Connor his opinion about a joint resolution extending the temporary plan.

Mr. O'Connor said he agreed with Mr. Crowley that a 30 day extension would be no good -- we would have the same problem at the end of 30 days.

Mr. Jones asked Mr. O'Connor what he would do.

Mr. O'Connor replied that he would get Title I out and pass it.

Mr. Morgenthau commented that the President opposed doing this.

Mr. Eccles said that he certainly opposed separating Title I.

Mr. O'Connor said he was for saving the country against any man's opinion -- that he does not like to see a crisis develop which will undo everything that the Administration has done for the banking system.

Mr. Coolidge said everyone had agreed that they don't want the permanent plan now on the books. He favored an extension of the temporary plan just beyond the time when Congress can be expected to adjourn.

Mr. Morgenthau referred to the \$500,000,000 tax bill renewing levies expiring June 30th. The Treasury did nothing in that situation. The Chairman of the Ways and Means Committee took the responsibility, put through a gag rule, the Secretary was not even asked to come out and the situation was taken care of by Congress.

Mr. Morgenthau said he would talk with the President this afternoon or tomorrow and let everyone know the result of his conversation. He thought it might be well for the balance of the week, at least, to let nature take its course. Pending a message from the President, he thought there should be no division of opinion from

the group on a joint resolution. He said he thought it very bad for some to urge action and others to oppose publicly.

Mr. Morgenthau referred to the conference which he had with Senators Fletcher and Byrnes and the idea sprung on him at that time by Senator Byrnes that the Board should choose its own Chairman. He recounted that he had told Senator Byrnes that he thought the President should choose the Chairman and that the Comptroller and the Secretary should either both be on or both off the Board. He thought it important on questions of this kind which might be asked of other members of the group that there should be agreement and uniformity of answer.

Mr. O'Connor commented that he didn't find so much opposition to the permanent plan now on the books -- that the big banks say since all of their deposits are being assessed all of their deposits should be insured.

Mr. Coolidge asked if the group had agreed to oppose new suggestions for inclusion in Title II or is it still open for amendment.

Mr. Morgenthau said he thought it was still open on the question of the "population" of the Open Market Committee. He said that if any one of the group wanted to have a meeting of the group to call Mr. Upham and ask him to arrange one.

Mr. Crowley said he thought there was great danger of anyone in the group stirring up the House -- that it will cause difficulty after Senate action. The House may have to back up a little and they had better be left alone.

At this point, Mr. Morgenthau left the meeting.

Mr. Eccles said the House will not pass the joint resolution proposition unless the President asks for it.

Mr. Crowley said he thought the House would.

Mr. Coolidge commented that there are only 9 working days left before us to get the bill through July 1.

Mr. Crowley said the two sides are not far apart and they can get agreement in a hurry.

Mr. Coolidge said he thought it impossible to get the bill signed by July 1st and thought the temporary plan should be extended.

Mr. Crowley said that if the bill were in conference by July 1 it would be alright to put Title I through separately.

Mr. Coolidge, said, whatever happens don't put the permanent insurance into effect.

Mr. Crowley said, don't let's fool ourselves -- that it can't be done, and that if it were it would wreck a lot of institutions.

The group then turned its attention to the bank recapitalization program and went over a list of banks which had been prepared by Mr. Hoguet. Individual banks on the list were taken up and discussed and RFC commitments made on a number and others given over to disposition by the FDIC.

N.B. On June 20, at the request of Secretary Morgenthau, Mr. Upham notified Messrs. Jones, Eccles, Crowley and O'Connor that the President favors letting nature take its course.

Dictated June 18th

Sunday night, June 16th, for supper had Oliphant, Haas and Robert Jackson and went over the proposed message on taxes for the President. Just as soon as the men told me that these suggestions for new sources of revenue might produce three quarters of a billion dollars, I saw the danger that Congress might "grab" this money for some unwise purpose - such as the bonus. I, therefore, suggested that the speech should start out with the following sentence, "Looking forward to the balancing of the budget, etc. etc." The three men were most enthusiastic about this suggestion as they felt that not only was it a wise suggestion but it would take a great deal of the curse off the message and would also attract certain friends to it who, lacking the reference to the balancing of the budget, would be opposed to the interitance tax.

The President saw me promptly at nine o'clock and, to my surprise, again found Felix Frankfurter there as he had also been there on the previous Thursday evening when after dinner the President took Felix Frankfurter and myself into a room and went over an early draft of the tax message plus a revised draft by Ray Moley. Thursday evening the President told me that he did not want to include inter-corporate dividend taxes. I argued with him at that time and convinced him sufficiently that he said I could include it amongst the four principals of new taxation that he would ask for but to put a question mark after it. In going over the tax message Frankfurter contributed very little other than reading some Canadian document on business and taxes.

I broke up the Thursday meeting by saying to the President, "if you will give me the Treasury draft plus Ray Moley's we will be glad to go over it once more and prepare a final draft for you. When would you like to have us bring it back?" He said, Sunday night. I think I pulled a fast one because I believe that Felix Frankfurter was there for the purpose of whipping the message into shape and I am sure that Moley expected to put the touches on the final draft. We had been invited to dinner for Thursday night to celebrate Bobby Fitzmaurice's birthday and I did not have the slightest notion that the President was going to go over his tax message. As a matter of fact the Treasury draft that he used was one of our first drafts and we had waiting for him for some time a later improved draft.

The President's attitude was most peculiar all thru the meeting Sunday night. He constantly turned to Felix Frankfurter for admiration and approval on everything that he said.

He was constantly showing off and doing it in a rather unpleasant manner seemingly for the benefit of Felix Frankfurter. After seeing Felix Frankfurter at several meetings I find he always uses the President, and constantly plays up to him in a rather bootlicking, "schmeichling" manner. As a matter of fact, Felix Frankfurter irritates me and I am sure I am not at my best when he is there.

Before the President started to read the message I said, will you put in this sentence and keep it in mind while you are reading the whole message and when you are half way thru I will be glad to argue with you as to whether the following sentence should be used or not. The sentence was "Looking forward to balancing the budget". The President thru back his head and roared and said, we have Lew Douglas with us again. I did not answer and he made several sarcastic wise cracks and I kept saying very quietly but forcibly, just keep the sentence in mind, "Looking forward to balancing the budget". We then went thru the whole speech and again he gave us a long argument why the tax intercorporate dividends did not belong in the speech. He says it is a separate issue. The man on the street would not understand it. My gang all stuck by our guns insisting that that remain in. Unquestionably the President has some ulterior motive for leaving it out and repeatedly at Cabinet when the Vice President would bring up the question that we must do something to break up the big business the President would always turn to me and say, Henry has the answer and he will use it at the right time.

We then came to the point where we showed him what the revenue figures would be and again the President argued against saying anything about balancing the budget and when he got a little bit too sarcastic I said very quietly, I remember, Mr. President, that on July 2, 1933 in your message to the London Economic Conference you saw fit to tell the world that they should individually balance their budgets - and I must say that he took it rather well - and as Oliphant told me after the meeting, I certainly had my nerve with me. The President then said, let us put it this way, we will use the money from the inheritance tax to decrease our public debt. (Dan Bell subsequently told me that this was neither feasible or legal).

When I got up to go, I had been very quiet, the President grabbed hold of my arm and said, I have been having a grand time teasing Henry all evening. Has it not been fun? That was his way of showing me that he knew he had been unnecessarily unkind and felt sorry.

Tuesday we had a meeting in my office and we thrashed out this whole question of what was the best use to make of the money of inheritance taxes. We all agreed that if we

followed the President's suggestion - on the one hand to use the money to retire the public debt and then - on the other hand went out and spent an equal amount and had to raise additional taxes for that purpose, it would not do anybody any good. While on the other hand this money was used to replace the nuisance taxes which are all consumer taxes that we could look forward to balancing the budget, and with the President indicating where he was going in connection with taxes and the budget, would have a most wholesome effect.

We all went over to see the President at two o'clock and I took Danby Bell along in order to answer any technical questions about retiring the public debt or balancing the budget. Just before I went in Herman Oliphant showed me a cartoon from the St. Louis Post Dispatch of a drawing of a horrible ogre leaning over a shivering little business man - the ogre saying, "The British inheritance tax balances their budget, why can it not do the same for us". Quick as a flash I saw how to make the best use of this cartoon and we pasted it inside of the second page of the tax message. When the President saw it he just roared with laughter. He then went on and read what we had about "Looking forward to balancing the budget", asked where we got the words "Looking forward" from and had he not written a book called "Looking Forward" - and that ended the discussion. I think the cartoon did the trick.

We then had further discussion and he said that Joe Kennedy had talked to him the day before and pointed out the fact that the stock market was in a very weak technical condition after a rise of 20-25% that it might go down at any time and that his message might be the straw to break the camel's back and set the whole stockmarket on the downward toboggan and the President would get the blame. He asked us what we thought about it. I strongly advised him to disregard the story and get his message up as soon as possible. He said he would try to get it up by Wednesday noon. He argued some more about tax on intercorporate dividends and wanted to bury it in the message so that it would look as though we were going to use this new device to keep corporations from tax evasion. I argued with him that he should not bury it but should take full credit. I do not know which he will do. He certainly is opposed to a tax on intercorporate dividends.

The President called me and said he had just seen Harrison and Doughton. Harrison asked him to postpone his tax message until after he passed the Security Bill this afternoon and then wait until after he passed the five hundred million dollar miscellaneous tax bill some time tomorrow. The President agreed to wait until he passed the Security Bill between two and three this afternoon and then insisted on sending his message.

The President told me that he worked on the tax message alone after he saw the movies last night and has changed the whole message, leaving out my statement about the budget. I had the same argument with him that just retiring the public debt would not help to balance the budget and he could not see it. I said after all, Mr. President, I only ask you to mention the fact for six months that you are looking forward to balancing the budget - that is not asking very much of you. He laughed heartily and said maybe I will reconsider it and put it back in - but I know darn well he will not.

I called McIntyre and asked him to ask the President whether he would back the Treasury in its fight against the movement on the hill to permit the sale of bulk liquor. McIntyre said he would let me know before tonight.

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Governor Harrison called up and told H.M.Jr. that the Bank of France had approached the Paris office of J. P. Morgan and Company, New York, and requested that they ascertain if possible through their New York office whether or not the Spanish Government or the Bank of Spain had approached any bankers in New York for a credit. Governor Harrison stated that it seemed natural that the Bank of France would approach J. P. Morgan & Company for this information as J. P. Morgan & Company had arranged and headed the syndicate which granted the last loan to Spain in the United States. Governor Harrison stated that as far as could be learned no inquiries for loans had been received in this market either by the Federal Reserve Bank or other banks and if Mr. Morgenthau was agreeable he would like to inform J. P. Morgan & Company whether or not the United States Treasury had been approached in this connection. Mr. Morgenthau said that the Bank of France had a perfectly clear and well established contact with the Treasury through the Federal Reserve Bank of New York and he thought that if they wished any information or news from the Treasury they should approach us through that channel and not through any other banks or bankers. He therefore suggested to Governor Harrison that the Federal Reserve Bank make no comment to Messrs. J. P. Morgan & Company as to what the Treasury might or might not be doing.

June 24th

H.M.Jr. telephoned Congressman Doughton this morning and he agreed to come down to see Mr. Morgenthau in regard to the Federal Alcohol Control Bill.

At the 9:30 meeting this morning H.M.Jr. discussed this bill with our group.

Graves explained the bulk sales of distilled spirits and said that Doran informed him that the distillers do not want to sell any liquor in bulk as there will be a substantial danger of increasing illicit sales and they, of course, would be the losers. He also explained that the enforcement difficulties would be tremendous. He said that the people who started the interest in bulk sales of liquor is the Pioneer Cooperage Company of St. Louis, Missouri. That company, he understands, has never sold a barrel to the distiller. Graves suggests that Irey make an investigation of this company.

H.M.Jr. asked Graves to work with Crowell on preparing a statement on the sale of bulk liquor. A copy of this statement is attached in summary dated June 18th enclosed in this book.

Hester talked about the bill that we have before the Judiciary Committee, the Federal Alcohol Control Bill and what they attempt to do.

The first bill enforces the 21st Amendment. This bill gives protection to dry states - such protection as dry states may want. Any state that manufacturers liquors containing up to 3.2% is considered a dry state and we prohibit transportation of liquors into that state.

The FAC Bill provides for a permit system and if they violate the 21st Amendment the permit is revoked.

Mr. Morgenthau inquired what the difference was between the FACA Bill (Choate Bill) and Doughton's bill and Hester informed him that the Choate Bill contains our bill to enforce the 21st Amendment and the Doughton Bill does not. Choate's Bill provides for an independent establishment responsible to the President and the Doughton Bill places it in the Treasury.

In other words, the Doughton Bill dropped the 21st Amendment, which we like. Doughton put in bulk sales and Doughton made FACA a Division of the Treasury. On the bulk sales thing H.M.Jr. said he would fight this to the end and he did not feel that he would have trouble with Doughton.

As to having FACA a Division of the Treasury H.M.Jr. said, "I have been against this from the very start; our men have made these statements repeatedly on the Hill; I have made them at Press Conferences and I have told it to Choate, Doughton and the President. This is something between Doughton and the President and I cannot come between these two men. They will have to come to a decision. It is up to the President to say where he wants FACA put and this question is not nearly as important as the sale of bulk liquor."

Upham said that the talk on the Hill is that the President told the Ways and Means Committee that this bill should be in the Treasury and they cannot understand why H.M.Jr. and the President should disagree.

\* \* \* \* \*

Doughton came in to see Mr. Morgenthau at 10:30. After he left, H.M.Jr. called in the 9:30 group again and said, "Doughton feels that FACA should be in the Treasury. He suggests that we try it and if the thing doesn't work out we can always change it."

Then H.M.Jr. gave him a long talk on the barrel business and explained the difficulties we would have. He also told him that this is something on which he felt very strongly and Doughton said that he could not commit himself. He asked H.M.Jr. whether he would come up on the Hill and talk to the Committee to which he replied that he would come at any time.

Doughton told Mr. Morgenthau that the President never said he wanted FACA in the Treasury.

H.M.Jr. told Doughton that if he came up on the Hill he would have to say that he did not want FACA in the Treasury. and Doughton told him to say just what he wanted to. H.M.Jr. added, however, that if Congress and the President decided that it should go in the Treasury he would be ready to carry out their orders but he did want to state before the Committee that he didn't feel it should be in the Treasury.

Doughton was very friendly and said that he and Mr. Morgenthau just had to get along - that they could never fight.

BULK SALES OF DISTILLED SPIRITS.

Whiskey and other beverage spirits produced at distilleries is placed in oak barrels, commonly of 50 gallons capacity, for storage and aging. Production is now at the rate of approximately 15 million gallons monthly. At the present time, 150 million gallons of beverage spirits is in bonded warehouses, and virtually all is in oak barrels.

Under existing restrictions, beverage spirits may not be sold to distributors, or to consumers, except in or from glass or earthenware bottles. Spirits may be bottled for the retail trade only by the distillers themselves, or by rectifiers who buy in barrels from the distillers. The total number of distillers and rectifiers is less than 700. In other words, there are fewer than 700 places at which spirits may be taken from barrels and placed in bottles for sale to distributors. All these places are attended by Government officers, and all bottling operations are carried on under their supervision. At the time of bottling, bottles containing spirits must be marked, labeled, and stamped in accordance with Treasury regulations and under the supervision of Government officers.

The pending bill would authorize the sale of beverage spirits in barrels and kegs not only to wholesale dealers, and to hotels, clubs, restaurants, tap-rooms, and package stores, but to the public generally. It would permit the bottling of spirits by wholesale liquor dealers, of whom there are now almost 5,000. It would allow wholesale dealers to transfer whiskey from the original 50-gallon barrel to 5-, 10-, or 15-gallon kegs, for sale in these smaller containers to retail outlets, and, through them, to the public generally. It would authorize wholesale dealers to sell liquor to taverns, restaurants, hotels, and clubs, either in the original 50-gallon barrels, or in 5-, 10-, or 15-gallon kegs, and it would permit these places to serve their customers from these barrels and kegs. It would allow any person to buy liquor, and have it in his home for family or personal use, either in the original 50-gallon barrels or in kegs or barrels of smaller capacity.

The Department's objection to this proposition obviously rests on the ground that it would destroy all effective safeguards against traffic in bootleg liquor by unscrupulous wholesale liquor dealers, proprietors of hotels, taverns, and tap-rooms, and private persons.

At the present time there are approximately 5,000 qualified wholesale liquor dealers in the United States, and more than 200,000 qualified retail dealers, all of whom, under the pending bill, if not prohibited by State law, would be eligible to deal in bulk liquor.

June 25th

I called the President to-day and told him that our boys will go up on the Hill and work with them along the lines that they want. I asked him whether they should offer them the plan treating inheritance as annual income.

The President said, "I think they should say this. That before a final decision is made by the Committee we wish to call to your attention the other method - treating inheritance as though it was annual income".

\* \* \* \* \*

H.M.Jr. called the President and told him that Pat Harrison wanted to know whom we could send up to help him and H.M.Jr. said that he would send up Oliphant.

H.M.Jr. then told the President his experience before Doughton's Committee on liquor and how he had sent out to buy four bottles of liquor to prove to Congressman Fuller that they could be purchased at \$1.00 a quart. He also told the President that after the performance Charlie West said, "now I know why Doughton's Committee loves you so".

H.M.Jr. told the President that he thought we have won on bulk liquor but that FACA would probably have to be part of the Treasury; that the Committee is very sore at Choate. The President said, "they are right in a way because they do not want any more independent agencies".

H.M.Jr. told the President that Bob LaFollette called and that things seem to be moving right along now inasmuch as Senator Harrison asked us to send our experts up on the Hill.

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H.M.Jr: - Jeff being away, normally I'd let him handle this, but I'm going to ask your advice. We get information at the Chase and the National City and each loan is the Government of Mexico - the Bank of Mexico - two million dollars against gold in Mexico.

Gov. George  
Harrison: That's right.

H.M.Jr: Well -

H: I just heard it this morning myself.

H.M.Jr: I don't think that's so hot.

H: Well, I think they were forced to have done it, as I understand the facts -

H.M.Jr: Yes.

H: - and I'm going to ask them to come over today and tell me what it's all about.

H.M.Jr: Well, now, let me - George, tell me this. The proper way for me to do it is through you because the loan is to the Central Bank of Mexico.

H: That's right.

H.M.Jr: Isn't that right?

H: That's what I understand.

H.M.Jr: Well, then - then you are going to see them?

H: I'm going to see them, although I don't think it's - as a banking matter, I think it's poor. I shouldn't think it would worry you very much so, I mean you're not concerned about the point of the Treasury.

H.M.Jr: I'm worried about it from two standpoints. In the first place, I think it's poor banking and the second place, it interferes with our silver program.

H: It what?

H.M.Jr: It interferes with our silver program, see? It interferes with a normal sale of silver by Mexico.

H: Yes.

H.M.Jr: Now, what I wish you'd do after you get this cleaned up. I don't want any National Banks operating in gold, speculatively or any other way in any foreign country and Jeff told me he took that up some time ago with the banks. I mean in London or Paris. I'd feel badly if they were doing what Norman had to get out rules and regulations to

tell them not to do.

H: Yes, but of course, we have no evidence that that's true. I doubt if it's for speculative purposes. But - I mean we've got to assume that the Central Bank is borrowing on gold for speculative purposes.

H.M. Jr: Well, there's some very funny things going on down in Mexico.

H: Yes, but I am going to - I'm going to see what it's about. All I'm going to do is give them an opportunity at first to explain to me what the hell it all is.

H.M. Jr: Right.

H: And then I'll get in touch with you when I hear.

H.M. Jr: And if you think it's wise you can tell them that you're going to tell me.

H: Yes.

H.M. Jr: That I'm interested.

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

H.M. Jr: And then, after that, let's find out if there's any way that we can find out if any American Banks are operating in gold in other countries.

H: Well, I checked up with Norman on that and asked him if he would let me know if he found any of our banks either directly or indirectly operating on gold over there. He said that he was quite sure they were not.

H.M. Jr: Good.

H: And that if he found any evidence or anything of that kind going on he would cable me.

H.M. Jr: Right.

H: I've got a complete check with him on it.

H.M. Jr: Fine.

H: And we've checked up pretty well here and this is the only case where we found that they are doing it here.

H.M. Jr: Well, you know how we found out -

H: I know how you found out.

H.M. Jr: Well, I think I know how you found out. Through our inquiry, didn't you?

H: What?

H.M.Jr: You found it out when Loehhead inquired yesterday -

H: Yes, I think so.

H.M.Jr: Yes, well, we got it through the Commercial - our Commercial Attache at Mexico City.

H: Yes. All right, Henry. I'll get in touch with you later on.

H.M.Jr: Thank you.

H: Did you get my memorandum, by the way?

H.M.Jr: I did. I read it hastily and I'm going to read it again.

H: Yes.

H.M.Jr: Yes.

H: All right, Henry.

H.M.Jr: It was very, very interesting.

H: I wonder, would you have any objection to my sending a copy of that to Hull. He asked me the last time I was down here whether, if I ever had a memorandum on silver, I'd let him have it.

H.M.Jr: None whatsoever.

H: What?

H.M.Jr: I have no objection at all.

H: And I'll just tell him that it was a memorandum that we prepared here informally in the bank. I don't want to send it if you don't want me to. On the other hand  
about two weeks, three weeks ago.

H.M.Jr: I have no objection.

H: All right, Henry.

H.M.Jr: None at all.

H: All right.

H.M.Jr: Goodbye.

H: All right.

June 25th

H.M.Jr. said to Miss Roche to-day, "I have put up the best fight to keep FACA out of the Treasury. The chances are that this will come over here. If it does, I want to place it under you. It is social and health."

Miss Roche said that she would think it over.

Dictated June 26th

Coming down on the train from Hyde Park Sunday I told the President about the letter which I had received from Ickes in connection with the San Jose Post Office. (Letters attached). I thought it out in advance just what I would say to the President and told him that I was very much hurt at the tone of Ickes' letter and that it seemed entirely unnecessary and uncalled for, for him to have written that way to me. Quick as a flash the President said, I will get you a copy of the Glavis letter. Then he said, send me over a copy of Ickes' letter to you. I protested several time and he finally said, no, I want to see it and that is of course what I wanted to happen. I sent it over Monday morning.

Also, over the weekend I had carefully thought out that it was useless for me to attend the Allotment Board meetings as I could only make suggestions to the President on scraps of paper or whisper in his ear but had no vote at the board meeting. I also figured out that the policy that he was following was not at all the policy that had been laid down, namely that allotments of money should be made to a community or state only after unemployment needs had carefully been studied and they should not be made the way the old P.W.A. allotments were made, namely, on a project basis irrespective of the unemployment needs of that community. Up to date practically all of the allotments have been made on a project basis. This method of allotting money cannot continue and put 3½ million men to work. Some day there will be an explosion and I gather from bits I hear that we are going to have a glorified C.W.A. My position and usefulness if I did not attend the meetings is far stronger as I can perfectly well hear the President say when I protest in a couple of months from now, well, Henry, you attended all of the allotment board meetings, why didn't you speak up. So coming down on the train I very quickly told him that I would like to be excused and he looked at me rather quiscially and asked why and I said, shy I get too blue at the meetings. He said, all right, if anything important comes up that affects the Treasury I will let you know and you can come to that particular meeting. I was all ready for a knock out drag down fight with him in case he insisted on my coming to the meetings but he did not.

Monday at lunch I showed him the report on Fitzgerald of Boston. I had a half page summar which he read and then much to my surprise he went on and read every line carefully of the nine page report prepared by Irely. After reading it he said, well, there is no question about it. You can't take that man back. He said if for no other reason that he had sworn falsely as to his age at the time he had is application.

June 24, 1935.

My dear Mr. President:

I am sending you herewith, with reluctance and only after you insisted that I do so, photostats of three memoranda:

- (1) Your memorandum to me of June 19th.
- (2) My memorandum to Harold Ickes, and
- (3) His answer to me.

Inasmuch as Ickes' organization has raised a question about graft in connection with the post office at San Jose, I naturally want to get to the bottom of any charges and, therefore, would appreciate your securing for me a photostatic copy of Glavis' memorandum that has to do with alleged graft at the San Jose post office.

Respectfully,

The President,

The White House.

THE WHITE HOUSE  
WASHINGTON

PRIVATE & CONFIDENTIAL

June 19, 1936.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

"Two or three days ago the Secretary of the Interior gave me a memorandum from Mr. Glavis stating that he had received information alleging irregularities in the construction of the San Jose Post Office." As this building is constructed wholly from Treasury funds and by the Procurement Division, I asked the Secretary of the Interior whether Mr. Glavis was investigating the work of another Department.

The Secretary of the Interior now informs me that neither Mr. Glavis nor any member of his staff made any investigation of this Post Office construction but that the information was given to him voluntarily but in confidence. It, therefore, appears that Mr. Glavis was conforming strictly to the previous directions to confine his work to the Interior Department and that he was doing the right thing in passing this information on to the Treasury Department.

Will you, therefore, have the matter looked into?

*FDR*  
F. D. R.

June 20, 1935.

My dear Mr. Secretary:

The President has sent me a memorandum dated June 19th which says in part:

"Two or three days ago the Secretary of the Interior gave me a memorandum from Mr. Glavis stating that he had received information alleging irregularities in the construction of the San Jose Post Office.

"Will you, therefore, have the matter looked into?"

To date you have not done me the courtesy of sending me a copy of this memorandum.

As I am leaving this afternoon, to be gone the balance of the week, I would appreciate it if you could send me, before Cabinet, a photostat copy of Mr. Glavis' memorandum in order that I may have the alleged irregularities looked into promptly.

Sincerely,

The Honorable

The Secretary of the Interior.



THE SECRETARY OF THE INTERIOR  
WASHINGTON

June 21, 1935.

My dear Mr. Secretary:

I have your letter of June 20. If there has been any lack of courtesy relating to the matter concerning which you write, it is contained in your letter to me and not in anything that I have done or neglected to do with respect to you. This is not the first occasion when you have assumed the right to address me discourteously.

I do not understand why you should have thought that there was any obligation on my part to send you a photostatic copy of Mr. Glavis' memorandum with reference to the San Jose, California, post office, or that I should have known that you would want a copy. I reported the incident to the President and in doing so I felt that I had done my full duty except to carry out whatever orders he might choose to give me. Since he gave me no order, I consider the incident closed so far as I am concerned.

Sincerely yours,

*Harold T. Fisher*

Secretary of the Interior.

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

I told him that both Helvering and Mellott were against taking him back and that I would so tell Kennedy. But I would like to feel and without bringing the President into it directly, that I had his moral support - and he said you have. On these kinds of matters he is simply splendid and he knows what is black and what is white and he also knows that Kennedy is going to both raise hell and do the baby act, but if F.D.R. tells me that I have his moral backing I know he will see me thru thick and thin. I told him voluntarily that I would have no objection giving Fitzgerald a 90 day appointment in Customs but that we positively had no room for him in Alcohol Tax.

In the morning Senator LaFollette called me and asked me to please send up our working papers on Inheritance Tax, etc. on which the President had based his message. I told him that I would have to think it over. I then called him back in about an hour and told him that I could not give him an answer until after Monday. I spoke to the President about LaFollette's calling me and asked him what to do. He said send him up a letter giving him the figures of the big incomes for 1934. He says this has never been given out up to now. I protested and told him that I would rather do would be to tell LaFollette that any request for information on taxes would have to come from Chairman Pat Harrison. The President did not seem to like my suggestion and I did not like his because LaFollette would know that I was simply stalling him. I said, Mr. President, just strictly between the two of us do you or do you not want your Inheritance Tax Program passed at this session. He said, strictly between the two of us, I do not know. I am on an hourly basis and the situation changes almost momentarily.

I talked to him about F.A.C. and told him I was going up Monday evening and I would continue to urge that it be an Independent Agency; also that I would fight for changing the proposed bill which would permit the sales of bulk liquor. The President feels just as strongly as I do about bulk liquor. On the question of where F.A.C. should be located he has shifted his position two or three times and I simply made up my mind that the only thing that I could do was to stick by my original position which was that I did not want F.A.C. in the Treasury.

Before I got up to leave Frank Walker and Hopkins came in with their program for the Allotment Board meeting. Before they presented it to the President I got up and said I was going, and in a rather pleading tone of voice he said to me, are you not going to stay for our meeting, and I said no, I would like to be excused - good-bye.

June 24, 1935.  
Monday.

H.M.Jr: Hello.  
Peter  
Grimm: Hello.

H.M.Jr: Hello.

G: Hello, Mr. Morgenthau.

H.M.Jr: Hello, Mr. Grimm.

G: How are you?

H.M.Jr: I'm fine.

G: Please forgive me for the extra long time -

H.M.Jr: Well, I'll forgive you if -

G: - for the long time I've taken in coming to this matter but you can imagine the decision is a very important one to me.

H.M.Jr: Yes.

G: Hello.

H.M.Jr: Yes.

G: I've had some consults with a number of my clients and they're sure that when I came back I had still my bad  
Now, I want very much to come with you and I've straightened out matters at home.

H.M.Jr: Yes.

G: - with my clients. I'm having a serious - difficulty however with my associates here.

H.M.Jr: Oh, I'm sorry.

G: The difficulty involved - just one consideration. They're willing to let me go, of course, I'm the important part of this firm and one that I built myself in the last few years and they're willing to give up for the prestige -

June 25th

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H.M.Jr. called the President and told him that Harry Hopkins had lunch with him to-day and brought up the question of the youth movement and wanted Miss Roche to go on as Chairman of the Advisory Committee.

He also told the President that he had intended to put the FACA under Miss Roche when it came into the Treasury because it did touch on social and health problems.

With that in mind he wanted to know whether the President still wanted Miss Roche to be Chairman of the Advisory Committee of the youth movement. The President told Mr. Morgenthau that he did not think her going on this committee would interfere if FACA was put under Miss Roche but that what he had in mind was for her to go on as Chairman of the Executive Committee. He did not want Mr. Studebaker in the picture but he did want Miss Roche interested in this movement.

Miss Roche was present while H.M.Jr. spoke to the President. H.M.Jr. advised her that if she did go on this Committee to talk to McReynolds and arrange to get several first-class Administrative Assistants to help her.

\* \* \* \* \*

Miss Lonigan came in to see Mr. Morgenthau to-day and offered suggestions concerning the Works Program. He told her that after the 4 billion is spent he would be interested in having suggestions from her as to how to take care of the unemployed for the next fiscal year.

June 25, 1935.  
Tuesday.

153

Pat  
Harrison: Hello, Henry?

H.M.Jr: Good morning.

H: Henry, I'm trying to work out these amendments after our conference yesterday. Who is the man up in your department that's been working out this proposition?

H.M.Jr: I think on this thing you'd better start with Oliphant.

H: Well, now is he the fellow that's worked up the figures and so forth?

H.M.Jr: No, but he worked on the - with me - we had a whole group working on it, see? The fellow who worked on the figures is Haas - H-a-a-s.

H: Well, what I was anxious to do this morning -

H.M.Jr: Yes.

H: - because I've got to act pretty quick, you see -

H.M.Jr: Yes.

H: - and I've got Parker over here now and what I'd like to do is to have the men that worked on the thing with Oliphant or whoever it is that can speak intelligently, you understand -

H.M.Jr: Yes.

H: - so that I can get this stuff up and then call my committee this afternoon together and try to get things going.

H.M.Jr: Yes. Well, let me speak to Oliphant and - have you got a meeting in your office now?

H: I'm here now in my office.

H.M.Jr: Well, I'll have somebody up there in twenty minutes.

H: Well, better send him to my office here in the Senate Office Building, not in the Finance Committee.

H.M.Jr: The Senate Office Building.

H: Yes, 217.

H.M.Jr: 217 in the Capitol?

H: No, over in the Senate Office Building.

H.M.Jr: Oh, 217 in the Senate Office Building.

H: Yes, and then my secretary can bring him where I am.

H.M.Jr: I'll have them there, Pat.

H: All right.

H.M.Jr: Thank you. Hello -

H: Yes.

H.M.Jr: That is on the Statistical end?

H: Well, yes and on the policy end.

H.M.Jr: All right.

H: I want to know just how far the President wants to go

H.M.Jr: Well, that we don't know, but I take it you know after meeting last night.

H: Well, I know it generally speaking, but I thought he had worked up some figures on this stuff.

H.M.Jr: Well, whatever figures he's got, we've got them.

H: Yes, well now, do you know how far he wants to go on this thing?

H.M.Jr: No.

H: What?

H.M.Jr: I don't know. I'll be talking to him in a minute or two, and I'll ask him.

H: Well, I know generally speaking, you understand, but I thought maybe that you knew a little better, on the proposition.

H.M.Jr: Well, we worked a whole message up, I mean, from the technical end and -

H: Well, did Oliphant do that?

H.M.Jr: Yes.

H: All right. Well, have Oliphant and who else you've got that you want up here.

H.M.Jr: Right.

H: All right.

H.M.Jr: Goodbye.

June 26th

60

Rex Tugwell and Harry Hopkins came in to see Mr. Morgenthau in regard to the 200 million dollars which they want for drought relief, soil erosion, etc.

Mr. Morgenthau had Bell and McReynolds present. He handled these men very well. He jested with them and told them that he was very sympathetic; he understood the need of this money but told them that as far as he was concerned he would not O.K. a dollar outside of the budget and that he would strongly urge the President not to. He said he felt that the President would get a great deluge of criticism if he asked for any extra money at this time.

Tugwell explained that this money is to be spent in an area where there is real emergency but unfortunately does not come in the area where the unemployment situation is critical and, therefore, is not included in the 4 billion 8.

H.M.Jr. told Professor Tugwell and Harry Hopkins that he did not think it was fair to put the thing up to him and that he would be very glad to see the President with them. Mr. Morgenthau felt that this money should come out of the 4 billion 8 and that the President could cancel a lot of projects now set up by the Allotment Board.

Mr. Hopkins asked the following question: "Don't you think the government should know how much money is in that 3 billion 3 which is not really tied up by contract - not allocated now? I think if a checkup was made you would find that about 250 or 300 million dollars would be available to-day."

Mr. Morgenthau said that if the President wanted him to he would have Bell's Division make an examination and would have the information for him in about 24 hours. Mr. Hopkins said he would arrange an appointment with the President and Mr. Morgenthau asked Mr. Bell to have a memorandum ready to show the President should the President want him to make such an examination.

*See July 1-*

June 26th

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After Senator LaFollette called (copy of conversation attached hereto) H.M.Jr. called the President and read to him the Treasury Revenue Estimates and the so-called Parker proposals.

	<u>Parker proposal</u>	<u>Treasury proposal</u>
1. Inheritance tax	5	{ 400.0
2. Gifts tax	2.3	
3. Graduated Corporate Income Tax	67	100.6
4. Increase tax rate large individual incomes	5	26.0
5. Inter-corporate dividend tax	<u>          </u>	<u>28.9</u>
	79.3	555.5

President: What about the table that is in the paper this morning?

H.M.Jr: That is the table that Parker prepared for Senator Harrison.

H.M.Jr: Senator Harrison stated that he called you on the telephone and said these are the schedules he is going to have and you said O.K.

President: Those are brackets and not yields.

President: Here is exactly what happened. On the inheritance Harrison said "shall we set it at \$100,000 and I said "No. My thought on the inheritance is that we have to save the middleman. We should not put an inheritance tax on an estate providing an income of \$10,000 a year. At 3% this is equivalent to \$300,000. (The President apparently agreed to Senator Harrison's suggestion of an exemption of \$300,000).

H.M.Jr: Our boys say that that is what killed the revenue.

President: We will have to step it up steeper on the bigger boys.

H.M.Jr:

Our boys are going up on the hill. LaFollette called about 10 minutes ago and asked for the Treasury schedules. I told him I could not give it to him that way but if he asked for them at the Hearing I will instruct Oliphant to give it to him. I told Oliphant and Jackson that they have to watch carefully that we do not get you caught in a cross-fire and they will do all they can. If our boys are asked whether Harrison talked with you they will say they know nothing about it.

June 26, 1935.  
Wednesday.

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H.M.Jr: Hello.

Senator  
Robt. M.

La Follette: How are you?

H.M.Jr: I'm all right, Senator.

La F: Say, this is a lousy thing that Harrison put up here.

H.M.Jr: Well, that's done by the Senatorial conventional experts.

La F: Yes, I know it is, but what I wanted to know is whether, in view of this situation, you would feel that you could make available to me the material that has been worked out down there.

H.M.Jr: Yes. Well, our boys, as I understand it, are going up in about ten or fifteen minutes to the Hill to appear before your committee.

La F: Yes.

H.M.Jr: And -

La F: Well, are they going to outline what has been worked out down there or are they just going to be there to answer questions concerning these amendments that Harrison suggested?

H.M.Jr: Well, let me answer you first indirectly and then directly, if I may.

La F: Yes.

H.M.Jr: As I understand the law and also the usage, the Treasury under the law is not permitted to make suggestions-but new taxes. I think there's definite statutes. And that's been rubbed into me so hard since I've been here that I've stuck to that very closely, see?

La F: Yes, I know.

H.M.Jr: Now - no, therefore, both because it's illegal and second because Congress feels<sup>1</sup> very jealous of its right to originate new taxes. I have scrupulously followed the policy not to make any suggestions.

La F: Yes.

H.M.Jr: Now, if when I -

La F: Suppose for instance - suppose for instance that I should ask Oliphant - simply say put it up this way that when you

are before the committee when the Bonus was under consideration, for example -

H.M.Jr: Yes.

La F: - that you are suggesting, when possible, by applying the income tax rates to inherit this to get anywhere from 300 and 600 million dollars annually increase and that as one member of the Finance Committee I'd like to have them work out for me the rate which would produce that revenue.

H.M.Jr: Well, Senator, you can ask them any question you want to.

La F: Yes, but what I'm - what I feel is that if you or somebody tell them that it was all right for them to respond to the request of individual members of the committee, because after all that - I'm taking the responsibility for it, -

H.M.Jr: Yes.

La F: - and making the request of - as a member of the committee-

H.M.Jr: Well, now I don't want you to get the feeling I'm technical because after all you know how I feel on this matter.

La F: You bet I do and, of course, I feel a little differently about it because I was on the committee when Ogden Mills used to come down and sit at the table telling us that we mustn't increase taxes; that we - taxing every - I mean, he never hesitated to sound off and now I have a little feeling that what's sauce for the goose is sauce for the gander.

H.M.Jr: Yes. Well, I - I - the reason I'm being - how shall I say - sitting behind the curtain of my official position is that a lot of things going on I don't understand, see?

La F: Yes, I know.

H.M.Jr: And I'm not - I'm -

La F: I don't blame you.

H.M.Jr: Now, all I'm doing is -

La F: But, all I was going to say was this, if you'll pardon me, that -

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

La F: - here would be - I would simply be making a request as a member of the committee.

H.M.Jr: Well, then if - if you make this request when these men are before your committee this morning -

- La F: That's right.
- H.M.Jr: And the chairman says- instructs them to bring that up, that ends it.
- La F: Yes.
- H.M.Jr: I mean, as I get it, you bring it up or if you ask the chairman - please instruct them to bring this information to the committee, that ends it.
- La F: Well, but of course, the chairman hasn't any more authority than any other member of the committee.
- H.M.Jr: Well, then if that's correct if you ask it you'll get what you want.
- La F: And heretofore, I mean even when - even when Mills was in the Treasury -
- H.M.Jr: Yes.
- La F: My specific technical pieces of work of this kind, I mean, I never was refused even though they were not in sympathy with what I was trying to do.
- H.M.Jr: Well, we're - we haven't refused you anything.
- La F: No, no, I know that, I mean, I'm just saying that on this -
- H.M.Jr: Well -
- La F: - I'm just trying to play ball with you -
- H.M.Jr: Sure, I - I -
- La F: - before I do anything.
- H.M.Jr: Well, I appreciate that, Senator and the easiest way, I think for both of us - I know what you want and I'm more than willing to let you have it. I say the easiest way for you to get it is - well, you have this hearing; you ask the boys for it and they'll give it to you.
- La F: All right, fine.
- H.M.Jr: Now, that - that takes me out of a tough spot and makes - and gives you what you want.
- La F: Well, I want to do that; I want to be just as helpful as I can.
- H.M.Jr: And I do too.
- La F: But, you know what Pat has done here is simply to take - take your basis and then translate it into what he's will -

ing to do.

H.M.Jr: Well -

La F: And in my opinion, I mean, it puts the Administration in a hell of a spot to have a swell message like that come up here and then these futile things propose to implement it.

H.M.Jr: Well, up to now, I mean, these tables and all that are worked out by Parker, you know that.

La F: I know.

H.M.Jr: And, of course, he's working under instruction.

La F: Sure.

H.M.Jr: Now, I'm talking kind of out of school -

La F: Well, I know all that and in fact Pat said so.

H.M.Jr: All right. Yes, and well, now, no one has yet asked us for the Treasury figures.

La F: Yes. Well, that's what I want to get.

H.M.Jr: Well, they're here and they've been here for three months.

La F: Well, <sup>if</sup> you have them bring them up, will you?

H.M.Jr: They've got them in their hip pocket.

La F: O.k.

H.M.Jr: All right.

La F: Thanks.

H.M.Jr: Goodbye.

June 26th

Robert Harris and Mr. George L. LeBlanc came in to see Mr. Morgenthau this morning. Originally the appointment was for 10:30 but Mr. Morgenthau was called to the White House and he had to postpone the appointment until 11 o'clock.

Mr. Harris said that unfortunately he had made an appointment with Senators Thomas and Smith for 11 o'clock and would not be able to stay and talk with Mr. Morgenthau but before he went he said that he has been in the cotton business for 30 years and he believed the cotton business never was in such an unsatisfactory condition and that it was largely due to the export markets of cotton. He further said that Mr. LeBlanc had a program in mind which he would like to outline to Mr. Morgenthau and he felt it was one which would be very helpful to the administration, if Mr. Morgenthau could give him some time. Mr. Morgenthau said he would be glad to talk to him for a half hour which he did.

Mr. LeBlanc told Mr. Morgenthau that about a year and a half ago he had lunch with Peek and at that time he told him to throw his three banks out the window. He said he didn't have to start a banking business. What was needed was for someone to start an insurance company in order to start the normal trade and commerce. Long-term credits have to be restored. Mr. LeBlanc said that England is doing it, France has to come to it and so does Holland. Spot market has to be relieved. We have not done this and things are getting from bad to worse. He said that we are judging the world by the foreign bond market. He said that we will not have recovery until we normalize our foreign trade. We will have to start to give from 1 to 5 years credit on trade - not on bonds.

H.W.Jr. said, "now Mr. LeBlanc I want to ask you a question. If I wanted to ship 10 million bales of cotton and came to you, as a banker, and told you that I could sell this if I could give such and such a country 5 years credit, what are they going to pay us in" and Mr. LeBlanc, hesitated for a long time and then said, "well on a thing like this they will find the money to pay us."

Mr. Morgenthau told Mr. LeBlanc that when he came into Farm Credit he took over the Old Farm Board and was handed 100 million dollars worth of groceries such as cotton, potatoes, grass seed, etc. The main thing was cotton. At that time we had a rising market and Mr. Morgenthau brought down a liquidator and we sold all of the groceries. We sold, at that time, 1 million bales of cotton to Henry Wallace. Since that time the AAA has the same million bales of cotton and has since added to it another 4 or 5, now having on hand 5 or 6 million bales of cotton.

The Administration's policy towards cotton is that, while we own 5 or 6 million bales of cotton, they would rather have our exports cut in half on the one hand and through the reduction in acreage they will gradually, over a 2 or 3 year period, absorb that cotton.

We are going to continue our crop production program. As long as the Administrative policy is to continue to hold this surplus and continue to loan 12¢ I do not care if you give them a 100 year loan to pay us back, these fellows are not going to pay us 15¢ for cotton. I feel that you fellows ought to attack the fundamental policy and not attack the Treasury. I do not say that I favor long-term credit but I do not want to talk about it until the export commodity problem is solved.

Mr. LeBlanc agreed entirely with Mr. Morgenthau.

June 26th

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Mr. McReynolds reported, as the result of his conference with Harry Hopkins this morning, June 26th, that Hopkins was originally unwilling to approve any allotment of funds from the Emergency Relief Appropriation for the construction of floating craft for either the Coast Guard or Public Health Service; that a compromise was reached by which Hopkins was committed to allot \$1,500,000 for floating craft, the specific craft to be designated by the Treasury.

As the result of the Secretary's conference with Mr. Hopkins this afternoon the agreement was reached that this amount should be increased to \$2,000,000. Subsequently, in conference with Mr. McReynolds, Admiral Hamlet, Commander Waesche, and Commander Hunnewell the Secretary designated that the following items be selected to cover the \$2,000,000 to be allotted and Commander Waesche and Commander Hunnewell proceeded to Mr. Hopkins' office to modify the applications to conform to this agreement:

6	80-ft.	Patrol boats
4	65-ft.	" "
10	38-ft.	Picket boats
2	62-ft.	Harbor craft
5	50-ft.	A B boats
\$500,000 worth of life boats		
10	26-ft.	Motor boats
10		Aviation crash boats

Construction of all of these boats to be of wood.

Note: Previous meeting held June 18th in Secretary Morgenthau's office. Report of meeting is in this book.

June 26th

Mr. Oliphant telephoned after he went up on the Hill, to appear before Senator Harrison's Committee on Taxation, and said, "Senator Harrison has adjourned his Committee this morning on the ground that the experts have not completed their financial estimates."

JUNE 26TH

Oliphant said "What happened at the White House yesterday was too good to be lost and ought to go into your diary."

"After the President had finished penciling corrections on the Attorney General's draft of the message on withdrawing the right to sue on gold clauses, the A.G. leaned back and extending his distended front-elevation, pontificated ponderously, 'Mr. President, what you have just done is historic. You are reasserting the sovereign right of Government to regulate its money, and that will be a landmark in the history of constitutional law.'

"Instantly Henry, suiting his action to his words, said, 'It is now time for us to all stand up.' An appreciative smile flickered on the corner of the President's mouth away from the Attorney General and the A.G. looked dazed. That's what I call deflation!"

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STEPHEN EARLY  
Assistant Secretary to the President

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TO THE CONGRESS OF THE UNITED STATES:

Before the termination of this session of the Congress, I believe that it is important that definite action be taken to eliminate any uncertainty with respect to the right of holders of gold clause bonds of the Government to sue for payment either in gold or else in legal tender with an additional sum of sixty-nine cents on every dollar.

To this end, I urge the withdrawal by the United States of its consent to be sued upon its currency or securities. The question of the effect of the so-called gold clause, in the light of the monetary legislation of the 73d Congress, came before the Supreme Court at the term just closed. A suit for additional payment under existing circumstances, the Court said, would "constitute not a recoupment of loss in any proper sense but an unjustified enrichment." Bonds of the United States containing gold clauses -- all of them issued, sold and payable wholly within the United States -- have been continuously quoted on the exchanges at no higher prices than bonds not containing such clauses. But the continuing possibility of actions by litigious persons leaves open the continuing possibility of speculation. There is no public interest, under these conditions, in permitting a handful of private litigants to exploit the general public in the hope of a wholly speculative private profit.

This conclusion will hold so long as the Congress adheres to its declared policy, now more than a third of a century old, to maintain the equal value of every dollar in the market.

I recommend, therefore, the enactment of legislation which will make clear that it is our fixed policy to continue to treat the bond-holders of all our securities equally and uniformly, to afford any holder of any gold clause security, who thinks he could by any possibility sustain any loss in the future, an opportunity to put himself immediately in a position to avoid such future loss, and to remove all possibility of any suits designed to hamper the Government in administering the public debt and in financing its ordinary and emergency expenditures.

More specifically, I recommend the immediate enactment of legislation (1) that will authorize and direct the Secretary of the Treasury, at the request of the holders of gold clause securities of the United States, to make payment therefor in cash, dollar for dollar, with accrued interest, or at the holder's election, to exchange such securities for non-gold clause securities with the same interest rate and maturity; (2) that will terminate any consent which the United States may have voluntarily given to be sued on its securities,

coins or currencies; and (3) that will re-affirm the fixed policy of the United States to make payment to all holders of its securities, coins and currencies on an equal and uniform dollar for dollar basis and will make appropriations available for payments on this basis and on this basis only.

There is no constitutional or inherent right to sue the Government; on the contrary, the immunity of the sovereign from suit is a principle of universal acceptance, and permission to bring such suits is an act of grace, which, with us, may be granted or withheld by the Congress. The courts, it is hardly necessary for me to add, will always be open to those who seek justice, but they were not established for use by a few to enrich themselves at the expense of the many, nor to enable a few to harass and embarrass sovereign action by the Government when taken for the benefit of all.

Not only justice to the holders of our currency and of our securities who support and rely on our policy of equal and uniform treatment to all, but also the interests of our entire people require that the Government of the United States make it clear that it cannot and will not consent to the use of its courts in aid of efforts to sabotage the operations of Government or in aid of private speculation.

This proposal reasserts and makes definite the control of the Congress over the securities and money issued by the United States of America.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

June 27, 1935.

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DRAFT  
6/25/35

*Deary* Mrs Klotz ?  
White House conference 6/26/35

Before the termination of this session of the Congress, definite action should be taken to eliminate any uncertainty with respect to the right of holders of gold clause bonds of the Government to sue for payment in gold or in legal tender plus an increase of sixty-nine per centum.

To this end, I urge the withdrawal by the United States of its consent to be sued upon its currency or securities. The question of the effect of the so-called gold clause, in the light of the monetary legislation of the 73d Congress, came before the Supreme Court at the term just closed. A suit for additional payment under existing circumstances, the Court said, would "constitute not a recoupment of loss in any proper sense but an unjustified enrichment." Bonds of the United States containing gold clauses have been continuously quoted on the exchanges at no higher prices than bonds not containing such clauses. But the continued possibility of litigation leaves open the continued possibility of speculation. There is no public interest, under these conditions, in permitting to a few private litigants opportunity for exploitation, to the potential injury of the public, of the supposed uncertainties of the situation in the hope of a wholly speculative private profit.

Litigation, however unreasonable, putting into question the amount of the national debt and the value of government securities is bound to be unsettling in its effects. As

-2-

the country should not bear this needless burden of insecurity, there should be protection against further claims of this character. This conclusion will hold so long as the Congress adheres to its declared policy, now more than a third of a century old, to maintain the equal value of every dollar in the market.

I recommend, therefore, the enactment of legislation which will make clear that it is our fixed policy to continue to treat the bond-holders of all our securities equally and uniformly, to afford any holder of any gold clause security, who thinks he could by any possibility sustain any loss in the future, an opportunity to put himself now in a position to avoid such future loss, and to remove all possibility of any litigation designed to hamper the Government in administering the public debt and in financing its ordinary and emergency expenditures.

More specifically, I recommend the immediate enactment of legislation (1) that will authorize and direct the Secretary of the Treasury, at the request of the holders of gold clause securities of the United States, to make payment therefor, dollar for dollar, with accrued interest, or at the holder's election, to exchange such securities for non-gold clause securities with the same interest rate and maturity; (2) that will withdraw any consent which the United States may have voluntarily given to be sued on its securities,

-3-

coins or currencies; and (3) that will re-affirm the fixed policy of the United States to make payment to all holders of its securities, coins and currencies on an equal and uniform dollar for dollar basis and will make appropriations available for payments on this basis and on this basis only.

There is no constitutional or inherent right to sue the Government; on the contrary, the immunity of the sovereign from suit is a principle of universal acceptance, and permission to bring such suits is an act of grace, which, with us, may be granted or withheld by the Congress. The courts, it is hardly necessary for me to add, will always be open to those who seek justice, but they were not established for use by a few to enrich themselves at the expense of the many, nor to enable a few to harass and embarrass sovereign action by the Government when taken for the benefit of all. Not only justice to the holders of our currency and of our securities who support and rely on our policy of equal and uniform treatment to all, but also the interests of our entire people require that the Government of the United States make it perfectly clear that it cannot and will not consent to the use of its courts in aid of efforts to sabotage the operations of Government or in aid of speculation upon the possibility of action by the Government which the public welfare may require it to take.

June 27, 1935.

At the 9:30 meeting the Secretary asked me to go to the Hill and work with Mr. Crowley on getting through the House the temporary extension of Federal Deposit insurance.

Mr. Charles West was to join Mr. Crowley and I at Mr. Crowley's office but since he was detained at the White House, Mr. Crowley and I went to the Hill without him.

We first saw Speaker Byrns who agreed to take the resolution up and have it passed by the House just as soon as the House Banking and Currency Committee reported it.

We then went to see Senator Robinson and explained to him the necessity of final legislative action on the resolution before the 1st of July. Senator Robinson said that the way to expedite it was to get the House to act and then send it back to the Senate for concurrence in any House amendments. He said that the Senate had planned to recess over until Monday soon after noon on Thursday but that he would hold them in session until we could get the resolution over.

We went back to the Speaker's room to see what could be done about getting action from Steagall's committee.

The House convened at 11 and Steagall was on the floor answering the roll call and later getting permission for his committee to sit during the afternoon House session. He did not seem to be much impressed with the need for speed and we were given to understand that the committee had adjourned until afternoon.

Mr. Crowley talked to some of the members of the committee in the corridor and I talked to some others and they all seemed to be agreeable to action. In fact some of them were sitting in the committee room waiting

for the Chairman to appear, but this meeting was interrupted by a number of roll calls summoning them to the floor of the House.

Mr. Birdsall stayed outside the committee room of the House Office Building, for the most part, keeping in touch with what went on there.

My main function was to keep prodding people along. Charles West not having shown up and it seeming to me necessary that the White House get after Steagall I went looking for him. He had been waylaid by Tom Corcoran and the Utilities Bill people who resisted efforts to draw him away stating that the Utilities Bill was the most important thing on the schedule. I impressed West with the urgency of the situation and he came and 'phoned to McIntyre. Things continued to drag and Mr. Crowley and West were discussing with some favor the idea of calling everything off and let it go over until Monday or Tuesday. I dissented. Finally I got Steagall off the floor of the House and West talked with him, emphasizing the fact that the President wanted him to act. Steagall was inclined to take his time and he did. About 2:30 the Steagall committee reported out a joint resolution with a 60 day extension as an amendment to the years extension as agreed to by the Senate.

Before they could get the resolution on the floor the Speaker had retired to his office and locked himself in and Mr. Rayburn had taken the floor to discuss the Public Utilities Bill. Mr. Steagall and Mr. Hollister were seeking vainly to get Speaker Byrns. I then telephoned to the Secretary with the request that he telephone to Speaker Byrns urging action, which he did.

I also went to see Senator Robinson in Colonel Halsey's office (where West and Crowley then were) to urge that he 'phone the Speaker to speed up action.

It was agreed that Mr. Rayburn couldnot be taken from the floor but that as soon as he had finished the Speaker would put the resolution through. This was done.

After explaining to West that there was frequently great delay in the physical transfer of a resolution or bill from the House to the Senate, I went to meet the Secretary who was conferring at 4 o'clock with the Democratic members of the Ways and Means Committee in the office of the House Legislative Counsel, Room 159, Old House Office Building. After being there a short time the Secretary asked me to return to the Capitol to make sure that action progressed on the deposit insurance resolution. I found that while the joint resolution had passed the House at 5 o'clock it had not yet at 5:30 reached the Senate. Mr. West hunted out Speaker Byrns who instructed Holtigan, the reading clerk to take it over at once. West and I escorted Holtigan from the House to the Senate where we found their lookouts outside the door waiting for us.

The amendment of the House was concurred in immediately by the Senate. I then returned to the conference with the Ways and Means Committee members where discussion of hearings on the new tax bill were continued and it was agreed it would be physically impossible for Treasury representatives to be ready with suggestions and estimates by Tuesday morning.

C. B. Upham

H.M.Jr. recommended to Miss Roche that Frank L. Boyden, Headmaster of the Deerfield Academy, who is recognized as the outstanding Headmaster in New England and who also is on the Board for the Massachusetts State School for Wayward Boys, be asked to serve on the Executive Committee of the Youth Program.

H.M.Jr. also suggested to Mr. McReynolds and Mr. Bell that they work with Miss Roche in selecting someone to represent him and to act as assistant to Miss Roche. It was his idea that this assistant would watch the expenditure of funds and spend the greater part of his time in the field. He suggested Bill Wright, who is now in Buffalo. Miss Roche declined to have Miss Engel as another assistant.

H.M.Jr. instructed McReynolds to have data ready for him to take to the White House at 1 P.M. Monday. This information should be prepared to show how many boats, type and how much each would cost. When Mr. Gibbons said he thought it would be terrible to build them of wood H.M.Jr. said Coast Guard people were sure they could be put in 60 feet of water and further it would be impossible to get the President to accept any sort of boat but wood.

Mr. Bell said Jesse Jones had asked for an adjustment on interest rates; that Mr. Coolidge and he had suggested that they give Jesse Jones  $1/8$  of  $1\%$  on notes on which he would get no return, such as loans to States in form of relief, and  $2\frac{3}{4}\%$  on other loans such as loans to closed banks. Mr. Morgenthau agreed to reduce the interest rate  $1/4$  of  $1\%$  from November 1 to May 1, making it  $2\frac{3}{4}\%$  which is the average interest rate on the public debt and on money he has given away  $1/8$  of  $1\%$ .

Miss Roche reported that satisfactory arrangements had been perfected between the Labor Department and the Childrens Bureau for Public Health work under Youth Security Program. At this point H.M.Jr. presented to Miss Roche the flag of the Assistant Secretary of the Treasury which was presented to her by the Coast Guard as a memento of her recent visit to the Coast Guard Academy when a 17 gun salute was fired in her honor, this being the first time such an honor has been bestowed on a woman Assistant Secretary of the Treasury. Miss Roche expressed her thanks.

H.M.Jr. told Mr. Gibbons that the President would not consent to the appointment of Howard Bruce of Baltimore on the Congressional Library Committee. The President said he would only put Bruce on the Committee provided he could get Senator Tydings back in the fold. H.M.Jr. told Mr. Gibbons to get this message to Mr. Farley or Forbes Morgan.

H.M.Jr. instructed Herman Oliphant to look into a possible joker inserted in the Banking Bill which would permit J. P. Morgan and bankers to go into the issue business and still not be subject to the regulations of the Security Commission.

Mr. Oliphant suggested to H.M.Jr. that he call Senator King and say Treasury experts would like to make a ten minute statement before his sub-committee. H.M.Jr. disagreed with this suggestion, saying he thought the farther away Treasury people stayed from the bill the better it would be but said he would call Senator King and say that we should like to appear as Treasury experts and give you any information you want. Senator King asked Treasury experts to appear at 4 o'clock and H.M.Jr. invited Mr. Haas, Mr. Oliphant and Commissioner Helvering to appear with him.

Steve;  
Here's the latest Chain  
letter!  
FRANK SMITH  
28

ESTABROOK & CO.  
MEMBERS NEW YORK STOCK EXCHANGE  
BOSTON NEW YORK

40 WALL STREET  
NEW YORK  
ANDREWS 3-7800

RECEIVED  
TREASURY DEPARTMENT  
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JUN 28 1935

OFFICE OF  
ASST. SECY. GIBBONS

TAKE YOUR TIME TO READ THIS

The following extracts of speeches must be astounding to you as they are to me, in view of the torrent of money poured out by the present administrations:

"I accuse the present administration of being the greatest spending administration in peace times, in all our history - one which has piled bureau on bureau, commission on commission and has failed to anticipate the dire needs of reduced earning power of the people."

Franklin D. Roosevelt speech at Sioux City, Iowa, Sept. 29, 1932.

"I regard reduction in Federal spending as one of the most important issues of this campaign. In my opinion, it is the most direct and effective contribution that government can make to business."

Franklin D. Roosevelt speech at Pittsburgh, Pa. Oct. 19, 1932.

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Expenditures of Government from Pres. Washington to Pres. Taft,  
1789 - 1951 inclusive  
total of 124 years . . . . . \$24,521,845,000

Expenditures of Franklin D. Roosevelt Administration as  
estimated by the President - actual 1934 and  
estimated 1935 and 1936  
total of 3 years . . . . . \$24,206,535,000

" . . . . . Remember well, that attitude and method - the way we do things, not just the way we say things, is nearly always the measure of our sincerity."

Franklin D. Roosevelt speech at Butte, Mont., Sept. 19, 1932.

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Will you not send these extracts on to at least ten of your friends who hold dear the welfare of the whole American people?

Supplemental estimates now  
pending before Senate Appn. Committee \$28,264,000  
Bankhead bill (Farm Tenant Corp) 100,000,000  
A. A. A amendments 35,000,000

STATEMENT OF APPROPRIATIONS FOR 1936 COMPARED WITH THE 1936 BUDGET ESTIMATES

Department of Establishment	Estimates in 1936 Budget	Appropriations, Annual Act	Appropriations, 1st Deficiency	Appropriations, 2nd Deficiency	Total Appropriations	Difference Increase (+) Decrease (-)
Legislative establishment	19,506,870	20,791,028		162,015.50	20,953,043.50	+ 1,446,173.50
Executive and independent establishments	781,617,462	781,501,956	25	475,000	782,831,007.25	+ 1,213,545.25
Executive and independent establishments, emergency	<u>4,000,000,000</u>	<u>4,000,000,000</u>			<u>4,000,000,000</u>	
Agriculture including AAA	74,825,574.14	121,157,983.14		10,000	121,167,983.14	+ 46,342,409.00
Commerce	34,736,715	34,631,500		90,900	34,722,400	- 14,315
Interior	62,073,065	60,409,576		67,537.52	60,477,113.52	- 1,595,951.48
Justice	34,732,120	34,556,500		964,091.69	35,520,591.69	+ 788,471.69
Labor	16,281,822	15,360,000		328,000	15,688,000	- 593,822
Navy	488,133,847	(1) 466,239,379		1,983,291	468,222,670	- 19,911,177
State	13,884,100	14,013,895		283,420	14,297,315	+ 413,215
Treasury	176,137,484	175,786,109		39,455,090	215,241,199	+ 39,103,715
War, including Panama	379,242,243	401,998,170	25	165,000	404,088,310.70	+ 24,846,067.70
Post Office	725,282,569	727,849,569		3,705,000	731,554,569	+ 6,272,000
D. C.	40,374,822	40,547,115		547,362.15	41,094,477.15	+ 719,655.15
Total, regular	6,846,828,693.14	6,894,842,780.14		640,000	6,945,858,679.95	+ 99,029,986.81
Supplemental item	40,000,000	(2) 40,000,000		173,509,192	213,509,192	- 86,490,808
General Public Works	300,000,000					
	<u>7,186,828,693.14</u>	<u>6,934,842,780.14</u>		<u>640,000</u>	<u>7,159,367,871.95</u>	<u>- 27,460,821.19</u>

2,320,000,000

Total 4,400,000,000

- (1) Includes \$7,555,000 - unexpended balances  
 (2) \$40,000,000 Appropriated in Agriculture Department Annual Act.

## PURCHASES OF SILVER IN OPEN MARKETS

(This does not include silver acquired by nationalization or purchases of domestic mined silver delivered to the Mints at fixed prices.)

April 1934	11,975,000	Ounces
May "	9,600,000	"
June "	51,099,000	"
July "	6,323,000	"
August "	48,494,000	"
September "	14,782,000	"
October "	25,647,000	"
November "	26,075,000	"
December "	22,076,000	"
January 1935	29,070,000	"
February "	26,576,000	"
March "	13,538,000	"
April "	3,500,000	"
May "	11,488,000	"
June "	28,990,000	"

Estimated Revenue under Proposed Inheritance Tax Rates  
and \$50,000 exemption, based on estimated  
calendar year 1935 values

Estimated total revenue: \$20,000,000

Proposed Rates		
Inheritance	:	Bracket rate
bracket	:	(percent)
(thousand dollars)	:	

50 - 100	2
100 - 200	4
200 - 400	6
400 - 600	8
600 - 800	10
800 - 1,000	12
1,000 - 1,500	20
1,500 - 2,000	25
2,000 - 2,500	30
2,500 - 3,000	35
3,000 - 3,500	40
3,500 - 4,000	45
4,000 - 4,500	50
4,500 - 5,000	55
5,000 - 5,500	60
5,500 - 6,000	65
6,000 - 6,500	70
6,500 - 7,000	75
7,000 - 7,500	80
7,500 - 8,000	85
Over 8,000	90

Treasury Department, Division of Research and Statistics, July 1, 1935

June 28th

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H.M.Jr. talked to Harry Hopkins on the phone and asked if it were necessary that a woman go on the proposed trip to Alaska. Mr. Hopkins explained that it was Mrs. Fuller who was going and H.M.Jr. said that would be all right.

H.M.Jr. then suggested that if it was necessary as he (Hopkins) said, to take a stenographer, that it be a man unless he (Harry Hopkins) wanted to assume the moral responsibility.

Mr. Hopkins wanted the boat to remain in Alaskan waters for the return of the party but H.M.Jr. said there was no point in tying up a boat that long and they would send a boat for their return.

June 23th

Mr. McReynolds reported that Ballinger and the Coast Guard men were meeting and that Ballinger is not disturbed by Admiral Stanley's attitude.

Mr. Haas reported that the Trade Agreement Committee, working on the Canadian agreement, had approved a reduction in tariff from \$5.00 to \$2.00 a gallon. H.M.Jr. said he thought if they dropped the duty on imported liquor temporarily it would be all right. Mr. McReynolds thought there was no doubt the quantity imported would increase, thus offsetting any loss in revenue from the reduced rate.

Mr. Haas also brought up for discussion a memorandum, previously prepared by the Secretary, on Section 15 of H.R. 8052, amending the Agricultural Adjustment Act. This section authorizes the appropriation each year of 30% of the gross receipts from Customs duties for the payment of subsidies to agricultural exports, the purchase or lease of sub-marginal land, etc., and, in the Treasury's opinion, would conflict with the President's budget. H.M.Jr. asked to have a further report on Tuesday, July 2d, after Mr. Bell, Mr. Oliphant and Mr. Haas conferred.

Mr. Gibbons reported that Kenneth Watson, of the Cleveland Press, had asked for confirmation of a conference supposed to have been held at the White House, where it was proposed to have Senator Bulkley resign and appointed as an Ambassador. H.M.Jr. had never heard of it.

Mr. Gaston reported that Miss Roche is Chairman of the Executive Committee on Youth Security and Aubrey Williams, Director of the National Advisory Committee, were not in accord on publicity; that Williams paints a broad picture of the wonderful things to be done while Miss Roche says there are 3 million 350 thousand young people to be helped and we can assist only half a million. H.M.Jr. said he would talk with Miss Roche about this after the meeting and also with Aubrey Williams.

Mr. Gaston said there was a rumor in Wall Street that Coolidge had or would resign and that a Mr. Griss had been considered. H.M.Jr. asked who Griss was and said he knew nothing of the rumor.