

DIARY

Book 12

November 15 - November 30, 1935

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1. Chinese themselves must choose it
  2. Great Britain, United States, and Japan must approve and be willing to give scheme "their good will and cooperation"
  3. Scheme must be sound technically
- b) Later, Chinese told Leith-Ross they did not believe in plain devaluation, rather favored sterling exchange
1. Currency which suited foreign trade best
  2. London easiest center in which to keep reserves
  3. If loan were needed, possibly easiest center in which to obtain it
- c) Leith-Ross told them no possibility of loan until United States, Japan, and perhaps France had been consulted and found to agree; Leith-Ross thought no scheme would work until budget and bank reforms had taken place
- d) China then decided to act on their own; this was not done at solicitation of Leith-Ross; in fact, it cut straight across his plans
- e) If Chinese are to stabilize on their own resources, it depends on:
1. What reserves they may be able to obtain
  2. Sale of silver - depends on what United States Treasury decides
  3. Loan - Britain will "come in to some extent"; embargo on foreign loans will almost necessitate Chinese currency being linked to sterling
- f) HMJr tells Bewley he fears a joint loan (United States, Great Britain, and Japan) would be impossible if Great Britain insists that Chinese currency be tied to sterling; thinks difficulties are almost insurmountable
- g) HMJr asks, "Does Great Britain want China to make success of their plan?" Bewley, "I think it is obvious we would like to." HMJr, "Even though Japan does not want them to succeed?" Bewley, "In case of definite conflict of opinion between Japan and other powers, I cannot say"

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3. Burgess and Coolidge oppose long spread		
4. Coolidge says Harrison said he "would vote today for $2\frac{3}{4}$ but prefers 2-7/8 and therefore would like to wait a week and see if we couldn't risk it"		
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2. keep amount in London in case of future resale desirable because of price, et cetera		
b) Norman thinks slightly higher price than commercial banks is advisable		
c) Harrison suggests Bank of England handle transactions rather than commercial banks		
d) Harrison says we are contemplating similar Paris action - there, slightly lower price, however		
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b) HMJr points out there's only 4,300,000 gallons of 4-year-old whiskey in United States; only foreign liquor that will benefit must be <u>over</u> 4 years old		
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b) HMJr asks Hopkins if he does not agree Tugwell is wasting money; Hopkins says "yes, throwing it away"		
Lonigan tells HMJr:		
a) 400,000 people on private payrolls to whom Hopkins is giving checks - "not paid a living wage"		
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FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 15, 1935.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnobeBANK OF FRANCE.

I called Mr. Cariguel at 11:45 this morning. After telling him that I had delivered his message of yesterday to the Governor who greatly appreciated the information given us, I mentioned that we had recently given consideration to the following thought: If gold continues to move out of France at the present rate might not shipping facilities become clogged with the result that the demand for dollars in the Paris market might exceed the supply? This consideration had led us to wonder whether it would be of interest to Paris to have us give them dollars, as needed, against gold to be earmarked in our name in their vaults and to be resold in the Paris market if the opportunity presented itself. If that idea interested the Bank of France we might want to arrange to make dollars available to the French, against gold in Paris as outlined. A plan might be worked out under which we would quote them a price for dollars in gold in Paris. This price, I thought, might be in the neighborhood of, say \$34.7425, which I explained was based on the franc rate of about 658 1/2. Cariguel replied that the Treasury's price was \$35 but I pointed out that under the plan outlined by me although we would ask them to keep the gold in Paris, we would, of course, have to allow for the possibility of having to take the gold back to New York at some future date; we therefore must deduct from the price of \$35 the shipping charges from Paris to New York.

Cariguel replied that he would look into the figures but that in principle the plan appealed to him. He inquired as to the amount involved but I replied that I had called up merely to discuss the principle

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 15, 1935.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHL. W. KnekeBANK OF FRANCE

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with him and that I therefore could not say how far we would go. Cariguel repeated the whole scheme as I had outlined it to him and I am satisfied that he understood it in all its details. He thought it was a good plan; he would think it over, talk it over with the Governor and call me back.

LWK:KMC

*Mr. Cariguel*

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 15, 1935.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM: L. W. Knoke

WITH BANK OF FRANCE.

Mr. Cariguel called at 2 o'clock today to inform me that he had discussed the plan mentioned by me over the telephone this morning with Governor Tannery who was very much indebted to us for our offer with which in principle he agrees.

I asked Cariguel how the market closed. He said at 658 5/8, that today had seen the heaviest dollar turnover for the present movement, the figure of the day being \$19,500,000.

I inquired whether, in case we were able to cable him a firm proposition tonight on the basis suggested by me this morning, he thought this would be helpful under the circumstances, and he replied in the affirmative.

*W*  
LWK:KMC

November 15th

18 November, 1935.

MEMORANDUM TO Assistant Secretary Gibbons:

Reference: (a) Telephone instructions from your office this morning.

1. On Friday morning, 15 November, Assistant Secretary Gibbons, Captain Chalker and Lieutenant Commander von Paulsen were called to the Secretary's office for conference.

2. The Secretary directed Captain Chalker to contact the Navy Department and arrange, if possible, for the transfer of one or more airplanes to the Coast Guard. The Coast Guard is transferring one 100 foot patrol boat to the Navy. In view of this it was hoped the Navy might transfer a few planes to the Coast Guard. Captain Chalker and Lieutenant Commander von Paulsen called upon Rear Admiral Ernest E. King, Chief of the Bureau of Aeronautics. Admiral King said the Navy had use for all its planes but that he would look into the matter and see what could be done about making a transfer of several planes to the Coast Guard. He suggested Captain Chalker write him a personal note on the subject. A note was written last Saturday to Admiral King. You will be advised of further developments.

L. T. CHALKER,  
Chief, Aviation Division.

November 15, 1935

At the group meeting this morning, Mr. Coolidge said the Canadian treaty was returned to the State Department last evening with the information that the Treasury Department had no objections to the administrative details.

Mr. Oliphant called attention to the fact that the treaty makes no cut on aluminum or other monopoly commodities, but takes it "out of the hide" of the Maine potato growers and New York milk men; that it would have been better for the Maine housewives if there had been a reduction of 75% on aluminum cooking vessels.

H.M., Jr., pointed out, in connection with the reduction in tariff on whiskey, that there were only 4,300,000 gallons of four-year old whiskey in storage in the United States; that all of the foreign liquor which will benefit from the reduction must be over four-years old and, therefore, will not compete with United States stocks. - He also told the group that he had been trying to get Mr. Wooley, Chairman of the Board of the American Radiator Company, to come to the Treasury and work exclusively on trade agreements. He had thought Mr. Wooley was now inactive, but found he was very active in business and could not come. Mr. Oliphant suggested Jake Viner whose hobby, he said, was tariff, but H.M., Jr. said Jake wouldn't come to Washington; that the nine months he spent in Washington last year were more than enough for him. H.M., Jr. said, however, that when Viner comes here next week, he will ask him.

Mr. Gibbons reported he had been visited by Mrs. <sup>Ruth</sup> Grace Bryan Owen who had complained, and justly so, he thought, of a section in the tariff act, put in by some special interest, under the provisions of which the Danes who ship butter to this country in aluminum containers are required to pay a tariff on the container both when it arrives and when it is shipped back and there is no refund. He said the only difference between the fellow who was responsible for the provision in the Act and Al Capone was that Al was in jail! H.M., Jr., instructed Oliphant to look into it and prepare a bill to be introduced when Congress convenes which will correct the injustice.

In connection with the Davey story in the newspapers yesterday, which attributed the source of its information as Treasury officials, Mr. Gaston said one or two of the newspaper men had told him that they were at the Board of Tax Appeals getting the story and a lawyer there, whom they believed to be a Treasury lawyer, said that of course it was

not really necessary to subpoena Mrs. Davey down here and they could have taken a deposition in Ohio, but for the moral effect they thought it would be a good idea to bring her down to Washington. Mr. Oliphant said he thought he knew which one of his lawyers it was. Hm, Jr., told Oliphant to speak to the person responsible and tell him to be more careful.

*MJ* 7

Memorandum of Telephone Conversation  
Governor Harrison and Governor Norman of the Bank of England  
November 15, 1935

Governor Harrison telephoned Governor Norman of the Bank of England at 10:15 a.m. today.

Governor Harrison said our people are considering the desirability of buying a certain amount of gold in London, if and when such gold would move to this country on commercial account in any case. Their purpose in doing so would be twofold, Governor Harrison said: (a) to avoid unnecessary shipments of gold; (b) to have some gold in London in case future resale there becomes desirable from the standpoint of price and other factors.

Governor Harrison said he wished (1) to get Governor Norman's reaction to the general idea; (2) to get his views as to the price we should offer for gold in case we decide to go ahead, and (3) to find out whether the Bank of England would be willing to act for us in making such purchases.

Governor Norman said he thought the proposal well worth trying out. With regard to the question of price, Governor Harrison said we want to avoid paying so high a price as to result in our getting gold which would not otherwise come to this country, and yet to pay a price sufficiently high so as to assure our getting the gold, which would come here in any case, rather than private purchasers. Specifically, Governor Harrison said, do you think it would be better for us to offer exactly the same price the commercial banks are willing to pay, which now works out about \$54.7626 (including interest at 5/4%) to \$54.7650 per fine ounce, or \$54.77, or something in between \$54.7650 and \$54.77? Governor Norman said he thought that if we offered the same price as the commercial banks we should run the risk of their getting the gold, and that he thought it would work better if we offered a slightly higher price. Governor Harrison said he felt somewhat that way and that he

thought our people would prefer to pay a slightly higher price.

Governor Harrison said that on the question of mechanics, we would prefer to have the Bank of England handle the transactions for us, rather than to deal through commercial banks. Governor Norman said he also would prefer this method and expressed his willingness to act for us.

Governor Harrison also told Governor Norman that we are contemplating a somewhat similar operation in the Paris market, but with the difference that there we would propose to pay a slightly lower price for gold than commercial banks can afford to pay. In that case, Governor Harrison said, our action would really be an assurance to the French that if commercial transactions are unable to take care of the situation, because of lack of shipping facilities or otherwise, we should be willing to make dollars immediately available against gold held for us in Paris. Governor Norman appeared to feel that it might be even better if we proceeded on the same basis in Paris as in London.

Governor Harrison thanked Governor Norman for the expression of his views and for his willingness to cooperate with us. Governor Harrison said he would discuss the matter further with our people in Washington, and that Governor Norman might expect to get a cable from him later.

November 16, 1935

Mr. Hopkins called on me yesterday at my request and told me that he felt there were \$300,000,000 or \$400,000,000 in various agencies, out of the 4-billion-8 which had not been contracted for and that this money ought to be transferred to him because, unless it was contracted for, the President lost control of this money. He said that exclusive of this money, he felt that the President would have unspent on the 1st of July, 1936, about \$700,000,000. These figures check with our figures because we have been figuring that the President would have unspent about \$1,000,000,000 on the first of July.

As Hopkins talked, he was leading up to the fact that he would not have enough money to last him until the first of July. I was unsympathetic and cold to his suggestion. I asked him how we could go before Congress and ask for more money when so much was being wasted. He demanded to know where it was being wasted. I made the suggestion that Tugwell might be wasting it. He said, "Oh, it is just unbelievable the way Tugwell is throwing money away;" that the administrative set-up was so terrible that in many cases people in executive positions in the field organization of Tugwell's had not been paid for so long that Hopkins had to put them on his relief rolls to take care of them. I said, "Have you told this to the President." No; he had not. He said a couple of hundred people were sitting around in Tugwell's Washington office with nothing to do.

I asked him to give me a figure, in writing, that he had in mind for relief up to the first of July and after. He said he would get it to me. He said he needed a few more million dollars this month for straight relief and then by the first of December he would wind up all relief and everybody then would be on work.

Miss Lonigan told me two things which, if true, are shocking; (1) that there are 400,000 people on private payrolls to whom Hopkins is giving checks each week because his organization claims that they are not being paid a living wage; (2) that the figures he would give out this week as to the number of people at work would be purely a guess figure.

STATUS OF ALLOCATIONS UNDER EMERGENCY RELIEF APPROPRIATION ACT OF 1935.

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Department or Agency Exclusive of Adm. Expenses	Allocated through December 14, 1935.	Unused Reserve for Allocations	Total	To be Saved If Possible	<i>Reserves allocated</i>
Agriculture (excl. of roads)	\$ 85,181,925 (a)	- -	\$ 85,181,925	- -	
Agriculture - Roads	500,000,000	- -	500,000,000	\$ 150,000,000	
Commerce	10,207,944	- -	10,207,944	- -	
Interior (excl. of P.R.R.A.)	86,350,456 (b)	- -	86,350,456	- -	20,000,000
Interior, P.R. Reconstruction Adm.	32,152,380 (c)	- -	32,152,380	15,000,000	
Labor (excl. U.S. Employment Ser.)	1,079,995 (d)	- -	1,079,995	- -	
Navy	17,345,470	- -	17,345,470	- -	
Treasury	18,541,066	- -	18,541,066	5,970,361	
War	143,658,935	- -	143,658,935	9,970,000	15,000,000
Alley Dwelling Authority	200,000 (e)	- -	200,000	- -	
Emergency Conservation Work	527,289,000	71,000,000	598,289,000	- -	
Employees Compensation Com.	28,000,000	- -	28,000,000	10,000,000	
P.W.A. Housing	101,373,050 (f)	- -	101,373,050	- -	100,000,000
P.W.A. Non-Federal	343,644,712	37,038 (g)	343,681,748	- -	
P.R.R.A.	928,039,460 (h)	- -	928,039,460	- -	
Library of Congress	211,500	- -	211,500	- -	
Resettlement Administration	158,420,000	85,880,000	244,300,000	- -	
Rural Electrification Adm.	8,543,512	2,605,300	11,148,812	- -	
Veterans' Administration	1,234,120	- -	1,234,120	- -	
Works Progress Adm. (i)	1,093,051,473	41,412,135	1,134,463,608	- -	
Administrative Expenses	141,854,695 (j)	15,437,940	157,292,635	- -	
Projects to be cancelled (est.)(k)				19,698,500	
<b>Total allocated and reserved</b>	<b>\$4,206,379,691</b>	<b>\$216,372,411</b>	<b>\$4,422,752,102</b>		
<b>Available for allocation</b>			<b>136,747,898</b>		
<b>Total</b>			<b>\$4,559,500,000</b>	<b>\$210,638,881</b>	151,000,000

- (a) Exclusive of \$4,250,000 transferred to Administrative Expenses.
- (b) Includes \$2,000,000 charged to amounts reserved for Resettlement Administration and \$3,574,856 for Works Progress Administration.
- (c) Exclusive of \$6,039,460 transferred to P.R.R.A. and \$750,000 to P.W.A. Housing Division.
- (d) Exclusive of U. S. Employment Service, which is included under Administrative Expenses.
- (e) Charged to amount reserved for Resettlement Administration.
- (f) Includes \$750,000 transferred from Puerto Rico Reconstruction Administration.
- (g) Based on amounts actually allocated by President. Memorandum of President on September 12, 1935 - \$200,000,000 for immediate allocation to projects in October. "If we can increase that to \$250,000,000 or even \$300,000,000 new money."
- (h) Includes \$8,039,460 transferred from Puerto Rico Reconstruction Administration.
- (i) Includes National Youth Administration.
- (j) Includes various transfers from project money.
- (k) Projects to be cancelled for one reason or another.

House Conference

STATUS OF ALLOCATIONS UNDER EMERGENCY RELIEF APPROPRIATION ACT OF 1935

ON SEPTEMBER 12, 1935.

Department or Agency (Exclusive of Adm. Expenses)	Allocated	Reserved At Hyde Park	To Be Rescinded
Agriculture (excl. of roads)	\$ 69,451,923	—	\$150,000,000
Agriculture - Roads	500,000,000	—	
Commerce	10,150,944	—	
Interior (excl. of P.R.R.A.)	100,351,000	—	20,000,000(a)
Interstate Rice Reconstruction Adm.	38,966,840	—	15,000,000
Labor	8,529,995	—	—
Army	17,370,470	—	—
Treasury	18,670,705	—	6,000,000(b)
	158,140,935	—	25,000,000
Employees Compensation Commission	28,000,000	—	10,000,000
Emergency Conservation Work	522,844,000	\$75,000,000	
Housing	246,732,000	—	146,000,000
N.W.A.	123,773,031	200,000,000 (c)	—
S.R.A.	710,000,000	200,000,000 (d)	—
Settlement Administration	120,000,000	126,500,000	—
Rural Electrification Adm.	1,148,812	10,000,000	—
Veterans' Administration	1,234,120	—	—
Works Progress Administration (d)	717,462,309	422,537,691	—
Administrative Expenses	66,129,924	75,000,000	—
Projects to be Rescinded	—	—	20,000,000
<b>Total</b>	<b>\$3,457,337,008 (e)</b>	<b>\$1,109,037,691</b>	<b>\$392,000,000</b>

(a) Reclamation projects.

(b) Includes \$5,000,000 Revolving Supply Fund.

(c) "\$200,000,000 for immediate allocation to projects ... in October ... we can increase that to \$250,000,000 or even \$300,000,000 new money."

(d) Includes National Youth Administration.

(e) Exclusive of projects approved by the Advisory Committee on allotments for which allocation had not been made.

November 16, 1935

Coolidge, Gaston and Bryan came in to discuss the advertising campaign for the sale of baby bonds, and decision was made to go into the six national farm papers in January and advertise in all of the sectional farm papers in February.

I told them I was watching the cost and that they had spent \$250,000 so far for promotion of sales. I told them it was a lot of money and I would like to see a little result, and find out if the amount of money invested is paying for itself. I would like to stop advertising in the national weeklies for a month and see what orders come in as a result of that advertising and if we find some are paying well, in March we can start it up again.

November 18, 1935

Mr. Bewley, Financial Counselor of the British Embassy, called today to see the Secretary. Mr. Lochhead was also present.

Mr. Bewley told the Secretary that, first, the Ambassador especially wanted him to express the Ambassador's gratitude for his action on whiskey, both for what you have done and for what you have said. The Secretary explained that the way it is now, anything over four years old can come in and that it is perfectly fair and does not compete with U. S. stocks. He thanked the Ambassador, through Mr. Bewley, and said he thought it was a happy arrangement.

"Well, on silver," said Mr. Bewley, "the last time I was here you asked me what the Hong Kong program was going to be and I had no explanation." He asked permission to read from some notes he had prepared, to which Mr. Morgenthau assented and asked if Mr. Bewley had any objections to notes being made on his remarks, and Mr. Bewley said none at all.

"The original position about China," continued Mr. Bewley, "was that in London in the spring and summer of this year, they were afraid that deflation in China, which was taking place, was going so far that the Chinese would be forced to do something about their currency; that they would not be able to carry on without banking troubles and that the alternatives seemed to be either deflation or managed currency on some sort of an exchange system based on the dollar, Sterling, the yuan or whatever it was. They were not able to talk along any definite line about what they thought the best solution was, because that depended on factors they did not understand, such as internal conditions in China and the Chinese banks' cooperation. For that reason they sent Leith-Ross out to explore what the best financial policy would be.

"Leith-Ross, since they had not made up their minds, had no instructions to press any particular policy. His instructions were to find out what the best line was, but he also had instructions that if they chose to adopt Sterling exchange, he was not to oppose it, but that was dependent on, first, the Chinese themselves choosing that if it suited their own situation; secondly, on the other countries mainly concerned, that is, themselves and you and Japan, giving the scheme their good will, if possible, and their cooperation,

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but at least their cooperation, and, third, on the scheme being technically sound. The Chinese told Leith-Ross, not long after he got there, that they did not believe in plain devaluation. They were not sure they could work it and they did express the view that they rather favored a Sterling exchange standard on the grounds, first, that that was the currency which suited their foreign trade best, and, secondly, that London was probably the easiest center in which to keep their reserves and, if they required a loan, possibly the easiest center in which to obtain a loan.

"They did not give any definite statement, because they wanted to know about the possibility of a loan. Leith-Ross told them there was no possibility of obtaining a loan until the other powers concerned, yourself, Japan and perhaps France, had been consulted and your cooperation was assured, and in the meantime -- without going into particulars with you -- he thought no scheme would work until there had been budget and bank reforms in China.

"That was the situation when the Chinese, on their own, decided to take the step they did. That was not done at the solicitation of Leith-Ross; in fact, it cut across his consultations which he had on the stabilization scheme.

"The decision is the Chinese have a scheme of their own and are trying to stabilize their currency on their own resources and as the British Government see it, they might be able to do it, but it depends upon what reserves they may be able to obtain to back their currency. First, they must be able to sell some of the silver and also they presumably would need a loan. The sale of silver depends largely upon what the United States Treasury decides. As regards a loan, the policy of the British Government is to come in to some extent, if the Chinese wish to come in and get a loan. On that point, the view of the Treasury, as I understand, is that the British banks could assume the loan or could assure a loan if the British Government gave it their O.K. There is an embargo on foreign loans in London, which is intended to preserve the Sterling exchange situation, and loans are refused if they are going to have any effect in weakening Sterling. Consequently, it would be very hard, if not impossible, for the British Government

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to agree to any loan unless it involved the Chinese currency being linked in some way with Sterling because, on any other basis, Sterling would have to be sold for dollars or gold and that would weaken the position of Sterling. That is the embargo policy for the moment. In any case, the British Government would not give their approval to a loan if the other countries would object; that is to say, yourself and Japan, and, if possible, they would prefer it, if there was a loan, if the other countries concerned would participate. They don't want to make the loan entirely on their own; that is not their policy. That then is the position as it stands in China."

Mr. Morgenthau said, "You don't separate Shanghai from Hong Kong?"

Mr. Bewley said, "That is Shanghai. I think as regards Shanghai, the American Embassy had not told Leith-Ross anything about their policy."

Mr. Morgenthau replied, "He has been in to see Johnson and simply assured him that the movement the Chinese made was without his knowledge and to use his language, as I understood it from Johnson, the Chinese had "beat the gun." That's what he has told them. But what you have just told me about policy on a loan is new to me. Most likely the State Department knows it, but I don't because I have never discussed this question other than when I have been sounded out on a loan I have been very cold. We have not said that we wouldn't, but on the other hand I have very much discouraged them in thinking they could get a loan, because I don't think there is much chance. That's our position."

"On the other hand," continued Mr. Morgenthau, "what's new there -- you are being very frank and I respond to that frankness -- I would say it would be impossible almost for Great Britain, Japan and ourselves to get together on a joint loan if Great Britain would insist that the currency be tied to Sterling. On the other hand, I can understand why you would insist on it."

Mr. Bewley said, "We would not insist unless it involved a loan. Only, if the Chinese wanted a loan from us, it would be a condition of the loan."

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"But let's say," said Mr. Morgenthau, "if the four countries jointly would make a loan, you people would still insist that their currency be tied to Sterling? It would almost preclude our joining."

Mr. Bewley said, "I would not like to be definite in what I say, but I think it is probable we would insist on it."

Mr. Morgenthau then told Mr. Bewley the following: "I would say that from what you have told me and what I have known before, it just makes it that much more difficult for the three or four countries to join together in making China a loan. It adds to the difficulties and they are almost insurmountable. And that has been my position here. But that does not take care of the immediate day-to-day situation which exists in Shanghai, because that is something, if you read the papers, that may go up tomorrow. I don't know."

Mr. Bewley told the Secretary that "On the day-to-day situation we have not been informed any more than I have told you."

Mr. Morgenthau asked Mr. Bewley, at this point, the following: "The question now is that China has taken this move. How much interested are you in seeing them make it a success?" Mr. Bewley replied, "I think we would like to. I think it is obvious we would like to." And Mr. Morgenthau said, "How far do you want to go in seeing her make a success of it, because it is quite obvious Japan does not and is doing everything to make it fail financially."

Mr. Bewley replied, "Our line has always been that we don't want to do anything unless we have the good will of the Japanese and yourselves. If it comes to a definite conflict of opinion between the Japanese and other powers, I would not like to say at all what it would be."

"Suppose everybody could get together except the Japanese?" asked Mr. Morgenthau. Mr. Bewley replied, "That's you and we and the French (but the French are not much interested?) Is there any definite alternative in your mind?" And Mr. Morgenthau said, "I will just go that far." Mr. Bewley said, "I would not like to say, because it is our policy to work in with the Japanese, if possible. The Ambassador talked to the State Department and one of the main features he made was, if possible, to work in everybody."

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Mr. Morgenthau told Mr. Bewley that, to quote him, "I have pretty good reasons to believe that as a straight banking and financial matter, the Japanese have done everything to wreck it. I am just saying that they have gone out and done everything possible to keep this move of the Chinese from being a success. I am not talking military now; I am talking straight finance."

Mr. Bewley said, "I don't know if it is a question you can answer, but do you think it is possible for the other two countries to do much if the Japanese are really out to wreck it?" H.M., Jr., said, "I don't know. You can't tell what you can do until you try it. Talking for myself, I would like to see the Chinese succeed." And Bewley replied, "I think we all would." Mr. Morgenthau said, "But just saying so and sitting here is not much help." Mr. Bewley agreed, saying, "Yes; quite." He continued, "There are two possible lines on that. I don't know it is quite fair to ask you. I don't know whether we would be prepared to make a loan on our own, apart from you and the Japanese. I am putting this purely hypothetically. Would you have any strong objections or feeling on that?" And Mr. Morgenthau said, "Oh! No!." "That would not conflict?", asked Mr. Bewley. And the Secretary replied, "You mean if you people made a loan, would the United States object? Oh! No! We would have no right." And Bewley explained, "I mean if we could only make the loan on condition that they join with Sterling, it would be difficult for you to do so? You would have no feeling?" Mr. Morgenthau replied, "Don't misunderstand me -- not if it was a fair bargain with China; if you people did not drive too hard a bargain. It has been done before. I don't mean by you. If it was a fair bargain to China, then we could not object." Mr. Bewley replied, "I don't think that will arise. We would certainly be loathe to act on our own, we would rather act, if possible, with the two of you."

Mr. Morgenthau told Mr. Bewley, "If she does not get some help, it looks pretty gloomy over there. This is pretty important what I am talking about and at this time I would not care to go any further, but they are pretty desperate; pretty desperate."

Mr. Bewley explained that he did not think there was any more he could say at the moment. Mr. Morgenthau agreed and said, "But you get what I have in mind and, as I say, when one talks frankly to me, I can talk equally frankly. If you

have any ideas, come in, and if you don't come back we will just know that there is nothing more to follow along that particular line."

Mr. Bewley here said, "There is something more, because in this case there is the question of Hong Kong. What they have said so far is that they are sorry they can't give me any more about the future of Hong Kong currency. Hong Kong is practically a part of China and they presumably can't decide about Hong Kong until the position of China has been cleared. And the only other thing, I would like to rectify -- I think I said 100,000,000 ounces was the reserve the Government has against silver. I now find that 100,000,000 ounces covers everything."

Mr. Morgenthau said, "I am just going to say this much -- I am not showing my hand for today. That's all I am going to say, but if I had some indication of the feeler I have given you I would be much more inclined to show my hand." He added, "I think we are making a gesture through Governor Norman which is much to our mutual advantage. We are trying to work out an arrangement which will retard the flow of gold here and Governor Harrison has talked twice to Governor Norman and the suggestion comes from us. He seemed to like whatever we are doing." Mr. Bewley wanted to know if there was anything the Secretary would like him to do. Mr. Morgenthau told him, "We have initiated it and I think it is a friendly gesture again. We could do it through our own banks, but we chose to do it through the Bank of England. The fact you are here is why I thought I would tell you and if you should head about it on Tuesday or Wednesday, there is no reason why you should not know it now. Ordinarily, I don't do it through the British or French; I do it through the Central Bank. All I am trying to do, without changing anything, is just to put the brakes on, to sort of try in some way to stop the violent fluctuations, and then it will work both ways." Mr. Bewley thanked the Secretary for his kindness and courtesy in telling him of this.

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After Mr. Bewley left, the Secretary called in Mr. Coolidge and the Secretary and Mr. Lochhead summarized for Mr. Coolidge the conversation between Mr. Bewley and Mr. Morgenthau, as

follows.

Mr. Bewley came in again in regard to the selling of silver for Hong Kong, but he brought up the question of Shanghai and gave us their general views. He said Leith-Ross went out to China to study the whole situation. He was not instructed to try to get China to go on Sterling basis; however, he was not instructed to oppose them if they did want to go on Sterling basis. Bewley said that under their instructions they could not participate in any loan unless the loan would put China on Sterling basis, and how did we feel if they wanted to make a loan? So HM, Jr. said, I have no objections as long as you give China a fair bargain. Then he tried to sound out the Secretary and he told Bewley that the Treasury's position had been that a loan to China was almost impossible and from what Bewley had told him today made it that much more impossible for us to participate in a loan to China.

Then the Secretary went on to say that this is a day-to-day business. He asked Mr. Bewley how they felt about China making a success and Mr. Bewley said, Oh, we want to see it! I told him that we too wanted to see it, but our sitting here does not help very much and HM, Jr., told Mr. Bewley that he happened to know that Japan has done everything in the exchange markets to make the plan fail. Mr. Morgenthau asked him if it had occurred to them that knowing Japan wants to make it fail, that the United States and England might jointly want to help China make a success of it. Bewley said that up to now they had never wanted to do anything that Japan did not join them on. So the Secretary told him, all right; he was just thinking out loud, and if it was not acceptable just to forget it, but that China is desperate. HM, Jr. told Bewley he had not showed his hand, but if, on the other hand, he knew that Great Britain was willing to overlook the fact that Japan does not want the plan to succeed, he would feel entirely different towards showing his hand.

HM, Jr. told Coolidge that Bewley was a smart person and what he had thrown out was a suggestion of the idea of Great Britain and the United States cooperating without Japan and he got it all right and then HM, Jr. told him, that as long as he (Bewley) was here, he wanted to tell him that we are working on something with Governor Norman to retard the flow of gold both ways and that we usually do such things through the Central Banks and not through the Embassy and that he was

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only telling Bewley because he was present and he might hear about it Tuesday or Wednesday and might as well know now.

Mr. Morgenthau told Mr. Coolidge he had forgotten to say that when Bewley came in he brought the British Ambassador's gratitude for the Treasury's action on whiskey and wanted personally to thank the Secretary.

HM, Jr. also told Mr. Coolidge that as far as Hong Kong is concerned, Bewley had said that what they are going to do they can't tell until they know what Shanghai is going to do. HM, Jr. told Coolidge that he felt his way very, very carefully, but he would not have gone so far if the President had not given him his O.K. The President had told Mr. Morgenthau that he could go that far, but to be very vague. The Secretary told Coolidge he had kept the conversation strictly on a monetary basis.

1935  
November 18th

I told the President that I was doing nothing about the unemployment situation now and was planning to wait until after December 1st when the three and one half million men supposedly would be at work. However, I have been disturbed very much by Hopkins coming to see me Friday and telling me that he would be out of money by April 1st. The President said, "no, his money ought to last him until May 1st" - which also surprised me. I then said, "can't we let this question of additional money for Hopkins wait until after you return from Warm Springs" and he said, "yes, with the exception that Harry may need some additional money to wind up his present relief work." I said, "yes, I understand that he made need an addition three to five million dollars this month". The President said yes that was what he understood too.

I said that Wallace had told me this morning that Tugwell had dropped a hint that he might want to put some of the resettlement work in the Department of Agriculture and the President said, "emphatically no". He then sketched expenditures as he saw them and thought that the budget would come up to about four billion dollars including everything except relief.

He said he doubted if he would talk with Buchanan at this time about relief. I then asked, "how about the bonus" and rather crankily he said, "the bonus does not go into the budget message" so I rather hesitatingly and fearfully said to him, "do you care to tell me what you have in your mind about the bonus". He said, "what do you mean" so I answered, "do you expect to sign the bill if it passes" and he said, "how can I tell - how do I know what kind of a bill they are going to pass", so I knew that I was irritating him but I continued to press for an answer and then he said, "there is not one chance in ten that I will sign the bill" and I said, "well no one can ask for more at this time".

I cleared up two things:

1. He does not intend to include the bonus in his budget message.
2. I think I might assume that the odds are in favor of his vetoing a bonus bill but I would not want to bet very much money on it.

I told him about Bulkley's coming. So he refreshed his memory and said, "if you wish to, you can tell Bulkley that the case of Collector Moore is not one of law but one of ethics - what is right and what is wrong and you can say that the President says that Moore has to make up his mind whether he wants to resign or turn back the money.

November 18th

Charlie West and Senator Bulkley came to see me this morning in regard to Moore. Charlie West did not tell Bulkley until five minutes before he came over here that the President would not see Bulkley - that he had to settle this matter between West and myself. Bulkley blew up because the President would not see him. Then he came in here in a vile humor and claimed that I had given my word that before I did anything further that I would talk to Bulkley about it. I told him that I had no recollection of having given my word. Then, when he insisted that I had and got mad, I became very angry and went completely off the handle and said that no one had ever said in Washington that I had ever broken my word and I would not permit anybody to say so. He then calmed down and was willing to say that he believed me but could not help that his recollection was different. We shook hands. I think everything is all right.

He now wants me to have Moore only pay the money back from the time he got the notice from us which was sometime in May although he is not insisting on that. West tells me that Bulkley actually has Moore's letter in his pocket in which Moore says that he is willing to return the money.

I called Oliphant in and tried to prepare a letter which would work the thing out and I am to see Bulkley again tomorrow.

November 18, 1935.  
Monday

Charles West: What you said this morning to the Senator is -- had a very good effect.

H.M.Jr.: Well I'm glad to hear that - any reservations?

C.W.: - He said no - no reservations. - I had lunch with him -

H.M.Jr.: Good

C.W.: - and he said this, 'Well' he said, 'I can understand now, really how that could have happened that he might just have said incidentally that he had seen me' - and he said that he was thinking of only just one thing -

H.M.Jr.: Yes

C.W.: - and that was the Moore matter

H.M.Jr.: Yes

C.W.: - and he might have misinterpreted. He said, 'That's all right,' he said, 'I'm awful glad I had a chance just to talk with him directly on it'.

H.M.Jr.: Yes

C.W.: So I was thinking this, that if you can uphold the principle and not have to change your position on the fundamental -

H.M.Jr.: Yes

C.W.: - proposition, but make any moderate concession - I think it will just fix it up and he'll be perfectly satisfied.

H.M.Jr.: Yes --

C.W.: Well, of course, he told me afterwards, more frankly than, or more freely than he did to you

H.M.Jr.: Yes

C.W.: - that Moore had no 'damn business' getting mixed up in it, that even though there might not be a violation of the technical regulation, that it was embarrassing and that Moore certainly shouldn't have done anything of that sort.

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H.M.Jr.: Yes

C.W.: So I feel that if any concession can be made - while still upholding the principle that it'll -- that he'll be perfectly satisfied.

H.M.Jr.: Yes, well, I'm going to see Oliphant in a few minutes. - Where is Senator Bulkley staying - what hotel?

C.W.: At the Carlton Hotel

H.M.Jr.: Carlton?

C.W.: Yes, and if you can't send those addresses - those letters

H.M.Jr.: We will

C.W.: - to his office send them to the Carlton.

H.M.Jr.: - We'll send them to the Carlton Hotel tonight.

C.W.: Yes, - that'll be good.

H.M.Jr.: Well, I appreciate your calling. - I feel, I mean I -- after all, he's thinking of - of just Moore in each word and I myself, as he left the door said, 'Well, Senator, I'll see you again about this matter'.

C.W.: Yes

H.M.Jr.: And just not remembered it.

C.W.: Yes, well that could certainly have happened.

H.M.Jr.: But, for me to say, 'Now before I do anything I'll take it up with you', I'd have made a note of that.

C.W.: Why certainly you would.

H.M.Jr.: Yes

C.W.: I felt certain that --

H.M.Jr.: Well I think it was good for both of our blood pressures to have blown off.

C.W.: Exactly so, Henry, it didn't do a bit of harm and he's got the thing off of his chest now -

H.M.Jr.: Fine

C.W.: And --

- H.M.Jr.: I don't want to make an enemy of him.
- C.W.: No - and it isn't necessary and it won't be that -
- H.M.Jr.: And the beauty is that he changed his mind and if we can settle it without bothering the President I'd love it.
- C.W.: That's just what I want to do
- H.M.Jr.: Yes
- C.W.: I didn't want to get him to go over there and hash over the details of this because the President should not be dragged into it.
- H.M.Jr.: No
- C.W.: You're dead right on your proposition with reference to it.
- H.M.Jr.: Fine
- C.W.: Bulkley admits that, he told me so in so many words, in fact, he showed me the letter that he had ready to hand to the President, but when I told him what I did this morning (Laughter), that we were going to handle it entirely with you -
- H.M.Jr.: Yes - he went up to the ceiling -
- C.W.: Yes, he - you see, he thought you were so far apart that he couldn't work it out.
- H.M.Jr.: Yes
- C.W.: But now - now he feels better, the fact that you told him just what you did
- H.M.Jr.: Yes
- C.W.: - was all right.
- H.M.Jr.: Fine - Well I --
- C.W.: I wasn't able to get a tip to you (Laughter) before we got over.
- H.M.Jr.: Well, I might not have reacted as naturally if you had.
- C.W.: I think that's true.
- H.M.Jr.: All right

C.W.: (Laughter) All right, Henry.

H.M.Jr.: Thank you.

C.W.: Goodbye.

November 18, 1935

The following met with the Secretary today: Mr. Gibbons, Mr. McReynolds, Commissioner Moyle, Mr. Ballinger, Mr. Dow and Mr. Gorman.

Mr. Gibbons presented to the Secretary a memorandum from Mr. Gorman (copy attached) containing Gorman's ideas on how to correct apparent unsatisfactory personnel investigations by the Customs Agency corps. Mr. Gibbons also presented a proposed Treasury Decision, which Gorman had prepared and which he hoped would remedy certain existing conditions.

Mr. Gibbons pointed out that under the prevailing procedure, when a customs agent goes into a port and makes a quick audit, as a result of which he finds the collector or assistant collector or one of the higher-ups is engaged in misconduct which involves moral turpitude, the agent must stop the investigation and report his findings to Washington. Oftentimes in a case like this, the Commissioner or Assistant Secretary or someone in Washington would order the investigation closed because the employee suspected of dereliction of duty is a friend of a senator or a presidential appointee. Mr. Gibbons said he felt that was where all the trouble originated.

Under the proposed Treasury Decision, if the Secretary would sign it, customs agents will be authorized to conduct examinations and investigations without prior approval from Washington, and would clear up the whole situation.

Mr. Morgenthau read the memorandum through, rather hurriedly, as he was pressed for time, and questioned paragraph 5. Mr. Gorman explained to him that it was not intended to bring in new men from the outside; on the contrary, all agents would be taken from the employees of the Customs Service after having had at least five years' service and would in this way be appointed without regard to political affiliation. Mr. Gibbons pointed out that Post Office Inspectors are appointed in this way. Mr. Morgenthau said he was for giving the man in the ranks a chance.

The Secretary told the group that he considered Mr. Gorman's memorandum excellent and that it looked all right to him and was just the kind of memo he wanted. He suggested, however, that more time be given to it and that McReynolds should study

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it and include any suggestions which any of the group wished to make. He instructed McReynolds and Gibbons to bring back to him, within 24 hours, a finished product.

Mr. Morgenthau told Gorman it was up to him to get results and he thought this was the way to work it. He also told Mr. Gorman that as he goes out in the field to confer with the supervising customs agents and as their reports come in, he will find a lot of stuff at the top of the kettle -- "scum and stuff" -- which will have to be removed, but he thought Gorman had the right idea on correcting conditions and that he was very much pleased with the memorandum.

November 16, 1935.

TO THE SECRETARY OF THE TREASURY

FROM DEPUTY COMMISSIONER OF CUSTOMS GORMAN:

IN RE: Personnel Investigations Conducted by the Customs Agency Service.

Having in mind the matters discussed at a conference held in the Secretary's office on November 14, 1935, with respect to the unsatisfactory manner in which recent personnel investigations have been conducted by the Customs Agency corps, and its failure to detect and report flagrant derelictions on the part of customs personnel in the various districts, I have the honor to submit the following recommendations which if adopted will, in my opinion, afford the Deputy Commissioner in charge of the Investigative Unit of the Bureau of Customs, and the respective Supervising Customs Agents in the field, the necessary freedom of action in dealing with the situation and instituting remedial measures in the premises:

1. The promulgation by the Secretary of the Treasury, through a Treasury decision, of the revocation of the provision contained on Page 2, Section IV, of the Manual for use of United States Customs Agents Making Port Examinations, which relates to investigating allegations of misconduct on the part of any

officer or employee of the Customs Service other than chief administrative officers of the headquarters port. As to these latter officials, the instructions are: "Charges of misconduct involving moral turpitude on the part of chief administrative officers or their chief assistants should be submitted to the Bureau of Customs prior to investigation." A suggested draft of an order from the Secretary revoking the above provision is hereto attached.

In this connection, it is needless to point out that the above provision has in fact operated as a deterrent rather than an incentive for customs agents to investigate and report conditions reflecting derelictions or laxities on the parts of collectors and their chief assistants in their administration of the respective collection districts. Customs agents, having in mind what happened to certain members of the corps who had the temerity to investigate conditions involving possible moral turpitude on the parts of field administrative officers, are rather hesitant to investigate such matters unless and until they assume grave proportions. Without going into much detail, and relying solely on memory, I may cite the case of an agent (Lewis, who was transferred from New York to New Orleans for the reason that he was obnoxious to a Presidential customs appointee on account of his persistence in having a thorough

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investigation made of the baggage of passengers arriving from abroad who were friends of the individual in question, and who were met on the piers by him, with the evident purpose of having the baggage passed without proper inspection.

Another case which may be cited is that of an agent (Scharff), who by reason of his zealouslyness in investigating personnel conditions at Nogales, incurred the enmity of the collector as well as that of a United States Senator, who recommended: "I hope you will see fit after proper investigation to order his removal from the Nogales section, as I think he has been there too long." This agent was in fact transferred from Nogales to Galveston, and, thereafter, on a similar insistence of the Collector of the Galveston District, transferred to his present station at San Antonio.

Another case is that of an agent now deceased (Pat Gardner), who reported a vast shortage in the seized liquor at Detroit, and inferred that the collector had something to do with its disappearance. This report somehow got into the newspapers, with the result that the agent was demoted from his position as Customs Agent in Charge at Detroit, and transferred to another station.

Another instance, which is perhaps within the memory of the Secretary, relates to an incident where the Supervising

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Customs Agent at Seattle (Green), tapped the wire of an individual (a known racketeer), who, it was reported, was endeavoring through the collector to have himself declared "in" on a split of the moiety paid in the Reifel case. The agents listened in on the tapped wire to conversations between the individual and the collector, but nothing detrimental to the latter developed. The collector, however, was much exercised when he learned that the wire referred to had been tapped, and, so I have been informed, threatened to have the agent transferred from his district, and came to Washington and protested vehemently to Department officials as well as to his Senators and Congressmen on the hill about the way he had been humiliated.

Another case has to do with certain customs agents at New York (O'Keefe, McAniff, et al.) who by reason of their activities in investigating the actions of certain examiners in the Appraiser's Stores at New York, including one who subsequently was sent to prison, incurred the ill will of the Appraiser and were virtually barred from visiting the Appraiser's Stores by the Appraiser.

2. Frequent inspections by the Deputy Commissioner in Charge of the Investigative Unit, of all the various offices

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under his supervision in this country, and the inspection by him of the customs offices abroad at such time as opportunity affords.

Since being appointed Deputy Commissioner of Customs five years ago, I have only inspected the nearby offices, and those at irregular intervals, and have never visited the offices located on the Mexican border nor the Pacific coast. I have hesitated to make long trips such as to the Pacific coast, or frequent jumps to nearby districts on the Atlantic coast and the Canadian border, for fear that they would be looked upon as "junkets."

I, therefore, desire to have full authority to make such inspection trips without prior permission, whenever I deem it necessary to do so.

In this connection I would strongly urge that I be authorized to visit immediately every Customs Agency District in this country, for the purpose of conferring with the Supervising Customs Agents and their subordinates and acquainting them with the fact that they will be held individually and severally responsible for the proper conduct of the personnel in their districts.

3. That until the Customs Agency Service, under the proposed new set-up, demonstrates its unfitness to keep the Customs houses in order, and to efficiently investigate personnel cases,

no outside investigative agencies be instructed to conduct investigations dealing with purely customs matters. It is perhaps needless to say that the assignment of outside agents to work ordinarily handled by customs agents has a demoralizing effect on the latter. When outside agencies are assigned to conduct investigations of customs personnel cases, such as the Secret Service investigation of conditions on the docks at New York, the local customs agents have a tendency to cease their activities in that regard, on the assumption that they might interfere with the investigation being conducted by the other agency.

4. That the Deputy Commissioner of Customs, in charge of the Investigative Unit, furnish directly to the Secretary, currently or periodically, as may be determined upon, brief synopses of all future personnel investigations conducted by the Customs Agency corps, either on their own initiative or upon requests from collectors or instructions from the Bureau of Customs. This, in order to keep the Secretary informed as to just what is being done in the customs field in this regard.

5. That all future appointments of customs agents be made by selection from the customs ranks of men who have had at least five years customs experience and who have successfully passed a special examination attesting their knowledge

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of the various branches of customs work. Assistant Secretary Gibbons has advocated such procedure, and its adoption would serve to remove the position from the influence of politics, which influence in the past has resulted in the appointment of men not qualified for the general duties of a customs agent. While there are a few such still on the roster they are nearing the age of retirement and are being used on work of minor importance but essential to the general routine. This situation is gradually clearing up and will be entirely cured if all future appointments to the corps are restricted to picked men from the customs ranks and not made from the standpoint of political expediency.

That customs agents have been extremely effective in the past in uncovering laxity in the customs personnel is evidenced by an investigation instituted by the Supervising Customs Agent at Seattle, which resulted in the conviction and sentence of the former collector of customs at Seattle, the dismissal of three inspectors, the demotion of the chief inspector, and the suspension of three other customs employees, for irregularities in their official conduct.

Reference may also be made to the investigation initiated by Supervising Customs Agent Lewis a few years ago at Detroit, which resulted in the conviction and sentencing of approximately fifteen border patrol inspectors at Detroit for the acceptance

of bribes. This investigation was extended to other points along the Canadian border, which resulted in the dismissal of several other inspectors, at Buffalo and Ogdensburg.

It may be added that at the present time a committee of customs agents is engaged in reorganizing the personnel and business methods of the San Antonio Customs Collection District, with a view to correcting the known laxity which exists there, and placing the district on an efficient basis.

I feel confident that with the adoption of the above recommendations the Customs Agency Service will function in a more efficient manner, particularly with respect to their investigations of customs personnel cases, than at present. If it does not there should be a shake-up in the corps from the top to the bottom.

(SGD) THOMAS J. GORMAN

Copy  
(T.D.)

TREASURY DEPARTMENT  
Office of the Commissioner of Customs  
Washington, D. C.

TO COLLECTORS OF CUSTOMS,  
SUPERVISING CUSTOMS AGENTS,  
AND OTHERS CONCERNED:

In the conduct of investigations of alleged official misconduct on the part of chief administrative officers of the Customs Service, written and oral instructions have been issued, and adhered to, the effect of which has been that charges of misconduct involving moral turpitude on the part of chief administrative officers or their chief assistants must be submitted to the Bureau of Customs prior to investigation.

It is the desire of the Department that in the future there shall be no differentiation in the treatment of chief administrative officers of customs and their subordinates in the matter of investigating accusations of alleged official misconduct. All rules, regulations and instructions in conflict with this expressed policy are hereby revoked.

Undivided responsibility for the investigation and reporting to proper authority of all irregularities concerning any phase of customs administration or misconduct on the part of customs employees, by whatever means brought to its attention, rests with the Customs Agency Service. This injunction, however, is not to be construed as abridging or modifying the responsibility of Presidential appointees acting in administrative capacities in the various customs collection districts of maintaining discipline and efficiency in the customs personnel.

Collectors and other chief officers of the customs are directed to cooperate in making effective this order.

(Signed) H. Morgenthau Jr.  
Secretary of the Treasury

cc-Mr. Oliphant  
cc-Mrs. Klotz  
cc-Mrs. Forbush

A group met in the office of Under Secretary Coolidge at 3:00 o'clock, to discuss preferred stock in banks. 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.  
Leo T. Crowley, Chairman FDIC,  
J.F.T. O'Connor, Comptroller of the Currency,  
W.P. Folger, Chief, National Bank Examiner,  
C.B.Upham.

Mr. O'Connor reported that his office had selected 120 national banks which could safely retire preferred stock aggregating 104 million.

Mr. Morgenthau said that a good many of the banks are in better shape than they were at the time they sold preferred stock. The list presented by Mr. O'Connor, he said, demonstrated that something could be done in the way of retiring preferred stock. He was particularly impressed with the number of upstate New York banks in the list. He referred to the fact that 150 million of RFC debentures are coming due on December 15th and suggested the possibility of "washing them out" by the return of an equivalent amount from the banks through the retirement of preferred stock.

Mr. Eccles referred to the appreciation in the bonds and in the security for collateral loans in many of the banks. He pointed out that there might be local situations which continued bad.

Mr. Crowley commented that the Government had just gotten through

putting the screws on the banks and if reduction in capital stock is advocated at this time it may well be that 1000 banks can pay down but if they do we will be unable to criticize their capital position for a long time. He added that if there is a bond depreciation a general insolvency may result.

Mr. Morgenthau explained the fundamental reason behind his desire to have some of the preferred stock retired. He said that there had been a good bit of talk about the Government leaving the lending field when the emergency is over. He would like to pick up money everywhere he can as a notice to the people that there is an end of the road ahead. If our expenditures and our debt continue to rise it will look as if there is no end to the emergency. The main complaint is about the size of the public debt. Mr. Morgenthau emphasized, however, that he only wants to bring about the retirement of preferred stock if it is good banking practise. If it is not, he thinks the whole idea should be dropped.

Mr. Coolidge said that he thought Government agencies would be in an embarrassing position if the request for reduction came from them but he was of the opinion that if the Chase National Bank and the National City Bank were to repay the 100 million of their preferred capital, as the Comptroller says they can safely do, it would be notice to the country which would be taken advantage of by many other banks.

Mr. O'Connor commented that a number of banks have paid off their preferred stock and that his office has encouraged it when possible.

Mr. Eccles pointed to the fact that deposits were rising and

suggested that some attention should be given to the ratio of capital to deposits.

Mr. O'Connor was of the opinion that there should be no announcement of policy but that we should rely upon what has been continually stated to be Treasury policy and Government policy, namely, that the Government does not want to permanently own the banks.

Mr. Morgenthau suggested that we let the banks approach us and said that he would be satisfied to let the movement start by a paying down of the 98 million in the two big New York banks.

Mr. O'Connor suggested that he and Mr. Coolidge take it up with those two banks.

Mr. Coolidge said that he expected to be in New York tomorrow and had appointments with the heads of those two banks.

Mr. Folger said that the capital of National City is now about one to six and that even after they retire their preferred stock they will have a ratio better than 1 to 10. He said that this was after doubtful and loss had been eliminated, and without counting a 16 million appreciation which doesn't show.

Mr. Crowley suggested that there be an end to new commitments for the purchase of preferred stock and Mr. Morgenthau said these were very few, probably not more than one a week and that he would not like to have too strict a rule against taking action in such cases. He suggested that consultation be had with Jesse Jones and if approved by him that the National City Bank and the Chase National Bank be approached.

Later Mr. Morgenthau talked to Jesse Jones and it was agreed

that there would be further discussion before the New York banks were approached.

Mr. Eccles said that he would advise the Federal Reserve agents to permit banks to retire their preferred stock if the Federal Reserve agents regarded it as safe.

Mr. Morgenthau said he thought this action would have a healthy effect on the banking fraternity. He said that the Treasury has been looking at all the lending agencies to see how each can help reduce the public debt.

Mr. Crowley mentioned the possibility that the RFC might sell some of its assets to banks, to which Mr. Eccles commented that he had told the banks so in their Convention at New Orleans -- that they should go out and get the loans that the Government is making.

Mr. Morgenthau said he thought this might help to put the banks in a good frame of mind for the December financing, to which Mr. Coolidge commented that that was his hunch.

Mr. Crowley was for cutting the banks and businessmen off from future help by the Government since they do not appreciate Government aid.

Mr. Morgenthau felt that a good many "little fellows" still need aid.

Mr. O'Connor referred to an 11 million conversion of RFC preferred stock to local investment on the Pacific Coast which he thinks he can arrange.

Mr. Eccles commented that the elimination of double liability on bank stock would help to encourage local investment.

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Mr. O'Connor emphasized again that they must avoid an announcement of policy. He said several banks in New Orleans approached him with proposals that they retire their preferred stock and some of them, he said, would have to be reduced.

Mr. Eccles submitted a letter addressed to Secretary Morgenthau giving the situation with respect to the State member banks. In that list some 36 banks had been indicated as being safely able to retire some \$3,465,000 of RFC preferred stock.

Mr. Crowley stated that probably 48 banks among the non-members had retired their preferred stock since the list had been furnished him and that probably 50 more could safely do so.

There are attached copies of the letter from Mr. Eccles and the memorandum from Mr. O'Connor.

November 18, 1935

MEMORANDUM:

There have been marked with an asterisk (\*) 120 banks, which it is believed can safely pay off the RFC and retire preferred stock aggregating \$104,514,551.

This includes the National City and the Chase National Bank of New York with preferred stock listed in the schedule of \$49,000,000 and \$46,000,000 respectively.

FEDERAL RESERVE BOARD

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WASHINGTON

OFFICE OF GOVERNOR

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

My dear Mr. Morgenthau:

In accordance with your request transmitted with Mr. Upham's memorandum of October 31, 1935, a review has been made of the condition of the State member banks in which the Reconstruction Finance Corporation has a capital investment in order to determine which of such banks might with safety retire at this time all or a substantial portion of the preferred stock or capital notes or debentures held by the Corporation.

In this connection, however, I wish to state that I do not believe that it is advisable at this time to urge or request banks to reduce their capital structures by retiring the capital held by the Reconstruction Finance Corporation. As you well know, strenuous efforts have been made during the past few years by the various Governmental agencies and State banking departments to have banks strengthen their capital structures, and in this program the greatest part of additional capital has been supplied by the Corporation. There is no question, of course, but that it is highly desirable that, as soon as practicable, the necessary permanent capital strengthening of banks be taken over by private interests and the Corporation's capital be retired. The Federal Reserve Agents, however, are generally of the opinion that it will not be practicable at this time to transfer any substantial portion of the capital investment of the Corporation in State member banks to private investors,

Hon. Henry Morgenthau, Jr. - 2.

although it has been indicated that such transfers are desired by the banks and that the transfers will increase as bank earnings increase and become more stabilized.

I have also been informed that the banks are eager to retire the capital held by the Corporation as soon as they feel that they are in a position to do so, and that in numerous cases, at least, the problem will not be to get the banks to retire such capital but to keep them from doing so prematurely.

Attached is the list of banks transmitted with Mr. Upham's memorandum. Opposite the names of 36 banks on the list have been inserted in red ink the amounts of preferred stock or capital notes or debentures held by the Corporation which the Federal Reserve Agents and the Board's Division of Examinations feel can be retired with safety at this time, the total amounting to \$5,465,000.

In determining whether a bank could safely retire a substantial portion of the capital held by the Corporation, consideration was given to the capital ratio of the bank, the general type of assets held, its investment in fixed assets, quality of investment securities, trend of deposits, competency of the management, and other tangible and intangible factors bearing on the adequacy of the net sound capital. In some cases where banks were apparently in a position to make retirements, it has been thought prudent to retain the Reconstruction Finance Corporation's investment for the time being due to such factors as recent reorganizations, possible mergers, rapidly increasing deposits, unsatisfactory quality of investments, stability of conditions in the community

Hon. Henry Morgenthau, Jr. - 5.

and other similar factors. In general, the review was based on conservative standards.

It has not been possible to express an opinion as to the practicability of the repayment of loans made by the Reconstruction Finance Corporation to local parties to assist in the recapitalization of certain banks inasmuch as such loans were made by the Corporation directly to the parties at interest on collateral acceptable to the Corporation.

Sincerely yours,

Chairman.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 18, 1935.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF FRANCE.

Mr. Cariguel called me at 11:53 a. m. today. He stated that the market in Paris had been very much quieter on Saturday and today, the dollar business on Saturday totaling \$4,000,000, today so far only \$2,000,000. The rate, he added, was 15.17 1/2 (.065897 cents per franc) which is above the gold point. I asked whether he attributed this turn to special developments. He thought not but pointed out that France was in a much stronger position relatively today because the "bad money" which had left the country last May-June had not returned. The Bank of France lost some gold today as a result of last week's operations but does not expect that any new arrangements for withdrawing gold will be made today.

Cariguel referred to the cable that Governor Tannery had sent to Governor Harrison; I told him the Governor had been away on Saturday and was in Washington today.

LWK:KMC

November 18th

Had lunch with the President and we discussed a memorandum that Wallace had on next year's cotton program. (memorandum attached). After much discussion, the President agreed to the following program, namely:

That, using 44 million acres as a base for cotton for the coming year, he would agree to 28% reduction in acreage provided that Wallace would promise him that from August, 1936 to August, 1937 there would be a considerable reduction in the amount of cotton carried over. Wallace told the President that he could not agree to this as - how would he know how the weather would be - but I believe the decision was made that Wallace would now go ahead with his plans as outlined in this memorandum.

Next the President took up the question of the Bankhead tenant bill. He wants something done about it he said quite frankly for the political effect, namely, he wants to find a means to let farmer tenants, who have no money, buy farms from the government. We could not get together so I suggested that Wallace, Myers, Tugwell and I meet to see if we could not find some way that between Tugwell and Myers' organizations we could accomplish what the President wanted without additional legislation.

For the first time, the President suggested that after January 1, 1937 we have a new department in which all of the Lending Agencies would be combined such as HOLC, PWA, FCA, etc. I was very much interested in this suggestion but remarked emphatically that I would not want such an agency in the Treasury. The President was equally emphatic that it should not be in the Treasury. I was glad to see him thinking along these lines.

F. D. K will agree to following program  
28% reduction on 44 million base  
if <sup>D</sup> Aug 36 to Aug 37 F. D. L. wants <sup>45</sup> guarantee  
<sup>R</sup> that in this period their will  
<sup>A</sup> be reduction in carry over  
<sup>F</sup>  
<sup>T</sup>

November 16, 1935

Memorandum to the Secretary

Dear Mr. Secretary:

In response to your request, I desire to submit the following data with reference to the 1936 cotton adjustment program:

(1) The net revenue available for rental and benefit payments for the 1936 cotton program is estimated at \$109,000,000.

This estimate is based on consumption of 6,000,000 bales for the cotton year August 1, 1936 - July 31, 1937. The tentative program as submitted to you entailed the balancing of anticipated revenues and expenditures. On a basis of rentals at five cents per pound for the acreage withdrawn from production, it is expected that with yields averaging 190 pounds per acre, a crop of not more than 12.4 million bales would result.

(2) If a production goal of 10,950,000 bales was decided

upon, it would require the expenditure of \$141,000,000 in rental and benefit payments. This would increase the deficit to the difference between that amount and \$109,000,000, or \$32,000,000.

(3) The current deficit charged to the cotton programs totals \$62,000,000. This is a deficit that has accumulated in connection with the last three programs and the administration of the Bankhead Act. This deficit resulted from decline in cotton consumption below the level estimated, the fact that Congress failed to provide funds with which to administer the Bankhead Act, and the fact that the 1935 cotton program involved expenditures in excess of anticipated revenues. To place the goal for 1936 at 10,950,000 bales would increase the total deficit of the cotton adjustment program to \$94,000,000.

(4) There are no other available sources of revenue to supplement funds from processing taxes for the 1935 program. Sources which have been suggested are not available for the follow-

ing reasons:

(a) Section 52 of the Act of August 10, 1934, appropriates to the Secretary of Agriculture thirty per cent of the custom receipts for certain purposes. This Act requires that these funds shall be used to encourage exports or to increase domestic consumption. It is not believed that a showing could be made that the funds needed to supplement the revenues to finance adjustments in the quantity of cotton to be planted in 1936 would come within the terms and conditions prescribed by this Statute and therefore without an amendment to Section 52 these funds would not be available for this purpose.

(b) The last paragraph of Section 1 of Public Resolution No. 11 making appropriations for relief purposes makes available at the discretion of the President the use of these funds for the administration of the Agricultural Adjustment Act during the period of twelve months after the effective date

of the Resolution. This Act was approved April 8, 1935. Payments under the 1936 cotton contracts would be made in the Fall of 1936, probably in October or November. Therefore, funds from this source would not be available to supplement rental and benefit payments in the 1936 cotton program. However, if it were possible to allocate funds from this source in some manner to finance the 1936 cotton program, there are questions of policy which would need to be considered in connection with such action.

(e) Although obligations definitely charged against the \$100,000,000 appropriated by Congress under the Agricultural Adjustment Act of May 12, 1933, for the purpose of administrative expenses and for other purposes, total only about \$21,000,000, leaving an apparent unobligated balance of \$79,000,000, this balance could not be used in financing the 1936 cotton adjustment program since all of this apparent unobligated balance will be required in covering deficits in connection with cotton, corn-hog and other commodity programs and other contingent liabilities of

the Agricultural Adjustment Administration. It is not believed proper, therefore, to allocate these funds to supplement rental and benefit payments in the 1936 cotton program.

(5) The rental based upon five cents per pound on the acreage withdrawn from the production of cotton results in an average payment of \$8.60 per acre to contracting producers. This rate of payment offers a smaller incentive than do the payments made in connection with some of the other commodity programs. To increase the rate of reduction of cotton acreage and maintain the same rate of payment is likely to jeopardize the successful operation of the program. Because of the comparatively moderate rate of payment, it is believed that if additional funds were available, the proper course would be to increase the rate of payment which would result in more extensive acceptance of the program and probably result in a greater net reduction in acreage.

Reference is made to the memorandum of November 7 from

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the Acting Administrator which sets forth in tabular form the cost of obtaining the various adjustments in cotton production in 1936 and also discusses some of the questions in connection with the stocks of cotton accumulated by the Commodity Credit Corporation under the twelve cent loan in 1934.

Summary - The expected revenues from processing tax available for the 1936 program, (\$109,000,000 net) would leave an acreage in cotton which, if yields average 190 pounds, would produce a total crop of 12,400,000 bales. If the average yield for 1936 should be as low as 180 pounds, the production would still be 11,700,000 bales. There are no funds presently available to the Agricultural Adjustment Administration to finance a further reduction.

Sincerely yours,

Chester C. Davis  
Administrator

November 19th

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I told the staff at the 9:30 meeting to-day that ever since I have been here we know that there were a lot of crooked people in Customs. We have used different outside agencies to try to clean this up. At first I started to do it myself with Secret Service. Later Oliphant interested himself and we have gone a long way towards doing it. Now we have T. J. Gorman, who is Commissioner in Charge of the Investigative Unit, and who has been with the Treasury for 30 years and, for reasons I cannot understand, has been able to do nothing towards cleaning out these crooks. We had a meeting the other day and I told him that I wanted to give him a chance; that I would co-operate with him and give him anything that he wanted in order to make good. I gave him three days to bring in a report, which he did yesterday, and I must say that he came across with a perfectly magnificent statement. I am willing to put my money on him. I know he will make good. Heretofore whenever I saw him he looked licked but he came in yesterday with an entirely different spirit and fight. I am attaching herewith Gorman's statement and a copy of the Treasury Decision in connection with future Customs investigations.

Mr. Morgenthau called Mr. Coolidge in New York and told him about the conversation which he had with Jesse Jones (copy of this conversation attached herewith). Mr. Morgenthau said that Jesse Jones was very reasonable and implied that, if he wanted, Jones would go through with it but asked for a chance to talk it over with Mr. Morgenthau. Inasmuch as it is not a matter of minutes, Mr. Morgenthau asked Mr. Coolidge to say nothing and wait until they could all get together.

Mr. Gaston said that Bob Jackson was asked to speak on Tax Policy by The Tax Policy League. Mr. Oliphant said that he thought it would be a very worthwhile group for Jackson to talk to and Mr. Morgenthau approved. He then said that Fortune Magazine is planning to write an article on "Excess Reserves" and they asked the Treasury to suggest a better man than Winthrop Aldrich with whom they could discuss this subject. Mr. Morgenthau suggested that they speak to Winthrop Aldrich to get one phase of "Excess Reserves" and Parker Gilbert to get the other side of the picture.

Chip Robert reported that they are about to lease space in the National City Bank in New York in which to store some eight or nine hundred million ounces of silver. Mr. Morgenthau asked whether other silver vault people were given a chance to bid and Mr. Robert said that they were and that National City were the lowest bidders and their location was most convenient for the Treasury.



OFFICE OF DEPUTY COMMISSIONER  
INVESTIGATIVE UNIT

TREASURY DEPARTMENT  
BUREAU OF CUSTOMS  
WASHINGTON

November 16, 1935

TO THE SECRETARY OF THE TREASURY  
FROM DEPUTY COMMISSIONER OF CUSTOMS GORMAN:

IN RE: Personnel Investigations Conduct-  
ed by the Customs Agency Service.

Having in mind the matters discussed at a conference held in the Secretary's office on November 14, 1935, with respect to the unsatisfactory manner in which recent personnel investigations have been conducted by the Customs Agency corps, and its failure to detect and report flagrant derelictions on the part of customs personnel in the various districts, I have the honor to submit the following recommendations which if adopted will, in my opinion, afford the Deputy Commissioner in charge of the Investigative Unit of the Bureau of Customs, and the respective Supervising Customs Agents in the field, the necessary freedom of action in dealing with the situation and instituting remedial measures in the premises:

1. The promulgation by the Secretary of the Treasury, through a Treasury decision, of the revocation of the provision contained on Page 2, Section IV, of the Manual for use of United States Customs Agents Making Port Examinations, which relates

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to investigating allegations of misconduct on the part of any officer or employee of the Customs Service other than chief administrative officers of the headquarters port. As to these latter officials, the instructions are: "Charges of misconduct involving moral turpitude on the part of chief administrative officers or their chief assistants should be submitted to the Bureau of Customs prior to investigation." A suggested draft of an order from the Secretary revoking the above provision is hereto attached.

In this connection, it is needless to point out that the above provision has in fact operated as a deterrent rather than an incentive for customs agents to investigate and report conditions reflecting derelictions or laxities on the parts of collectors and their chief assistants in their administration of the respective collection districts. Customs agents, having in mind what happened to certain members of the corps who had the temerity to investigate conditions involving possible moral turpitude on the parts of field administrative officers, are rather hesitant to investigate such matters unless and until they assume grave proportions. Without going into much detail, and relying solely on memory, I may cite the case of an agent (Lewis), who was transferred from New York to New Orleans

for the reason that he was obnoxious to a Presidential customs appointee on account of his persistence in having a thorough investigation made of the baggage of passengers arriving from abroad who were friends of the individual in question, and who were met on the piers by him, with the evident purpose of having the baggage passed without proper inspection.

Another case which may be cited is that of an agent (Scharff), who by reason of his zealoussness in investigating personnel conditions at Nogales, incurred the enmity of the collector as well as that of a United States Senator, who recommended: "I hope you will see fit after proper investigation to order his removal from the Nogales section, as I think he has been there too long." This agent was in fact transferred from Nogales to Galveston, and, thereafter, on a similar insistence of the Collector of the Galveston District, transferred to his present station at San Antonio.

Another case is that of an agent now deceased (Pat Gardner), who reported a vast shortage in the seized liquor at Detroit, and inferred that the collector had something to do with its disappearance. This report somehow got into the newspapers, with the result that the agent was demoted from his position as Customs Agent in Charge at Detroit, and transferred to another station.

Another instance, which is perhaps within the memory of the Secretary, relates to an incident where the Supervising Customs Agent at Seattle (Green), tapped the wire of an individual (a known racketeer), who, it was reported, was endeavoring through the collector to have himself declared "in" on a split of the moiety paid in the Reifel case. The agents listened in on the tapped wire to conversations between the individual and the collector, but nothing detrimental to the latter developed. The collector, however, was much exercised when he learned that the wire referred to had been tapped, and, so I have been informed, threatened to have the agent transferred from his district, and came to Washington and protested vehemently to Department officials as well as to his Senators and Congressmen on the hill about the way he had been humiliated.

Another case has to do with certain customs agents at New York (O'Keefe, McAniff, et al.) who by reason of their activities in investigating the actions of certain examiners in the Appraiser's Stores at New York, including one who subsequently was sent to prison, incurred the ill will of the Appraiser and were virtually barred from visiting the Appraiser's Stores by the Appraiser.

2. Frequent inspections by the Deputy Commissioner in Charge of the Investigative Unit, of all of the various offices

under his supervision in this country, and the inspection by him of the customs offices abroad at such time as opportunity affords.

Since being appointed Deputy Commissioner of Customs five years ago, I have only inspected the nearby offices, and those at irregular intervals, and have never visited the offices located on the Mexican border nor the Pacific coast. I have hesitated to make long trips such as to the Pacific coast, or frequent jumps to nearby districts on the Atlantic coast and the Canadian border, for fear that they would be looked upon as "junkets".

I therefore desire to have full authority to make such inspection trips without prior permission, whenever I deem it necessary to do so.

In this connection I would strongly urge that I be authorized to visit immediately every Customs Agency District in this country, for the purpose of conferring with the Supervising Customs Agents and their subordinates and acquainting them with the fact that they will be held individually and severally responsible for the proper conduct of the personnel in their districts.

3. That until the Customs Agency Service, under the proposed new set-up, demonstrates its unfitness to keep the Customs houses in order, and to efficiently investigate personnel cases,

no outside investigative agencies be instructed to conduct investigations dealing with purely customs matters. It is perhaps needless to say that the assignment of outside agents to work ordinarily handled by customs agents has a demoralizing effect on the latter. When outside agencies are assigned to conduct investigations of customs personnel cases, such as the Secret Service investigation of conditions on the docks at New York, the local customs agents have a tendency to cease their activities in that regard, on the assumption that they might interfere with the investigation being conducted by the other agency.

4. That the Deputy Commissioner of Customs, in charge of the Investigative Unit, furnish directly to the Secretary, currently or periodically, as may be determined upon, brief synopses of all future personnel investigations conducted by the Customs Agency corps, either on their own initiative or upon requests from collectors or instructions from the Bureau of Customs. This, in order to keep the Secretary informed as to just what is being done in the customs field in this regard.

5. That all future appointments of customs agents be made by selection from the customs ranks of men who have had at least five years customs experience and who have successfully passed a special examination attesting their knowledge

of the various branches of customs work. Assistant Secretary Gibbons has advocated such procedure, and its adoption would serve to remove the position from the influence of politics, which influence in the past has resulted in the appointment of men not qualified for the general duties of a customs agent. While there are a few such still on the roster they are nearing the age of retirement and are being used on work of minor importance but essential to the general routine. This situation is gradually clearing up and will be entirely cured if all future appointments to the corps are restricted to picked men from the customs ranks and not made from the standpoint of political expediency.

That customs agents have been extremely effective in the past in uncovering laxity in the customs personnel is evidenced by an investigation instituted by the Supervising Customs Agent at Seattle, which resulted in the conviction and sentence of the former collector of customs at Seattle, the dismissal of three inspectors, the demotion of the chief inspector, and the suspension of three other customs employees, for irregularities in their official conduct.

Reference may also be made to the investigation initiated by Supervising Customs Agent Lewis a few years ago at Detroit, which resulted in the conviction and sentencing of approximately fifteen border patrol inspectors at Detroit for the acceptance

of bribes. This investigation was extended to other points along the Canadian border, which resulted in the dismissal of several other inspectors, at Buffalo and Ogdensburg.

It may be added that at the present time a committee of customs agents is engaged in reorganizing the personnel and business methods of the San Antonio Customs Collection District, with a view to correcting the known laxity which exists there, and placing the district on an efficient basis.

I feel confident that with the adoption of the above recommendations the Customs Agency Service will function in a more efficient manner, particularly with respect to their investigations of customs personnel cases, than at present. If it does not there should be a shake-up in the corps from the top to the bottom.

*Thos J Gorman*

Inclosure.

( T. D. )

TREASURY DEPARTMENT  
Office of the Commissioner of Customs,  
Washington, D. C.

*Proposed  
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order*

TO COLLECTORS OF CUSTOMS,  
SUPERVISING CUSTOMS AGENTS,  
AND OTHERS CONCERNED:

Your attention is called to Page II, Section IV of the "Manual for use of United States Customs Agents making Port Examinations", which relates to investigating allegations of official misconduct on the part of any officer or employee, other than chief administrative officers of the headquarters port. As to these latter officials the instructions are:

"Charges of misconduct involving moral turpitude on the part of chief administrative officers or their chief assistants should be submitted to the Bureau of Customs prior to investigation."

It is no longer the desire of the Department that there should be any differentiation in the treatment of chief administrative officers of customs and their subordinates in the matter of investigating accusations of alleged official misconduct.

All Customs Agents will in future investigate such charges without first referring them to the Bureau. Section IV of said manual is hereby modified to that extent.

Full responsibility for the conduct of all customs investigations, including those relating to the customs personnel, rests with the Customs Agency Service. This injunction, however, is not to be construed as abridging or modifying the responsibility of Presidential appointees acting in administrative capacities in the various customs collection districts of maintaining discipline and efficiency in the customs personnel.

Collectors and other chief officers of the customs are directed to cooperate in making effective this order.

Secretary of the Treasury.

(P. D. )

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TREASURY DEPARTMENT  
Office of the Commissioner of Customs  
Washington, D. C.

TO COLLECTORS OF CUSTOMS,  
SUPERVISING CUSTOMS AGENTS,  
AND OTHERS CONCERNED:

In the conduct of investigations of alleged official misconduct on the part of chief administrative officers of the Customs Service, written and oral instructions have been issued, and adhered to, the effect of which has been that charges of misconduct involving moral turpitude on the part of chief administrative officers or their chief assistants must be submitted to the Bureau of Customs before to investigation.

It is the desire of the Department that in the future there shall be no differentiation in the treatment of chief administrative officers of customs and their subordinates in the matter of investigating accusations of alleged official misconduct. All rules, regulations and instructions in conflict with this expressed policy are hereby revoked.

Undivided responsibility for the investigation and reporting to proper authority of all irregularities concerning any phase of customs administration or misconduct on the part of customs employees, by whatever means brought to its attention, rests with the Customs Agency Service. This injunction, however, is not to be construed as abridging or modifying the responsibility of Presidential appointees acting in administrative capacities in the various customs collection districts of maintaining discipline and efficiency in the customs personnel.

Collectors and other chief officers of the customs are directed to cooperate in making effective this order.

(Signed) H. Morgenthau, Jr.  
Secretary of the Treasury

November 19, 1935.  
Tuesday

H.M. Jr.: Good morning, Jesse  
Jesse  
Jones: How are you?

H.M. Jr.: How's the big railroad magnet?

J.J.: Pretty good

H.M. Jr.: What?

J.J.: Pretty good - I'm sorry I wasn't in town yesterday - I thought I'd get back in time for the meeting, but the weather wasn't good to fly so I didn't dare try.

H.M. Jr.: Well, I'm sorry, and if I had known you weren't coming I'd have asked you to send somebody over.

J.J.: Yes

H.M. Jr.: But, because --

J.J.: Henry, what have you thought about this --

H.M. Jr.: Didn't - did Jeff call you?

J.J.: Yes, but I don't -

H.M. Jr.: You don't -

J.J.: There isn't much in it, you know, Henry.

H.M. Jr.: Well, here's my thought, I'll take a couple of minutes, see?

J.J.: Yes.

H.M. Jr.: I've been spending a lot of time trying to find some way to whittle down our public debt figures -

J.J.: Yes

H.M. Jr.: - and our figures of guaranteed bonds, see?

J.J.: Yes

H.M. Jr.: - Because I think that the main - seems to be the main attack is on the size of the public debt, see?

J.J.: Yes

H.M. Jr.: And it's very very difficult-to - to do it, see?

- J.J.: Yes
- H.M.Jr.: And then the other thing that we're under criticism all the time is - well there is no end to this constant loaning of money, see?
- J.J.: Yes
- H.M.Jr.: And I see the whole picture, and each month our public debt increases and our guaranteed bonds increase, see?
- J.J.: Yes
- H.M.Jr.: Now, I thought that towards the public that especially with this December fifteenth - with your debentures coming due -
- J.J.: Yes
- H.M.Jr.: - without any announcements from anybody - these one hundred and twenty banks, which -- which these two are - ninety-eight per cent -
- J.J.: Yes
- H.M.Jr.: - were permitted to do this, see? - that that would have a very favorable reaction, see?
- J.J.: Yes
- H.M.Jr.: And - offer that you're under the fire and all of us on the fire since we try to hold and regulate the banks and all that stuff. And I talked for four or five - ten minutes to the group yesterday, and everybody seemed to think it was a good idea, see? Now, as a matter of dollars and cents - not an awful lot in it, see? Leo Crowley says he has let forty five banks pay back their preferred stock. As I say, on this list that O'Connor had he said he was willing to O. K. one hundred and twenty banks, see?
- J.J.: Yes
- H.M.Jr.: But - it's the general reaction which I think would be good if we committed it, see?
- J.J.: Yes
- H.M.Jr.: Because we can all make speeches about-the emergency is over - and all that, but unless you do something like this, these hard boiled babies won't believe us, see?

J.J.: Yes

H.M.Jr.: And that's why I'm rather keen for it, Jesse. And -

J.J.: And I think this - if you want it done - I think we're starting about it wrong.

H.M.Jr.: Yes

J.J.: And - I think if you let me plow the ground for a little bit and do it at a more opportune time, - I think it will be a good deal more helpful a little later

H.M.Jr.: Yes

J.J.: than it will now, from the political standpoint.

H.M.Jr.: Well, the only thing is, your debentures come due on the fifteenth and one would wipe off the other.

J.J.: Yes, but we - my thought talking about that and my thought would be to offer them another debenture -

H.M.Jr.: Yes

J.J.: at a low rate and I believe that - as a matter of fact, Henry, there's not very much - there's no over capitalization. I don't care what O'Connor tells you -

H.M.Jr.: Yes

J.J.: - There just isn't any there.

H.M.Jr.: Yes, well I'm awfully sorry you weren't there, but I didn't know until I walked into the meeting that you weren't going to be there. You understand, I mean I think we just sent out notice last Friday -

J.J.: Yes, but I didn't understand all that you were going to talk about - although I couldn't - I just

H.M.Jr.: Well

J.J.: I was in New York yesterday morning.

H.M.Jr.: I told them to tell you that it was about preferred stocks.

J.J.: But it didn't tell me what the - how important it was, don't you see?

H.M. Jr.: Well, you -

J.J.: What I wish you'd do is this -

H.M. Jr.: Yes

J.J.: I wish you would check with Jeff and let me - and tell him not to start this thing with those two fellows and let me talk it out further with you -

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

J.J.: and lay a plan out, don't you see?

H.M. Jr.: That's all right, I --

J.J.: If you want to do something, why I can do something bigger than you're talking about.

H.M. Jr.: Well, this isn't a matter of minutes

J.J.: No

H.M. Jr.: But, I do want to get the thing started -

J.J.: Well now, Jeff called me last night and I told him that I would talk to you this morning, in fact he asked me to talk with you.

H.M. Jr.: All right, I'll tell Jeff --

J.J.: Just to hold up -

H.M. Jr.: - not to start today and when - as soon as you come back let's have another meeting.

J.J.: Yes, all right

H.M. Jr.: I never - I never try to rush anybody off his feet -

J.J.: No - I

H.M. Jr.: Unless it's a matter of minutes, which this isn't.

J.J.: But this is not, no.

H.M. Jr.: No, and I don't want to do it unless -

J.J.: Well, if you want to accomplish something, why then I'll help you accomplish it, don't you see?

H.M. Jr.: Right

J.J.: All right

H.M.Jr.: Fair enough

J.J.: Will you contact Jeff or shall I?

H.M.Jr.: I'll call Jeff right away.

J.J.: All right, thank you.

November 19, 1935

Senator Guffey called on me today about a matter pertaining to asphalt in connection with the Procurement Division. In the last paragraph of the letter which he brought in, he said, "If you do not do what I ask you to do, I will have a senatorial investigation made of the Procurement Division." I said, "Senator, you do not have to hold a pistol to my head. If you will leave the last paragraph out of your letter, I will give you an answer in 48 hours." His reply was that that paragraph was not directed at the Secretary of the Treasury but at Admiral Peoples. I said, "I do not care who it is directed at, but please don't hold a pistol to my head," and he said O.K.

He also told me that at the first meeting of the Cabinet, after the President returns from Warm Springs, the President is going to have Senator Guffey, as Chairman of the Senatorial Campaign Committee, come in and talk to the Cabinet about political cooperation. I asked him whether he got political cooperation from the Treasury and his reply was, "Yes; and I am going to say 'yes' at the Cabinet meeting."

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 19, 1935.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATIONFROM L. W. KnokaWITH BANK OF FRANCE.

Mr. Cariguel called me at 12:16 p. m. today because, as he stated, he wanted to keep us up to date. He stated that last night, after he had spoken to me, there had been some additional dollar transactions, making the total for yesterday \$5,000,000. Today, so far, \$12,000,000 have been done. He explained this renewed demand for dollars as due to buying originating in London. I pointed out that that might have been so last night (when, as a matter of fact, the Bank of England actually offered us sterling) but hardly so today considering that sterling was now quoted at \$4.92 3/8 against an opening of \$4.91 7/8.

Cariguel again expressed his thanks for the order against which they have so far not been able to operate.

LWK:KMC

November 19th or 20th

Walter Cummings walked into my office and said, "the brewers have made a contribution to the party and they feel that they are being discriminated against. Who should he see so that they can get some legislation through?" I told him that we do not do business that way. I got very excited and ended up by saying, "any business man who feels that the Treasury is discriminating against him can come in and see me."

November 19, 1935

Mr. Bewley came in today and said he wanted to talk to the Secretary about Hong Kong and not Shanghai. He said they wished him to say that their future policy is to remain on a managed currency and to get Hong Kong currency as close to Shanghai's as possible. For that purpose they want to sell their silver. At the moment they have an embargo on it, but that could be lifted. Bewley was asked to inquire of the Secretary whether the Treasury wished to purchase the silver, the maximum amount of which is 100,000,000 ounces. It will be a managed currency. They are not now going to link it to Sterling, but hold it as close to Shanghai as possible. They did not say what they will hold back of their currency, but he presumed it would be foreign exchange. He told HM, Jr., that if the Treasury were prepared to agree in principle, what they would want to know is whether they could have an option for six months to sell the silver to the Treasury in Hong Kong f.o.b. American ships. Mr. Morgenthau replied, "I am not interested." And Bewley said, "You do not feel inclined to experiment?" Mr. Morgenthau repeated, "I am not interested. I get what you want, and my answer is that I am not interested in purchasing their silver. It is just a one-sided bargain."

Mr. Bewley told the Secretary that the view of the Hong Kong people is that they are in difficulty and they want to know whether you want to buy this silver inasmuch as you are a large buyer. Mr. Morgenthau said to Mr. Bewley, "I understand. They have made me a proposition and I wish to thank them and to say that I am not interested."

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Mr. Morgenthau called Secretary Hull on the telephone and told him he thought he (Mr. Hull) was getting a wonderful press on his Canadian treaty.

Mr. Morgenthau also told Mr. Hull that Bewley was here this afternoon. He was here on November 7 and wanted to know whether we would buy some of their silver in Hong Kong and HM, Jr. had asked him at that time to find out first what their program was going to be. Bewley told the Secretary that they want to stabilize the Hong Kong dollar on about what the Shanghai dollar is worth and they want to know

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whether we would be willing to say to them that for the next six months we will buy their silver at the present price for so many and so many ounces. Mr. Morgenthau told Bewley that he was not interested.

Mr. Bewley came in again on November 16. (Mr. Morgenthau then gave Mr. Hull the gist of his conversation with Mr. Bewley on that date. Copy of this conversation is in the diary.)

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 20, 1935.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knobe

BANK OF FRANCE.

Mr. Cariguel called at noon today. He said that they had had a heavy day in Paris, the market having so far done about \$17,000,000; he could not tell yet whether he would have to operate under our order before the day was over. He added that if we could let him have the same order for the next few days it would "come in very handy" because after this week-end shipping facilities would be limited, there being, as far as he knew at the moment, only one sailing to America the following week. It would be his preference, he said, to let the commercial banks operate as long as possible and to work under our order only after they were, because of the lack of shipping facilities, compelled to discontinue buying gold. I told him that his ideas were identical with ours on this point and that I was hopeful to be authorized to renew the order tonight.

I inquired as to the gold losses tomorrow's statement would show and Cariguel said they would be about a billion francs, practically all of which was for New York account, Holland and Belgium, though being at the upper gold point, taking very little. He added that there was no evidence in the Paris market of local hoarding.

In conclusion he repeated that if we saw our way to repeat the order tomorrow that would be very helpful to them.

*LWK*  
LWK:KMC

November 20th

Notes that the Secretary talked from when he addressed the Mayors on Wednesday, November 20th.

2201 R STREET, N. W.  
WASHINGTON, D. C.

- (1)
1. Congratulate Mayors on having La Guardia represent them in Washington. ~~When he comes to town~~
  2. Tell story about how I gave him too little to eat at the Treasury.
  3. Came for a little chat.
  4. Know so many of the Mayors. Interested in good government always responded to calls for assistance whenever possible.
  5. We have co-operated with cities in inspection of retail liquor stores. One of the most successful unemployment projects.

November 20th

Notes that the Secretary talked from when he addressed the Mayors on Wednesday, November 20th.

2201 R STREET, N. W.

WASHINGTON, D. C.

(2)

City Police give us 100% co-operation in counterfeiting and Narcotics.

as President suggests we must soon sit down together and try and solve problem of overlapping taxes and see if we can <sup>not</sup> allocate certain zones of taxes for certain units of government.

Federal gov. has lead the way in borrowing money at lower interest rates and all other units have benefitted

November 20th - 1935

Mr. Morgenthau asked Mr. Helvering, Oliphant, McReynolds and Gaston to come in because he wanted to discuss the final decision in regard to Moore. He read to Helvering the letter which he was sending to Moore. He also pointed out to Helvering that the first three paragraphs were exactly the same as those dictated by Bulkley the other day - the only change being in the last paragraph. (Copies of these letters attached herewith).

All present agreed with Mr. Morgenthau that Moore should be asked to turn in all of the money that he received and not, as Bulkley wanted Moore to do, to return the money from the time the matter was called to his attention.

Mr. Morgenthau then called Senator Bulkley and told him what the unanimous decision was. Senator Bulkley then asked Mr. Morgenthau to send the letter up to him and that he would see that it reached Moore and that if there was any trouble about getting the money from Moore he would telegraph Mr. Morgenthau.

On the morning of November 20th Senator Bulkley called Mr. Morgenthau and asked him to be sure and see that if there was any publicity to be given out in regard to Moore that we wait until the thing is signed, sealed and delivered. Mr. Morgenthau said that he was probably afraid it would come out that he was interested in this matter.

November 20, 1935.

Hon. Carl E. Moore,  
Collector of Internal Revenue,  
Cleveland, Ohio.

Dear Sir:

Owing to my absence on a trip abroad and the pressure of other duties, I have been unable until this time to give further attention to your connection with a liquor sales agency in Ohio.

It has not been charged that your connection violated any statute law and it is not necessary to insist that you have violated the letter of any regulations, because in my view the admitted facts of the case disclose a connection which seems to me undesirable and unethical.

It does not appear that the interests of the United States have been damaged by the transactions in question, yet it seems to me intolerable that officers of this Department should have any interest of any kind in the liquor business and I am insisting in all cases that there shall be no such relationships.

That you believed your actions to be ethical and proper does not make them so, but it does mitigate the gravity of the offense. I am sure you will agree that neither you nor any member of any of your family should profit from this source. I am, therefore, calling upon you to make restitution of all proceeds of this transaction by arranging to turn them into the Treasury.

Sincerely,

(Signed) H. Morgenthau, Jr.

McR:gmc

Secretary

Envelope marked  
"Personal & Confidential"

Bulkley dictated these matters

~~142~~  
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Dear Sir:

Owing to my absence on a trip abroad and the pressure of other duties, I have been unable until this time to give further attention to your connection with a liquor sales agency in Ohio.

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It does not appear that the interests of the United States have been damaged by the transactions in question, yet it seems to me intolerable that officers of this Department should have any interest of any kind in the liquor business and I am insisting in all cases that there shall be no such relationships.

That you believed your actions to be ethical and proper does not make them so, but it does mitigate the gravity of the offense. I am sure you will agree that neither you nor any member of any of your family should continue to profit from this source after the attitude of this Department was definitely known to you. I am, therefore, calling upon you to make restitution of all proceeds of this transaction received directly or indirectly by you or any member of your family (after that time) by making arrangements for turning such proceeds into the Treasury.

Very truly yours,

November 20, 1935.  
Wednesday

Senator  
Bulkley:

Good morning, Mr. Secretary.

H.M.Jr:

How are you?

B:

Fine, say - there's one aspect of yesterday that I don't think has been fully discussed and that's the question of publicity on it.

H.M.Jr:

Oh yes.

B:

Now I have a couple of ideas about that that I think are the same as yours but I'd like - just like to make sure.

H.M.Jr:

Well, please.

B:

- First, I hope there'll be no publicity on the occasion of giving out this letter and let it wait until we get Moore's answer back and close it once for all.

H.M.Jr:

Oh, I'm in complete accord with you on that.

B:

Yes - now, second, I think that - of course I have had to admit that I was talking to you about this thing because I don't want to lie to these darn newspaper boys. - At the same time I think any emphasis on my part of it is bad for both you and me.

H.M.Jr:

I agree with you on that.

B:

And it is God's truth that I have not influenced either the policy or the substance of this thing - all I have been concerned with is the form of it and trying to protect the man's record so that it doesn't ruin his reputation.

H.M.Jr:

Well, I've never been asked about you in the picture, anyway.

B:

Yes, well I've been asked whether I've been down - and I've admitted that I talked to you about it, but I - I have absolutely refused to make any statement. I have said it's entirely your matter and that they'd have to get any statement from you and not from me.

H.M.Jr:

Well, I - I am in complete accord with you, that no statement should be made about this thing until it is

signed, sealed and delivered.

- B: Yes
- H.M.Jr: Right?
- B: O.K., I think so.
- H.M.Jr: What?
- B: I - that's what I believe.
- H.M.Jr: Oh yes
- B: Yes, now - how am I going to pick up that letter, are you going to send it out or what?
- H.M.Jr: Well, you were leaving tomorrow, weren't you?
- B: Yes, I won't be leaving until tomorrow night.
- H.M.Jr: Yes, well I'm perfectly frank - I spent two hours on it last night and it's the most - it's one of the most difficult decisions I've ever had to make. I spent two hours on it last night and I haven't made up my mind yet - what's there.
- B: Well, and of course I hope you come to a wise conclusion.
- H.M.Jr: And, of course, your leaving it entirely up to me makes it that much more difficult.
- B: Well, really, that's the only fair way to do and I - I hope you will see it my way but of course I'll be a good sport --
- H.M.Jr: Well, somebody has raised a new point and I haven't had a chance to talk to them this morning.
- B: What is that?
- H.M.Jr: And that's this, that let's say for argument's sake - now let Moore pay the time that whatever was brought to his attention.
- B: Yes
- H.M.Jr: Then, if I do the same thing to the two Civil Service employees -
- B: Yes

H.M.Jr: Then I admit that they didn't do anything wrong from the time they went into the business up until May, and then, under the Civil Service rules I have no way whatsoever to make them pay from May to date. And I am having that looked into, do you see?

B: Yes - let's see - you think you would be waiving a right that you would otherwise have, is that --

H.M.Jr: - on the two - the other men were Civil Service - that I'd - that I'd be waiving the right and they'd say, 'Well, you say that we didn't do anything wrong from the time we went into business up until May, then what right have you got to say that we've done anything wrong since then?' -

B: Yes, well of course I wouldn't pass on the legal problem off hand, but -

H.M.Jr: No, but - I don't know either, but their side is different than Moore's.

B: Yes

H.M.Jr: Now, a Presidential appointment -

B: Oh yes, it's different.

H.M.Jr: The President could say, 'Mr. Moore, I don't like the color of your eyes, you're through'.

B: Yes, I know that. Now, I - I have to say, I won't make any guess on the legal problem off hand, but I do suggest this, that I honestly think that there's a technical matter and I can have those fellows rounded up - I don't particularly know them myself, but Moore and Abbott know them very well and I think I can round them up so that we --

H.M.Jr: Well, that point has been raised - but I am telling you, I never spent so much time nor have I ever been trying to be so fair.

B: Well, I appreciate your efforts -

H.M.Jr: And I spent two hours on it last night and it isn't clear yet.

B: Yes, now, I think we can - I think we can frame that up so that you could be assured that there will be no comeback -

H.M. Sr: Yes, but you get this last point that's been raised?  
B: Yes - I say, I think there's a practical matter that -  
that we can throw that out of the window. I'm -  
H.M. Jr: I don't -  
B: I'm not sure about the legal point.  
H.M. Jr: Well, I am going to have the legal boys look it up.  
B: Yes, yes.  
H.M. Jr: Thank you.  
B: All right, fine.

COPY

November 20, 1935.

Hon. Carl E. Moore,  
Collector of Internal Revenue,  
Cleveland, Ohio.

Dear Sir:

Owing to my absence on a trip abroad and the pressure of other duties, I have been unable until this time to give further attention to your connection with a liquor sales agency in Ohio.

It has not been charged that your connection violated any statute law and it is not necessary to insist that you have violated the letter of any regulations, because in my view the admitted facts of the case disclose a connection which seems to me undesirable and unethical.

It does not appear that the interests of the United States have been damaged by the transactions in question, yet it seems to me intolerable that officers of this Department should have any interest of any kind in the liquor business and I am insisting in all cases that there shall be no such relationships.

That you believed your actions to be ethical and proper does not make them so, but it does mitigate the gravity of the offense. I am sure you will agree that neither you nor any member of any of your family should profit from this source. I am, therefore, calling upon you to make restitution of all proceeds of this transaction by arranging to turn them into the Treasury.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary

McR:gmc

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DEPARTMENT OF STATE  
WASHINGTON

November 20, 1935.

Dear Harold:

I enclose copy of a memorandum of the conversation which Grady and I had with Chalkley of the British Embassy on Friday last. You recall that I promised you that I would send you a copy of this.

Yours sincerely,

*Jack*  
John Hickerson.

Enclosure:  
Memorandum.

Mr. Harold Graves,  
Treasury Department,  
Washington, D.C.

Memorandum of a Conversation Between Mr. Chalkley,  
Commercial Counselor of the British Embassy,  
Mr. Grady, Chief of the Trade Agreements  
Division, and Mr. Hickerson, Assistant  
Chief of the Western European Division,  
on Friday, November 15, 1935.

....

At 2:45 Friday afternoon Mr. Chalkley called at the Department at my request. Mr. Grady and Mr. Hickerson then told him that as he was probably aware our trade agreement with Canada was to be signed at 3:45 at the White House. We then stated for his strictly confidential information that the agreement would contain a reduction on whiskey. We added that when the question of reducing the duty on whiskey had come before the Trade Agreements Committee there were several difficult questions of policy involved; there was the question for instance of what country was the principal supplier. We added that whereas Canada now supplies about 58% of our whiskey imports it is clear that this is a temporary situation and that in two or three years when the present large stocks are disposed of in the United States, Canada will probably cease to be a major supplier of whiskey.

We added that the question had then come up of whether or not it might not be possible to make a

sub-classification

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sub-classification in such a manner as to permit the entry at the reduced duty of the existing Canadian stocks retaining whiskey generally as a bargaining point in future negotiations with Great Britain. We explained that a considerable amount of sentiment had developed in the Committee for such a course, and that we had in fact worked out a definition of Canadian whiskey with this in view. We added, however, that after giving careful consideration to all the circumstances, we had decided not to subclassify Canadian whiskey but to grant a reduction on all whiskeys which had been aged in wood for at least four years. We informed Mr. Chalkley that it was our hope that this unilateral action on our part would be regarded in Great Britain as a gesture toward better trade relations between the two countries.

Mr. Chalkley was somewhat effusive in his thanks for this advance information (which apparently had not checked with what he expected) and said that he would regard this information as strictly confidential in accordance with our request until the details of the new agreement became public. He stated that he  
would

-3-

would report to his Government our remarks and that he was confident that this action on our part would make a very fine impression on his Government which would react favorably on our whole trade relations. Mr. Hickerson added somewhat facetiously that from a purely hardboiled bargaining standpoint he had felt that we would in the final analysis get as much use of the British by unilateral action of this sort as we would get if we waited until formal trade negotiations to act on Scotch whiskey. Mr. Chalkley replied emphatically that he felt certain this was the case.

Mr. Hickerson then informed Mr. Chalkley that he wished to send a message through him to the Ambassador and Mr. Osborne from Secretary Morgenthau. Mr. Hickerson went on to say that when the matter came up of including all kinds of whiskeys in this proposed reduction naturally the interested members of the Cabinet had to be consulted and that Mr. Morgenthau's favorable attitude in the matter had been influenced to a very large degree by the cooperation which the British Government has extended to the American Government in the prevention of the smuggling of alcohol. He mentioned in particular the action of the British Government in

closing

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closing St. Johns, Newfoundland, to rum-runners and also the announced willingness of the British Government to see to it that no British territory in the Western Hemisphere becomes a smuggling base. Mr. Hickerson went on to say that Secretary Morgenthau had greatly appreciated this helpful cooperation and that he wanted the Ambassador and Mr. Osborne to know that it had weighed heavily with them in the present matter.

As regards the smuggling question Mr. Chalkley stated that he was sure the Ambassador and Mr. Osborne would be very much pleased with Mr. Morgenthau's message. He asked if he might say that Mr. Morgenthau was entirely satisfied with the cooperation that had been received from the British Government. Mr. Hickerson replied that Secretary Morgenthau had not said that he was fully satisfied but that he had spoken very highly of the two matters mentioned above, namely, St. Johns, Newfoundland, and the determination of Great Britain to prevent the use of British territory as a smuggling base. He added that Secretary Morgenthau had several times mentioned the fact that British vessels were being used for smuggling alcohol into the United States, but that the Ambassador and Mr. Osborne had stated

that

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that nothing could be done under present laws to prevent such use.

Mr. Chalkley again expressed his very deep appreciation of the action which the American Government was taking in the matter of including whiskeys other than Canadian in the proposed tariff reduction and stated that he knew that it would make a very fine impression in his country.

John Hickerson.

The trade negotiations between the American and Canadian Governments, which were initiated in the latter part of 1934, culminated Friday in the signature of a trade agreement of wide-reaching scope which is of major importance to the producers and the consumers of both countries, and the stimulating effect of which on industry and commerce as a whole will be a material factor in general economic recovery on both sides of the border. The agreement should assure a marked increase in the exports of each country to the other; and that means a marked increase in their total export trade, since Canada is the second largest customer for our exports and since the United States is the second largest consumer of Canada's exports.

The concessions made by Canada to the United States in this agreement will affect beneficially much the larger part of our total export trade with her. While our agriculture and our industry will benefit largely from the expansion of their Canadian sales, the agreement leaves for both agriculture and industry adequate protection in the domestic market, even though it opens to Canadian producers a larger share in that market. To consumers, moreover, the reductions in our duties will be of much benefit, by checking unreasonable increases in prices of the consumers' commodities concerned.

The new rates fixed in the agreement will go into effect on both sides on January 1, 1936.

Most of the crude and simply-manufactured products which we buy from Canada have been free of American duty in the past, and by the trade agreement nearly all of the important free items are "bound" against the imposition of any duty or import tax. As a compensation for our action with respect to free commodities, which is of great benefit to her,

Canada has made reductions in duties on American commodities which represent a substantially larger value of trade than is represented by the Canadian commodities on which we have reduced duties under the agreement, although the reductions made by the United States cover a large proportion of the dutiable imports from Canada.

The magnitude of the benefit which will accrue to American agriculture and industry from this agreement may be judged by the fact that duties and other charges will be lowered on products of which we shipped to Canada, in the Canadian fiscal year ending March 1930, about \$415,000,000, as shown by an analysis made by the Department of Commerce. That was the last year before the marked increases in Canadian duties and other levies on American goods. The commodities affected by these new Canadian concessions to us comprised in that year over three fourths of the total dutiable exports to Canada from the United States.

On the other hand, the concessions made to Canada by the United States in the agreement are also of wide-reaching character. They affect commodities which accounted for about two thirds of our total imports from Canada in 1929, as computed by the United States Tariff Commission. Much the larger part of the trade in those free commodities of which Canada is the principal supplier of our imports will now be bound against the imposition of duties or import taxes, and reductions in duty have been made with respect to commodities representing about three fifths (as measured by the statistics of 1929) of the total value of the articles, of which Canada is the principal source, which are dutiable under present laws.

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It will be remembered that since 1929 the United States has greatly increased its duties against Canadian goods by a new tariff law and Canada has increased her tariffs against us by special legislation and various special orders in council.

Imports from Canada into the United States dropped from \$503,000,000 in 1929 to \$232,000,000 in 1934, or by 54 percent. Exports from the United States to Canada dropped from \$899,000,000 in 1929 (not including grain in transit for Europe) to \$302,000,000 in 1934, a decrease of 66 percent.

Countries other than Canada will obtain relatively little benefit from the reductions in duty made by the United States in this agreement. Imports from Canada of the articles on which duties have been reduced were, in 1929, 94 percent of the total imports of these commodities from all countries combined. Canada is overwhelmingly the principal supplier of most of these articles. The proportion supplied by Canada of the articles bound on the free list by the Canadian agreement is also very high.

#### BENEFITS FOR UNITED STATES EXPORTS TO CANADA

Every section of the United States and most branches of industry and agriculture will benefit from the reductions in the Canadian import duties embodied in the trade agreement and from its other provisions.

The Canadian concessions to the United States fall into four general groups:

(1) Direct duty reductions on items named, commodity by commodity, in what is known as Schedule I of the agreement.

(2) The grant to the United States on all other commodities of the lowest rates now or hereafter paid by any non-British country (these are commonly referred to as "most-favored foreign-nation" rates) in place of the higher "general" rates.

(3) A large and satisfactory measure of relief with respect to the Canadian system of arbitrary valuations heretofore applied on many commodities.

(4) Benefits to commercial travelers and to transit trade passing through the United States resulting from general provisions of the agreement, together with promised legislation regarding exemption of tourist purchases from duty.

#### Direct concessions under Schedule I

Those duty reductions on the part of Canada which are specified by name in Schedule I, together with a few items on which the existing rates are bound against increase, number about 180. The commodities covered accounted for \$175,000,000 out of the total of \$523,000,000 of dutiable imports into Canada from the United States in the fiscal year 1929-30. In the case of many commodities specified in Schedule I the rates named are the "intermediate" or "treaty" rates heretofore paid by the most favored non-British country, which are in most cases materially lower than the general rates which we have hitherto paid.

In the case of 80 or more duty reductions specified in Schedule I, however, representing a value of trade in the base year 1929-30 of over \$115,000,000, the rates named are lower than those heretofore paid by any non-British country. These 80-odd items include such important American exports as fresh vegetables, oranges and grapefruit, certain nuts and seeds, certain fish products, a broad range of machinery, both agricultural and industrial, tractors, electrical equipment of various types, the extremely diversified category of miscellaneous manufactures of iron and steel, electro-plated ware, dressed lumber and flooring, and miscellaneous manufactures of wood and paper. This list also includes magazines and periodicals, all of which hereafter will be duty free.

Most-favored-foreign-nation treatment

As just stated, a large portion of the reduced duty rates named in Schedule I are the "most-favored-foreign-nation" rates heretofore in effect in the Canadian tariff. The inclusion of these rates in Schedule I means that they may not be increased during the life of the agreement. Of almost equally great advantage to American agriculture and industry is the fact that under the trade agreement all commodities which we sell to Canada, including hundreds of items not listed in Schedule I, will hereafter pay no rate of duty higher than the lowest rate, whether now in effect or hereafter established, on the goods of any other country outside of the British Empire. This means that hereafter American goods receive the benefit (a) of all the "intermediate" rates of the Canadian tariff; (b) of the still lower rates fixed on many items by Canada's existing trade agreements with other non-British countries, notably with France; and (c) of any lower rates hereafter fixed by trade agreements of Canada with any non-British country. Although, unlike the items in Schedule I, the duty reductions on these items are not bound as to duration, they become effective immediately when the agreement enters into force.

The extension to the United States of "most-favored-foreign-nation" treatment, including both the items named in Schedule I of the agreement and items not there named, means lower charges on our products comprised in no less than 767 items and sub-items of the Canadian tariff. This number includes most of the agricultural and industrial products of the United States for which there is any market in Canada. Among them are 114 products, or groups of products, of each of which the United States furnished to Canada during the fiscal year 1929-30 imports to the value of more than \$500,000.

All the export products of the United States affected by these Canadian concessions are listed in a separate table, which shows for each the old and the new rates, the percentage of duty reduction, and the value of Canadian

imports from the United States during the fiscal years 1929-30 and 1934-35. The following summary shows, by commodity groups, the wide distribution of the trade benefiting from reductions in Canadian duties. It includes all items where the reductions are the result of Schedule I or of the extension to us of most-favored-foreign-nation rates.

<u>Commodity groups</u>	<u>Value of imports from the United States, fiscal years ended March 31, of articles benefiting by duty reductions</u>	
	(Thousands of dollars)	
	<u>1930</u>	<u>1935</u>
Agricultural products -----	\$49,778	\$15,195
Fishery products -----	1,164	400
Stone, glass and non-ferrous metals --	24,634	8,431
Iron and steel and products -----	8,993	4,216
Hardware -----	3,057	1,416
Other manufactures of iron and steel -	65,473	15,650
Machinery and engines -----	84,107	22,309
Motor vehicles -----	40,461	3,128
Railroad equipment -----	3,077	312
Wood and wood products -----	21,620	4,257
Paper and paper products -----	19,745	6,421
Hides and leather -----	6,063	1,382
Textiles -----	40,546	6,419
Rubber products -----	2,547	1,112
Petroleum products -----	19,982	4,154
Chemicals -----	7,697	4,505
Musical instruments -----	2,611	268
Miscellaneous products -----	17,548	6,619
	<u>419,103</u>	<u>106,194</u>

Incidentally these figures are significant in showing the great decline in Canada's imports from this country of all groups of commodities, a decline in considerable part due to increases in tariff burdens which are removed by this agreement.

A point of great significance in connection with Canada's grant to us of her intermediate and treaty rates is the fact that this means much more than mere removal of differentials heretofore existing against us as compared

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with non-British countries. It does, of course, mean this in the case of the commodities where non-British countries are important competitors of the United States in the Canadian market. The removal of the former duty differentials against us will enable American exporters to obtain a larger share of the trade in such commodities. Most of the articles of this group, however, are not of major importance in our trade with Canada. On the other hand, in the case of many other important commodities, our competition in Canadian markets is chiefly with the United Kingdom and other parts of the British Empire. The reduction in rates to us on such articles will greatly strengthen our position in competition with these British countries which enjoy preferential rates. But still more important is the fact that in the case of large numbers of articles, representing a great volume of trade, the United States has little competition from either non-British or British countries in the Canadian market; often this country is practically the sole supplier. Canada's grant to us of her intermediate and treaty rates on these commodities is not a matter of duty differentials. It means that the lower duties will increase Canada's total imports of this great group of articles, and that the advantage of this increase will come chiefly, if not wholly, to American exporters.

The importance of Canada's grant to us of the most favorable tariff treatment which she accords to any non-British country cannot be measured by mere statistics of the volume of trade affected or the extent of the resulting duty reductions. It means a revolution in the trade relations between the two countries. It means that Canada has adopted with respect to the United States the non-discriminatory policy which the United States has long maintained toward all countries. As a consequence our export trade to Canada, save to the extent that it is still somewhat affected by the system of British Empire preference, will enjoy the advantage which naturally goes with our proximity to Canadian markets and the

similarity of Canada's consumption of goods, and of her economic life generally, to that of the United States. 95

Changes in duty valuation system

A broad advantage to many lines of American exports will result from changes in Canada's ~~system~~ of valuing commodities for duties. These changes are assured either by the trade agreement itself, or by a note of the Canadian Government accompanying it. There has been gradually growing in Canada a system, taking several distinct forms, of applying arbitrary assessments exceeding the invoice values on imported goods. The resulting charges were materially higher, in some instances several times higher, than the nominal duty rates. On some commodities the practice meant not merely that the ad valorem rates were applied on a higher sum, but that the difference between the arbitrary value and the invoice value had to be paid as a so-called dumping duty.

These methods of valuing commodities have caused much complaint on the part of American producers and exporters, by reason both of the height of the resulting charges and of their uncertainty. They have affected a large number of our commodities, including not only fresh fruits and vegetables, and various other farm products, but also a wide range of manufactured goods such as automobiles, radio receiving sets, electrical apparatus, flooring and textiles. The Canadian note contains definite undertakings that the Government will sponsor legislation amending the three sections of the Customs Act which have been particularly onerous, in such manner as to afford a very large measure of relief. The note assures further that pending such legislation remedial changes in the regulations as to customs administration will be made immediately, so far as existing law will permit. In the case of certain specified fresh fruits and vegetables, Canada reserves the right to impose advances above the invoice values of imports, but the agreement itself provides that these advances shall in no case exceed four fifths of the lowest advances heretofore fixed.

In addition to the duty reductions provided in the agreement, several important advantages for American trade have been secured. Thus, as a result of the most-favored-nation status, which we hereafter enjoy, American commercial travelers will have the privilege of bringing in their samples under bond instead of having to pay full duty without refund. Again, the products of any non-Empire country shipped to Canada in transit through American ports will hereafter receive as favorable treatment by the Canadian customs as if they had come directly into a Canadian port. Moreover, the Canadian Government has given assurance in a note that it will sponsor legislation in Parliament to permit residents of Canada visiting the United States to bring back with them free of duty articles for their personal use up to a value of \$100, a privilege similar to that now enjoyed by Americans returning from visits to Canada or other countries.

MAJOR CONCESSIONS MADE BY THE UNITED STATES TO CANADA

The concessions granted by the United States in exchange for the advantages thus secured from Canada for our agriculture and industry may be briefly summarized as follows:

1. The binding of the existing free entry into this country of pulpwood, wood pulp, and newsprint paper; unmanufactured wood generally; certain kinds of simply-manufactured wood such as shingles and lath; certain fishery products including lobsters; certain kinds of furs; crude asbestos, crude artificial abrasives, certain fertilizers, and a number of less important commodities. All of this means no change in the existing free list.
2. Reductions in duty, but for specified quantities, on cattle, calves, dairy cows, cream, certified seed potatoes, and lumber and timber of Douglas fir or Western hemlock; any imports in excess of the specified quantities will pay the old rates.

3. Reductions in duty on lumber and timber of other species; on Cheddar cheese, turnips, apples, hay, maple sugar, live poultry, and horses; on halibut and certain minor kinds of fish; and on patent leather, harness leather, ferromanganese, ferrosilicon, acetic acid, and several other minor items.

4. The binding against increase of the existing 10 percent duty on certain feedstuffs for animals. Here again no change in our present tariff is made.

The United States, as in the case of its trade agreements with other countries, agrees that on all commodities Canada sells to this country she will receive the treatment accorded to the most-favored nation, except of course that accorded to our outlying territories and possessions and to Cuba.

Apart from the safeguarding limits above mentioned with respect to the imports of cattle, calves, dairy cows, cream, seed potatoes, and lumber, the agreement contains a general clause relating to possible future further restrictions on the volume of imports. This clause, which is similar to that contained in our previous trade agreements with other countries, is intended to avoid conflict with our Agricultural Adjustment programs and with possible other future programs of similar character. In substance, the clause provides that, if either country undertakes to control the domestic production or marketing of any commodity, it may also limit the quantity of imports of that commodity, subject to certain conditions regarding the share of the other country in the imports so restricted.

Just as in the case of Canada it is necessary, in order to measure the importance of the concessions made to the United States, to make use of the import statistics of 1929-30, so also in analyzing the concessions

made by the United States to Canada it is necessary to use the data of 1929, prior to the adoption of the Tariff Act of 1930 and to the reduction in trade resulting from the world depression. Our total imports from Canada in 1929 amounted to \$503,000,000. Not far from two thirds of this total consisted of articles free of duty under present laws. The agreement recently made with Sweden bound on the free list certain major classes of wood pulp, of which Canada is also an important supplier, having furnished us such pulp to a value of \$16,485,000 in 1929. Canada of course obtains the benefit of the obligation given to Sweden. The Canadian trade agreement itself provides for binding on the free list other classes of wood pulp and a number of other articles of great importance. The articles thus bound accounted in 1929 for about \$221,000,000 worth of imports from Canada, or 44 percent of our total purchases from that country.

Total imports from Canada in 1929 of those dutiable articles of which Canada is our principal foreign supplier were valued at about \$135,000,000. The trade agreement reduces the duties on commodities valued in the trade of that year at about \$79,000,000, or somewhat less than 60 percent of this total. These duty reductions apply to commodities representing about 16 percent of our total imports from Canada in 1929. In addition, the present rate of duty on certain animal feed-stuffs, 10 percent ad valorem, is bound against increase; our purchases of these from Canada in the year 1929 amounted to about \$8,400,000. The aggregate value of our imports from Canada in 1929 of all articles which are affected directly by the trade agreement was thus about \$308,000,000, or almost exactly three fifths of the total value of our imports from Canada in that year. It is important to note, however, that if we

exclude certain non-commercial

## RECIPROCAL CONCESSIONS ON AGRICULTURAL PRODUCTS

In the negotiation of this agreement our Government has recognized that a substantial balance should be maintained between the concessions granted by this country on agricultural products and those obtained from Canada on agricultural products. Even if the United States had obtained from Canada little in the way of duty reductions on farm products, our farmers would have gained much from the numerous and important concessions obtained for American manufactured goods. The increase in the exports of our factories, which seems bound to result, will so add to the purchasing power of the wage earners that they can buy more of the products of American farms. Moreover, our farmers, as large consumers of Canadian products on which our own duties have been reduced, will be protected against unduly high prices for those commodities.

As a matter of fact, however, the agreement does much more than this for our agriculture. It will assure large increases in exports of American farm products to Canada. There is good reason to anticipate that these increases will at least equal the increases in imports of agricultural commodities from Canada resulting from the concessions which we have made to her. Moreover, in making duty reductions the Government has taken the greatest care to prevent injury to any group of American farmers.

Both the United States and Canada export large quantities of grain to Europe, and no duty reductions have been made on Canadian grain and grain products imported into this country, although Canada has been assured that the present duty on certain animal feedstuffs will not be increased. On the other hand, the United States with its larger area of agricultural land and its more varied climate, produces far more of most kinds of animal products, vegetables, and fruits than Canada. Our consumption of these products is huge as compared with the Canadian exportable surplus.

For that reason it has been possible to make duty reductions which assure to Canadian farmers such an increase of exports to this country as will add materially to the total demand for their output, while scarcely affecting the demand for and especially the prices of the products of our own farms.

Direct benefits to American farmers

Canada's concessions to us on farm products cover a wide field. In some cases we secure lower duties merely as the result of the general provision by which hereafter American goods, instead of paying the "general" Canadian duties, will pay the lower "intermediate" or still lower "treaty" rates. On a number of important farm products, however, Canada has given us rates well below intermediate or treaty rates. Moreover, the adjustments which Canada has agreed to make in her methods of valuing import commodities are of particular advantage for our farm products.

The most important one concession made by Canada in the field of agriculture is that relating to the Canadian tariff paragraph which covers fresh vegetables. Canada has long distinguished between the season when her farmers are marketing their output of such vegetables and the "off season." There has been a basic ad valorem rate, 30 percent since 1930, applicable throughout the year, but during the competitive season this has been supplemented, as regards most kinds of vegetables, both by minimum specific rates in cents per pound and by so-called valuation advances. Under this valuation method not only did the ad valorem rate apply to a value higher than the invoice value, but the difference between the two values was also charged as a "dumping" duty.

The agreement makes great changes in the charges payable on this important group of fresh vegetables. A few vegetables of relatively minor importance have been transferred to the free list. On the remainder, the basic ad valorem rate has been reduced from 30 to 15 percent. Our farmers, especially in the Pacific and southern States, will get great advantage from

this 50 percent reduction in Canada's duty on vegetables which are off-season in Canada. The minimum specific duties hitherto applicable during the season when our vegetables compete with the Canadian will be entirely canceled, except on tomatoes. More important still is the adjustment made with respect to valuation advances during that season. On a number of vegetables, including tomatoes, the system of advances will be canceled entirely. On about a score of vegetables Canada reserves the right to apply these valuations, but the agreement assures our exporters that the additions to the invoice values will be at least one fifth lower than heretofore.

The effect of the concession on the charges applicable to those American vegetables which still remain subject to valuation advances may best be shown by an illustration. Formerly if the invoice value of a given vegetable were 5 cents per pound, and if the valuation advance applicable were 3 cents per pound, the charge would have been 30 percent on 8 cents plus a dumping duty of 3 cents, making a total of 5.4 cents per pound. Hereafter the valuation advance, if applied at all, may not exceed 2.4 cents per pound (four fifths of the former 3 cents), and the duty in that case will be 15 percent of 7.4 cents (namely 1.1 cents) plus 2.4 cents, or a total of 3.5 cents per pound, as against the former total of 5.4 cents, a charge 35 percent less than before.

This concession which Canada has made with respect to vegetables imported during the Canadian marketing season will be of wide-reaching advantage to producers of such vegetables in our northern States, such as New England, New York, New Jersey, Pennsylvania, Ohio, and Michigan.

A similar adjustment respecting ad valorem duties, specific minimum rates, and valuation advances has been made in those Canadian tariff paragraphs which cover all except citrus fruits. Here the basic ad valorem rate has been reduced from 20 to 15 percent, the valuation advances have been canceled on several classes, and such advances as may

hereafter be applied on other kinds of fruit will be at least one fifth lower than heretofore.

In addition to these reductions in the charges on vegetables and fruits subject to general paragraphs of the Canadian tariff, our oranges, dutiable in recent years, are to be free during the months when we normally ship the most, the rate on grapefruit is cut from 1 cent to 1/2 cent per pound throughout the year, and lemons are bound on the Canadian free list. Large quantities of these citrus fruits are consumed in Canada, and our Florida and California growers will benefit greatly by these concessions. Duty reductions are also made by Canada on sweet potatoes which are made free, fresh and cured meats, poultry, canned fruits and vegetables, ripe olives, and several other agricultural products of importance in our trade with Canada. Raw cotton, which Canada imported from the United States to a value of \$27,104,000 in 1929-30 and of \$18,095,000 in 1934-35, is bound by the agreement against the imposition of any duty.

The statistics of Canada's imports from the United States in 1929-30 before the increase in her duties and in her system of valuation advances, indicate the great importance of the concessions obtained for our farmers by the trade agreement. The total value of imports of agricultural products from the United States in that year was about \$134,000,000. This includes, however, a large value of free imports (cotton alone amounting to over \$27,000,000), and also some dutiable articles where the United States was not the principal source of imports. The imports of articles dutiable under present laws, of which the United States was the principal supplier, are only about half of this \$134,000,000. Reductions in duty in one form or another have been secured on articles accounting for about \$53,000,000 of this total. The charges on most of these

commodities which we ship to Canada will be at least one third lower than heretofore, and in some cases the reduction will range from 50 to 100 percent.

Agricultural concessions made to Canada

In return for the benefits thus secured for our farmers, the United States has made concessions of importance to Canada's agricultural community. Our total imports of farm products from Canada in 1929 amounted to about \$45,000,000, nearly all dutiable. Of this total about \$8,400,000 consisted of certain animal feedstuffs, and the agreement binds against increase our present 10 percent duty on these. On commodities of which the imports from Canada in 1929 amounted to about \$25,000,000 the duties have been reduced. This total includes cattle, calves, dairy cows, cream, and certified seed potatoes. On these the new lower rates apply only to specified quantities, any larger imports continuing to pay the old duties. These five items accounted for only \$17,000,000 in our imports from Canada in 1929.

Other reductions in our duties made by the agreement cover live poultry, dressed chickens, horses, cheddar cheese, hay, apples, fresh cherries, strawberries, and green peas, the last-named concession applying only during the summer and does not affect winter peas imported from southern countries. The imports of this group of commodities, in recent years, have been small in comparison with the domestic production. Although no doubt the imports of them may increase materially and may become a substantial fraction of Canada's output of these products, they cannot become a sufficient part of our consumption to affect materially the prices of the far larger output of our own farmers.

American duties have also been reduced on maple sugar, turnips, and frozen blueberries. Imports of these commodities supplement our inadequate domestic production.

A concession is made by the United States on cattle, calves, and dairy cows. But the duty reduction on cattle relates only to those weighing 700 pounds or more each, the imports of which come almost entirely from Canada. The rate is reduced from 3 to 2 cents per pound, but it is at the same time specifically provided that entries (from all countries and not merely from Canada) at this lower rate may not exceed in any year three fourths of one percent of our average annual total domestic slaughter of cattle and calves from 1928 to 1932. The lowered duty on calves ( $1\frac{1}{2}$  cents against the former  $2\frac{1}{2}$  cents per pound) is similarly specifically limited to a small percentage of domestic production, and that on dairy cows (also  $1\frac{1}{2}$  cents) is specifically limited to 20,000 head, which is a small fraction of one percent of the number of cows annually reaching the milk-producing age in the United States. It is self-evident that the imports of cattle, calves and dairy cows at the reduced rate, within the limits thus specified, cannot appreciably affect the prices received by our farmers. It may be noted, in this connection, that the reduced duty on cattle will benefit many American farmers who fatten purchased feeders for sale, since a large proportion of the small imports from Canada will be feeder cattle.

The limits set for the quantities of cream and certified seed potatoes which may enter at reduced duties are also such as to safeguard American producers of these commodities against injury from increase in imports. The reduction on certified seed potatoes is exclusively for the benefit of American farmers who grow potatoes. No reduction on potatoes for consumption has been made in the agreement.

CANADIAN TARIFF CONCESSIONS ON AMERICAN NON-AGRICULTURAL COMMODITIES

The advantages obtained for our factory and other non-agricultural industries through the trade agreement with Canada are of great magnitude. They should mean fuller and more profitable employment for many industrial plants and for many tens of thousands of American wage earners.

Much the greater part of Canada's imports from the United States consists of manufactured goods, nearly all of which are subject to duty. Schedule I of the agreement specifies reductions in duty, which cannot be increased for the duration of the agreement, covering a wide range of manufactured articles. The value of the imports into Canada of American industrial products named in Schedule I was about \$145,000,000 during the fiscal year 1929-30. In addition, the general extension to the United States of the lowest rates of duty now paid by the products of any non-British country affects advantageously hundreds of other items and sub-items of the Canadian tariff relating to industrial products. These lower rates are not bound as to duration, but they become effective immediately when the agreement enters into force. The value of the imports of non-agricultural commodities benefiting from the reductions in duty of this character, not counting the items of Schedule I, was about \$220,000,000 in the Canadian imports from the United States during 1929-30.

When these two groups are combined, it is found that reductions in Canadian import duties, in some form or degree, are provided by the agreement on American industrial products which were shipped into Canada during the fiscal year 1929-30 to an aggregate value of \$365,000,000.

Duty reductions on products included in Schedule I

Machinery represents the largest group of non-agricultural products benefiting from the reductions in duty specifically assured to the United States by this agreement. In the case of agricultural machinery and implements, the concessions accorded involved a trade which, in the fiscal year 1929-30, amounted to a total of over \$14,000,000. On most classes of such farm equipment, the Canadian duty has been reduced by half, or from 25 percent to 12½ percent ad valorem. All tractors, for whatever purpose, will now enter free; some types have hitherto paid a duty of 25 percent.

In the industrial machinery group, the Canadian tariff paragraph 427, which covers machinery of iron and steel not specially provided for the imports of which from the United States amounted to \$35,800,000 in 1929-30, will be subject to varying reductions in duty. The duty in all cases was previously 35 percent ad valorem. Hereafter, the rate on none of this machinery will exceed 25 percent; a large portion will be dutiable at 20 percent; in some types of special purpose machinery, the rates are further reduced to 15, 10 or 5 percent; and in certain cases the duty is removed entirely.

Certain mining machinery, of which we sold to Canada \$1,900,000 in 1929-30, obtains a reduction from 25 to 20 percent ad valorem. The rate on logging machinery of the type which formerly paid 20 percent is cut to 15 percent, representing trade amounting to \$1,400,000 in that year. Special textile machinery, in which the trade was \$4,900,000, was formerly dutiable at 10 percent; it will now pay 5 percent.

Electric dynamos, generators, motors and parts, the trade in which during 1929-30 was \$6,500,000, will also enjoy a substantial reduction in duty. Radios and parts, which were imported into Canada from the United States during that year to a value of \$10,400,000, are to have the

duty reduced from 30 to 25 percent ad valorem. A similar reduction is made on telephone and telegraph apparatus, representing a trade of \$3,200,000. Electric refrigerators of both household and commercial types, which have hitherto paid 40 percent, will now pay 30 percent; Canada's imports from us in 1929-30 were nearly \$2,000,000. Washing machines, representing a trade of \$1,600,000, are reduced from 35 to 25 percent ad valorem. On the extremely diversified Canadian tariff item of miscellaneous manufactures of iron and steel the duty has been reduced from 35 to 25 percent. The trade in this category during 1929-30 amounted to \$20,500,000. Electro-plated ware (trade \$2,600,000) obtains a reduction of its present 45 percent duty to 30 percent. Other reductions on metal products affect pipe fittings, enameled hollow-ware, manufactures of tin plate, cooking and heating apparatus, wire fencing and netting, various types of wire, and certain zinc products.

Dressed lumber, including flooring, will enjoy a reduction from 25 to 20 percent in the rate of duty, and continued free entry of rough lumber and lumber dressed on one side is bound during the life of the agreement. The imports of rough and dressed lumber from the United States during 1929-30 were valued at \$11,100,000. The Canadian tariff items covering American manufactures of wood not elsewhere provided for, with trade value of \$3,600,000, hitherto subject to a duty of 25 percent will now pay 20 percent ad valorem.

Miscellaneous manufactures of paper, the imports of which from the United States during 1929-30 amounted to \$3,100,000, secure a reduction in duty from 35 to 30 percent ad valorem. The tariff item covering types of paper not elsewhere provided for, with a trade value of over

carbon black, compounds of tetraethyl lead; certain types of glass, fire-brick, building brick and certain building stone; Diesel engines, motor-cycles, watch cases, certain brass band instruments, surgical dressings, oil cloth and linoleum, and dolls and toys. Under the terms of the agreement American magazines, which have hitherto been subject to various rates of duty ranging up to 15 cents a copy, will now enter Canada free of duty. The importance to us of this concession, which will be welcomed by many Canadians, cannot be overestimated.

Duty reductions on non-agricultural products under general provisions

Space does not permit even the mention of most of the many and diversified industrial products which, although not listed in Schedule I, will enjoy reductions in duty as the result of the extension to the United States of most-favored-foreign-nation treatment. They are all shown in a separate table. Among the outstanding classes benefiting from concessions of this form, the following may be mentioned; the approximate amounts by which the rates of duty are reduced are indicated in parentheses, in terms of fractions:

Motor vehicles and parts (with material reductions of varying amounts); aircraft (1/6 off); railway cars and parts (1/12).

Cotton fabrics (1/7 to 1/6 off); cotton clothing and other manufactures (1/7); wool clothing and other manufactures (1/7); rayon fabrics and other products (1/7 to 1/5); silk fabrics and clothing (1/7 or more); hosiery and knit goods of various kinds (about 1/8).

Dressed furs (1/10 off); certain kinds of leather (1/10 to 1/4); boots and shoes (1/8).

Various chemical and medicinal preparations (1/10 to 1/5 off); gasoline and lubricating oils and greases (1/10 to 1/8).

Fibreboard containers (1/6 off); wallboard and roofing (2/7); furniture of all kinds, wood and metal (2/5).

Glass tableware and other manufactures of glass (1/12 to 1/5 off); silver and plated ware (1/5); jewelry (1/6); musical instruments (1/6).

Diversified types of electrical apparatus (1/6 off); manufactures of copper and brass (1/6); engines and boilers (1/6); and the diversified range of iron and steel rolling mill products (1/12 to 1/5).

Printed advertising matter (1/6 or more off); and the large basket item of the Canadian tariff covering all unclassified products (1/10).

Concessions made by the United States on non-agricultural commodities

In terms of value of trade affected the major concessions made by the United States to Canada on non-agricultural products consist of the binding of free list items. Most of the free articles which we import from Canada are non-agricultural, and such free items make up far the greater part of our total imports from Canada outside of farm products. The aggregate imports of non-agricultural products from that country in 1929 amounted to \$421,000,000. Included in this total, however, were important non-commercial items, such as American goods returned, and many articles of which Canada is not the chief source of imports - crude and refined copper, for example. Excluding these, the imports of commercial non-farm products of which Canada is the principal foreign supplier were valued in 1929 at about \$342,000,000. Of this total \$252,000,000, or nearly three fourths, consisted of commodities free of duty under present laws.

Apart from those classes of wood pulp which were already bound on the free list by the trade agreement with Sweden (value \$16,485,000 in 1929) the agreement with Canada binds the continued free entry of goods making up about \$221,000,000. The biggest items bound on the free list are newsprint paper, wood pulp (mechanical, soda and bleached sulphite) and pulpwoods. Including wood pulp of the kinds already bound on the

free list by the Swedish agreement, our imports of these three articles from Canada in 1929 were valued at no less than \$184,000,000. The justification for assuring to Canada that these three commodities will continue to enter without duty during the life of the present agreement lies chiefly in the fact that this country is at present unable to supply anything like its total requirements of paper and paper-making materials, and the fact that in normal times the cut of wood from our forests, for paper, lumber, and all other purposes combined, greatly exceeds the annual growth, with resultant steady depletion of our timber stands. For more than ten years past the imports of paper materials and paper have been more than half of the total paper consumption in the United States. Any sudden and marked reduction in imports of these commodities would greatly derange the paper-manufacturing and paper-using industries of the country. Adequate advance notice of any intention to change our long-standing policy regarding imports of these products should be given in the interests of American business. Moreover, any change in policy would scarcely be justified without assurance of a closer future balance between wood-consumption and annual forest growth, involving a far-reaching program of reforestation and forest management. It may be noted further that to levy a duty on one of these three major commodities, without also placing duties on the other two, would be unreasonable and unfair.

The agreement with Canada also binds the existing free entry of various unmanufactured or simply-manufactured wood commodities, such as logs, posts, poles, railway ties, pickets, palings, lath and shingles. The present arrangement by which the imports of shingles are limited to 25 percent of our domestic consumption is continued. The free entry of

these wood products has been maintained for an indefinite period in the past, in the interests of our lumber mills, railways, farms, and other users of these materials.

Other important free list items which are bound by the agreement include: (a) Agricultural implements, the free entry of which has long been American public policy; (b) certain commodities which are not produced in the United States or are produced only in insignificant quantities, such as crude asbestos, nickel ore, matte and oxide; cobalt ore and metal; crude artificial abrasives; calcium cyanamid and sodium cyanide; (c) crude gypsum, sulphuric acid, and four kinds of undressed furs; and (d) most of those fishery products which are free of duty, the most important being lobsters, scallops, and sea herring and smelts, of none of which have American fisheries been able in recent years to supply the demand of our markets.

The most important non-agricultural commodity on which the duty has been lowered is lumber (including timber). The imports of lumber from Canada in 1929 were more than \$37,000,000 in value. Lumber entered free prior to 1930. In that year a duty of \$1 per thousand board feet was imposed on lumber of the major softwood species, and by the Revenue Act of 1932 a tax of \$3 was imposed on all lumber, additional to the duty. As a result of this action, and of the reduced demand for lumber during the depression, imports of Douglas fir nearly ceased, though considerable quantities of other softwood lumber continued to enter. The agreement reduces the combined duty and tax by 50 percent. In the case of Douglas fir and western hemlock the domestic industry is safeguarded by limiting the quantity, which may enter at the reduced rate, to 250,000,000 board feet. This quantity, it should be well noted, is equal to about 5 percent of our consumption of these species

during the last few years, and of course an even smaller percentage of the combined domestic consumption of Douglas fir, western hemlock and yellow pine, the three species most affected by the competition of the Canadian Douglas fir. The imports of spruce and white pine from Canada supplement inadequate domestic supplies of these species.

Concessions have been made to Canada with respect to certain dutiable fish items. Because of the already severe competition of imports of cod, haddock and related species with the catch of our New England fisheries, no duty reductions have been made on these fish. In the case of most species on which the rates have been lowered the imports either are small in comparison with domestic production or are supplementary to the domestic catch. The duty reductions apply to fresh or frozen halibut, salmon, eels, and eight species of fresh water fish; fresh but not frozen swordfish; pickled or salted salmon and alewives; certain kinds of smoked herring; and canned razor clams. The most important single item is perhaps halibut. The imports of fresh halibut in recent years have averaged only about 10 percent of the domestic consumption. There is some exportation of American-caught halibut to Canada and she has by the agreement reduced her duty. Both the American and the Canadian catch is almost wholly on the Pacific coast.

Turning to mineral products the agreement provides for lower rates of duty on firebrick, limestone not suitable for building, lime, and crude feldspar, all of these being commodities of which the imports have hitherto been small in comparison with the domestic production. The reduced rate on the lower grades of ground talc, and the small cut in the duty on certain dead-burned refractory material relate to commodities the imports of which are supplementary to domestic supplies.

Furthermore, reductions in duty have been made on ferromanganese and ferrosilicon and on the minor products ferrotitanium, ferrovanadium, and ferrourenium.

Reductions in duty have been made with respect to about 15 manufactured products. The most important of these are patent leather, harness leather, acetic acid, and whiskey. Prior to 1930 most leather was free of duty. The rates imposed in that year are partly compensatory for the duty imposed at the same time on cattle hides and calfskins. The reduced rates on patent leather and harness leather leave an element of protection for the domestic tanneries in excess of the amount necessary to compensate for the duty on hides and skins. The United States has always exported far more patent leather than it has imported.

During the period of prohibition in the United States large quantities of whiskey of American type (rye and bourbon) were manufactured in Canada. With the end of the prohibition period Canadian distillers were left with great stocks of American type whiskey for which Canada itself afforded only a small market. The shortage of properly aged whiskey in the United States since the repeal of the prohibition amendment has created a demand for this Canadian supply. The 50 percent reduction in the heretofore high duty of \$5 per gallon applies also to Scotch, Irish, and all other whiskey aged four years or more in wood.

The reduction in the duty on acetic acid seemed warranted by the fact that during recent years there has been a great increase in the demand for this commodity as the result of the expansion of the rayon industry. Both the domestic production and the imports of the more highly concentrated acetic acid affected by the change in duty have grown rapidly, and it does not appear likely that the reduction in the duty will cause decline in the output of the American producers.

Less important non-agricultural commodities on which the duties are lowered by the agreement are vinyl acetate, cobalt oxide, acetylene black, crude sperm oil, electric cooking stoves and ranges, ice hockey sticks, pulpboard in rolls for the manufacture of wallboard, lacrosse sticks, ice skates, and pipe organs.

November 20, 1935

Mr. Phillips telephoned from the State Department this afternoon. He had the British Ambassador waiting outside.

Phillips read to me what he was going to say, which was to the effect that the Secretary of the Treasury had said that the United States wished to participate in any loan made to China by Great Britain, based on the consortium of 1920. I told Phillips he could not do any such thing; that the consortium had expired in 1920. I went on to tell him that Leith-Ross had said that any loan Great Britain made would be based on the £ Sterling. I told him it was impossible and he said he had not understood it and he would not tell the British Ambassador. What the British Ambassador was trying to do was to get my position reversed as I told it to Bewley.

I told Phillips that Secretary Hull had spoken to me about it yesterday and had said he would communicate with me, but had not done so and I have been waiting to hear from him.

THE UNDER SECRETARY OF STATE  
WASHINGTON

November 22, 1935

Dear Mr. Secretary:

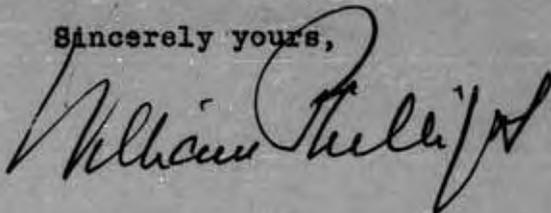
I send you as promised copy of Bewley's report of his conversations with you. I also attach, as of possible interest in this connection, a statement which I made to the press last March. I have today orally informed the British Ambassador, in reply to his inquiry with regard to your statement referred to in Bewley's report at the top of page four of his memorandum, that your remark to the effect that "you would have no objection to Great Britain acting alone etc., etc." should not, of course, be construed as abandonment by the American Government of its belief in the principle of cooperative action. I added that it is assumed

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

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that in any plan whereby British Consortium banks might be considering a loan to China, due consideration would be given to the China Consortium agreement of 1920.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "William Phillips". The signature is written in a cursive style with a large, looping initial "W".

**Enclosure:**

Bewley's report of  
conversations with  
Secretary of the  
Treasury;  
Press release.

An Account of the conversations with the Secretary of  
the Treasury.

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Acting under instructions, the Financial Adviser to the British Embassy saw Mr. Morgenthau on November 7th and told him confidentially that the Hong Kong Government was likely to abandon silver now that China had done so. There were two alternatives now before Hong Kong, either to go on to a managed currency like China, or to adopt sterling. In either case large quantities of silver would be released from the note reserves, from coinage, and from banking reserves. A mutual arrangement to secure orderly marketing might be mutually advantageous and he was instructed to ask whether the United States Government would be disposed to buy silver from the above sources up to an amount of about 100,000,000 ounces.

In his reply Mr. Morgenthau touched on the whole subject of financial cooperation between Great Britain and the United States, on stabilisation, on the working of the equalisation fund, and observed that there had not been very much financial cooperation in China. However he was glad to have been approached, but wished first to know what the currency of Hong Kong was likely to be. He was told that this was still quite uncertain, but he repeated that he would nevertheless like to know what standard Hong Kong was likely to adopt before he replied to the question. This has been reported to London, and an answer will be made as soon as possible.

Arising out of the above an expression of views was received from London and was reported to Mr. Morgenthau

on November 17th in the following sense.

When Leith-Ross left London the view held was that China could not maintain the silver standard without an excessive deflation. She would have to either devalue the Chinese dollar, or tie herself up to some foreign standard, gold, sterling, or the yen. London felt quite unable to decide which of these was the most advisable, as Chinese psychology came so much into play. Leith-Ross's instructions were not to press China to adopt sterling; but if China should adopt a sterling standard, we would be disposed to lend support, provided that the decision was definitely China's decision; that it would meet with the goodwill, and if possible with the active support of the other chief Powers concerned; and that the scheme in itself should be based on sound foundations.

Shortly after Leith-Ross got to China the Chinese Government told him that they would not be able to devalue the dollar. They favoured a sterling basis, because sterling was the most important currency for Chinese trade, and because London afforded good facilities for credits and for keeping reserves. A definite decision however must depend on the possibility of a loan. To this Leith-Ross's answer was that a loan could not be arranged until other Governments had been frankly consulted, and their cooperation or goodwill secured. Meanwhile he urged upon the Chinese Government various reforms, such as budget, banking system, etc. At this point the situation suddenly deteriorated and the crisis came on rapidly. China abandoned silver, and attempted to effect stabilisation on her own resources. The Chinese Government

may well succeed in maintaining stability for a while in this manner, but there is obviously a risk of a breakdown unless her resources can be rapidly increased, by the sale of silver, or by a loan on the widest possible base. The sale of silver of course is up to the United States Government. A loan could probably be managed by the British Consortium Banks if the British Government gave its approval; but under the existing embargo on foreign loans, approval would have to be conditional on the adoption of a sterling standard, as otherwise the proceeds of the loan would be turned into gold or into yens and the damage to the sterling exchange would ensue. It would further be necessary that other Governments, especially the United States and Japan, should show their goodwill, and encourage the cooperation of their banks.

Leith-Ross has kept in touch as far as possible with the United States and Japanese Embassies, but has no official knowledge of the policies of their Governments.

The Japanese have expressed suspicion that the Chinese abandonment of silver was done in consultation with Leith-Ross, and they have been disabused of this. As a matter of fact the decision came as a surprise, and cut right across Leith-Ross's discussions which aimed at a scheme of complete currency reform. From the outset the Japanese have professed themselves ready to consider any concrete scheme that Leith-Ross might put up, but always said that they regarded any loan as a mistake. At present unfortunately opinion in Japan seems to be hardening against any scheme. The military seem to be adverse, and say that we are aiming at putting China under a financial tutelage.

Mr. Morgenthau expressed his thanks for these

frank explanations and said that he understood the British attitude as to a loan; but American participation, which would be difficult in any case, would be almost impossible if its object was to set up a sterling standard. However he said he would have no objection to Great Britain acting alone provided that the scheme was fair to all, including China.

He said that the above was what might be called a long term policy, but he was nervous about day to day developments. Shanghai might collapse at any moment. He was sure that both Great Britain and the United States desired that China should succeed in setting up a sound currency system but he understood that the Japanese through the operation of the exchanges was trying to prevent the success of the present efforts. He asked whether Great Britain would feel disposed to favour cooperation between the principal interested countries other than Japan to save the situation. He was not disposed at present to show his whole hand, or to be specific. If he heard nothing in reply to his enquiry, he would quite understand and no harm would have been done; but if the British Government were receptive, he would have something more definite to say.

November 18th, 1935.

## DEPARTMENT OF STATE

FOR THE PRESS

March 7, 1935

At the press conference at the State Department today, correspondents enquired concerning the recent discussion of Far Eastern affairs by the British Ambassador with the Department.

Mr. Phillips was asked whether we had expressed any views to the British Ambassador. Mr. Phillips answered that views had been exchanged.

Subsequently correspondents requested that they be informed the nature of the discussions. Mr. Phillips complied and said:

"I informed the British Ambassador that this Government welcomed the initiative of the British Government and shared the view that consideration might well be given to the possibility that, if China needs and desires financial assistance from abroad, the Powers interested and concerned should canvass sympathetically the possibility of rendering such assistance and rendering it by cooperative action.

"I also noted that for many years past the principle of cooperative action in such matters has been in favor among the Powers."

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November 20, 1935

Boake Carter, of the "Philco" program over the facilities of the Columbia Broadcasting System, last night broadcast a criticism of the reorganization of the Coast Guard Service by a civilian employee of the Treasury Department. Since it developed that this was the first of a series of such broadcasts it is referred to only briefly here and a complete report is included at the conclusion of Mr. Carter's broadcasts against the Treasury. (See entry under date of December 18.)

November 21, 1935

Phillips came in today to discuss my recent conversation with Bewley on a loan to China. HM, Jr. read to Mr. Phillips his office copy of the transcript of the conversation of November 16.

Phillips is going to send me a memorandum which he received from Ambassador Johnson and of the reply which the State Department is sending. Phillips read the draft of their answer to the Ambassador which HM, Jr. approved.

November 21st

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The following is taken from notes which I made at the conference which took place at the White House, Saturday, November 16th. General Hines and his assistant, Bell and I were with the President.

500,000 veterans have not borrowed on their certificates. They estimate to pay the bonus would take an appropriation of two billion dollars. They estimate that the Treasury would have to raise a billion and a half in cash, if the bonus was paid in cash. The Patman bill will come up on January 11th. The President asked if anybody had given consideration to the idea that some preference be given to those veterans who would use their bonus money to build a home. The President suggested a plan whereby a veteran would receive 91% in cash which would be equal to a discount of 1% a year for nine years - but to a veteran who would spend it on a house give him 100%. (I do not think much of the idea).

I said, in an swer to a question from FDR and General Hines, 'would the Treasury be willing to have Congress leave it to us to decide how to raise the money', "I would be entirely willing to have it left to us". I added that if it were left to us we would raise the money in an orthodox manner.

FDR suggested the possibility of a 3% nine year bond.

The President pressed me to inform him what method of payment I preferred. I told him I little bit preferred to pay the bonus in all cash rather than having a special bond issue. Bell agreed with me. I said, "I might want to change later on after I had given the matter further study".

General Hines estimated that if we paid in cash it would take a billion dollars and a little later an additional 332 million for interest that is due.

FDR suggested offering all veterans the alternative of cash or an attractive bond. He insisted that the bond must be redeemable at par during the entire life of the bond.

FDR wants us to work a new 3% Baby Bond, starting at par and then increasing it in value each year until maturity. This would be different than the present Baby Bond, which is a discount bond.

On the afternoon of November 20th, Bell and I were working with the President. The President told me that Harry Hopkins said that he would be out of money by April 1st and that there was 300 or 400 million dollars unallotted that he, Hopkins, would like to have. The President wanted to know where the money was

and Bell said he did not know. I then said to the President, "why don't you wait until after December 10th. There is no hurry about this matter and we will know much better where we are at". He said, "all right". A little later on he said, "Rex Tugwell wanted an additional allotment of 67 million dollars and I made the same suggestion, namely, that it be put off until after December 10th and he said, "O.K. on that". Bell then pointed out to him that when he had cut out the 107 million dollars out of agriculture, which was supposed to come from Customs, that in this figure was a figure of seven and a half million dollars which they really were entitled to. Bell had talked to me about this before and said that he was afraid to bring it up for fear that the President would give agriculture back the entire 107 million dollars. As quick as a flash, with a smile, the President said, "all right, we will give them back the seven and a half million dollars and this will strengthen H.M.Jr's hand on saving the Customs' money". He then looked at me, with a twinkle in his eye, and said, I think I see your fine Italian hand in this" and I said, "no Mr. President, I am innocent". It was most encouraging to have the President continue to stick by his original decision, namely, that he was going to try and keep part of Customs' receipts from being allocated to agriculture.

FDR asked me to stay after Bell left. He said he had a new idea. He said he asked Hopkins, who had lunch with him, how many unemployed people he would have next spring and Hopkins could not give him a very good estimate. That gave him the idea why not leave out of his budget estimate the figure for relief and that this would show a budget with three or four hundred million dollars to the good. That he would tell Congress that it was too early to tell how much money he needed for relief but that he could promise them that he would ask for not more than half as much as he got this year. I told him I thought he had a very interesting idea, namely, that he wants to impress on the country the fact that the budget is balanced except for relief. I said I thought it was fine but might not Congress try to hold him up for relief money until they gave him the bonus? He said that that had not occurred to him. (I am not so sure it had not).

While he was talking to me he was interrupted, first by McIntyre and then by Early and it was one of his rare times that he scolded both of them very crossly and said, "how can I discuss an important idea if I am always being interrupted?"

November 21st

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H.M.Jr. received the following telegram from the President:

PLEASE TALK WITH LANDIS ABOUT HAVING BOB JACKSON HELP IN THE  
SECURITY UTILITY PROCEEDING. IS VERY IMPORTANT STOP I  
UNDERSTAND IT CAN BE DONE ON PART TIME

H.M.Jr. then called up Mr. Jackson and read the telegram to him and told him to speak to Landis and find out just what was expected of him and then discuss it with Oliphant and Helvering. Then, after he has made up his mind what he wants to do, Mr. Morgenthau asked Jackson to talk to him again before committing himself. He said, "after all the request came from the President and we are all working for him."

NEW YORK HERALD TRIBUNE

November 21, 1935

## James Roosevelt Gives Up Job As Part-Time Yeast Firm Head

Special to the Herald Tribune

BELLEVILLE, N. J., Nov. 20.—James Roosevelt, eldest son of the President, has resigned from the presidency of the National Grain Yeast Corporation, with a plant in Mill Street, Belleville, it was learned today.

Mr. Roosevelt alighted from a Washington plane at 4 p. m. yesterday at Newark Airport and hastened here, called plant officials together and announced his resignation as of November 1. He said that the corporation was in good financial condition and steadily gaining business. Then he went through the plant, saying good by to various employees.

Frank L. Chambers, vice-president of the company, said that there was no disagreement between Mr. Roosevelt, who became president on July 1,

and the directors of the company, although "there may have been some disappointment on the part of the members of the board" that Mr. Roosevelt, because of other business interests, could not devote his full time to the job here. Mr. Chambers said that Mr. Roosevelt had been able to pass "only several" days a week at the plant.

"You know, of course," Mr. Chambers said, "that he's in the insurance business in Boston and has an interest in air lines and that he has been tremendously interested in the campaign of his father and that he's politically very active. Last night he simply called us together, told us that he wanted to bid us farewell and wanted to wish us the best of luck. Then he shook hands all around and left."

Nov. 21, 1935

## CHARGES U. S. AIDING ALCOHOL MARKET

### Chemical Society Sights Dangers of Regulations on Specific Denaturants

The Government in exercising control of industrial alcohol is fostering monopoly, it is charged editorially in *Industrial and Engineering Chemistry*, publication of the American Chemical Society, of which Dr. Harrison E. Howe is editor.

In forcing industrial users to employ specific denaturants, it is pointed out, the Treasury Department makes no attempt to afford them protection from the monopolistic sources of supply to which they are restricted.

"A recent special case in point is Treasury Decision 4578, which requires the use of tertiary butyl alcohol in specially denatured alcohol formulas 33, 33-A, 33-B and 40," it is explained. "This became effective October 1 and while but one-eighth-gallon of denaturing grade tertiary butyl alcohol to every 100 gallons 190 proof ethyl alcohol is specified the principle involved is very important.

"Tertiary butyl alcohol is the basis of denatured alcohol compositions patented July 15, 1933, patent No. 1,819,145. There is now but one source for this denaturant in the form prescribed by the regulation, although departmental chemists hold that it is the presence of tertiary butyl alcohol in crude isopropyl alcohol that has made it valuable as a denaturant in formulas authorized and in force for many years.

"Tertiary butyl alcohol may serve governmental purposes as a tracer, but if its use should impart objectionable odor or be otherwise unsuitable in the manufacture of perfumery, cosmetics, etc. (this can be determined only by appropriate time tests), then such material should not be employed.

"In many events, is it proper to compel industry to use a denaturant which creates a monopoly without first having arranged with the owners of the patent so that even if they were inclined to do so they could not take advantage of the situation? The use of patented materials in denaturants is not new, but heretofore the Government has been meticulous to make all suitable arrangements in advance."

The Interdepartmental Loan Committee met in the office of the Under Secretary of the Treasury at 11 A.M. Those present were:

T.J. Coolidge, Under Secretary of the Treasury,  
Charles West, Under Secretary of the Interior,  
Lawrence Clayton, Assistant to Governor, Federal Reserve Board,  
Steward McDonald, Federal Housing Administrator,  
Floyd Augustine, HOLC, Financial Adviser,  
T.D. Webb, Vice Chairman, Federal Home Loan Bank Board,  
Wayne C. Taylor, Export-Import Bank,  
James B. Alley, General Counsel, RFC,  
W.I. Myers, Governor, Farm Credit Administration,  
Leo T. Crowley, Chairman, FDIC,  
A.R. Clas, Director, Emergency Public Works Housing Corporation,  
Col. H.B. Hackett, Deputy Administrator, Public Works,  
Chester C. Davis, AAA.  
C.B. Upham.

Mr. Coolidge explained that Secretary Morgenthau was unable to be present and that he had called the meeting so that the various agencies might outline their legislative needs for the coming session.

Mr. Clayton, reporting for the Federal Reserve Board, said that they were not seeking legislation. He thought there might be some refinements of the law but he was of the opinion that the Board thinks they should be sponsored by members of the Congress.

Mr. McDonald, reporting for the Federal Housing Administration, said that any legislation proposed by that agency would be for the clarification of minor details. He suggested as one possible major change that the premium rate on insured mortgages might be made to

apply to the diminishing balance rather than the original principal. He said there was some feeling that it might be well to change the law to permit insurance of 90% of a loan on new construction of houses costing less than \$5,000. He pointed out that Title I expires April 1st and there is some discussion of extending it.

Mr. Webb, reporting for the Federal Home Loan Bank Board, said that there was no legislation in contemplation at the present time.

Mr. Taylor, reporting for the Export-Import Bank, said that they would need some legislation but that he would prefer to prepare a report and submit it later.

Mr. Alley, reporting for the Reconstruction Finance Corporation, said that that agency would need no legislation.

Mr. Myers, reporting for the Farm Credit Administration, said that his agency would need no legislation. He added that there was some possibility of suggesting a small emergency crop loan program in order to forestall a larger program sponsored by Congress. He also referred to a forest credit proposal which is not being sponsored by the FCA either.

Mr. Crowley, reporting for the Federal Deposit Insurance Corporation, said that they were proposing no legislation.

Col. Hackett, reporting for the Public Works Administration, said that they would need some legislation to clear up procedure and that he would send in a report tomorrow. Mr. Clas said that they should have some PWA housing legislation and that he is working on it. It will include both clarification of the law and some more money.

Mr. Davis, reporting for the Agricultural Adjustment Administration, said that they can't forecast their legislative needs until the Supreme Court has ruled on the processing tax. He said there may be one small change in the sugar law which would call for an increase in the domestic production of sugar without any interference of the foreign quotas. Mr. Davis added that they will soon be talking to the RFC about liquidating some cotton and making it available to the trade. He thinks the pool holdings of 600,000 bales spot and one and a half million bales futures may be liquidated.

Mr. Myers said that they might have a few pennies to give back out of the Rural Agricultural Credit Corporations and that they have about four and a half million to give back to the RFC as soon as they can find a way to do it. He added that there will not be much increase in the guaranteed bonds of Farm Credit -- that the land banks will soon go on the bond market on their own.

Mr. West said he knew of no legislation other than that mentioned by Col. Hackett and Mr. Clas.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 21, 1935.

To CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF FRANCE.

Mr. Cariguel called shortly after noon and advised that the total turnover in dollars today so far had reached \$18,000,000. He asked whether our order of last night was for a total of \$25,000,000 good to and including November 23 or for \$25,000,000 a day for the next three days. I replied that the former interpretation was the correct one. He thought that under the circumstances he would let the commercial banks go on as long as they could and would operate against our order only after they had exhausted their facilities. I asked Cariguel the reason for the sudden weakness of all gold currencies (except the belga which continues to be in demand) and Cariguel's explanation was the nervousness of the market due to the political situation in France. The Financial Committee of the Chamber which was meeting this afternoon again, has not as yet arrived at any decision and the full Chamber is going to meet on next Tuesday. Cariguel thought that the Committee would ordinarily agree to whatever the Government wanted but that the recent clash between the extreme left parties and the Croix de Feu was a new development that loomed in the background.

I inquired with reference to the operations of the Banca d'Italia in the Paris market and was informed that the Bank of France continued to receive a daily order from Rome for the support of the lira but that practically no business was possible because there were no sellers in the market. Yesterday he had been able to do a hundred thousand lire only. Cariguel thought that this situation suited the

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 21, 1935.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF FRANCE.

- 2 -

Italians admirably because all they were interested in was to have the lira actually quoted in Paris. The Banca d'Italia's present operations seem to be the sale of francs in the New York market: the necessary francs are acquired via Switzerland by means of French Government securities previously sequestered from Italian Nationals and now shipped to Switzerland with instructions that they be sold on the Paris Bourse. Cariguel thought that between 300,000,000 and 400,000,000 francs were thus available to the Italian authorities.

I inquired whether the Bank for International Settlements service was being used by the Banca d'Italia for its operations in support of the lira but Cariguel thought there was no evidence of it except that a few days ago the Banca d'Italia had instructed the Bank of France to transfer the small balance of gold left in Paris to the name of the Bank for International Settlements.

LWK:EMC

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 22, 1935.To CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnobeBANK OF FRANCE.

Mr. Cariguel called at 12:45 p. m. today to say that they had again had a heavy day with a total turnover in dollars of about \$17,500,000. Most of it was done this morning, the afternoon being quieter. He added that the British Equalization Fund had bought upwards of 80,000,000 francs, the exact total for the day not being known to him yet. (I have since learned in the market here that the British Fund's purchases totaled 175,000,000 French francs.) Cariguel has again not operated for our account, commercial banks having been very ready to buy francs.

I asked him whether any gold was going from Paris to London but he answered in the negative, the British continuing to earmark in Paris all the gold they were obtaining from their franc purchases.

I pointed out to Cariguel for regularity's sake that in case he operated under our order he would of course have to give us gold bars and not United States gold coin. Cariguel replied that that was clearly understood.

*EWK*  
EWK:KMC

November 22d

Oliphant says it looks as though, from the information that we have, we ought to stop all exports from Germany into the United States.

He asked me what he should do about it. I said it is very embarrassing for me so I arranged that he should have a half hour with Secretary Hull Monday afternoon and I asked Oliphant to see whether he could not get the State Department to take the leadership in this matter, once we have supplied them with the information so it would not look as though this was something that I was trying to do.

Oliphant said in regard to the whole German matter that I have been perfectly wonderful and that I had always leaned over backwards. After all I was Secretary of the Treasury and had to do my duty. I agreed with him and saw no reason why we could not present the facts to the State Department and let them take the leadership.

Here is something surprising that Oliphant said. If Robert Jackson is going to try the Electric Bond and Share Company for Commissioner Landis he will be out of the picture for three months and he has to put someone else in to do the administrative work. He said that there was a lot of cleaning up to do in Jackson's office and that Jackson had been holding back because he evidently does not want to fire some people on account of the proximity of the campaign and Oliphant wants the office reorganized and cleaned up. He said, if Jackson wins this case he will succeed Cummings if there is any change. I said, "No, I should think it would be Stanley Reed". Maybe I was dumb and should have said, "well Herman if there is a vacancy over there I will see that you get it".

After Oliphant left I thought it over and called him back and told him that if there was any change in the position of Attorney General I would certainly back him. He was quite touched and said he would rather work for me than become Attorney General.

November 22, 1935

Miss Roche, Dr. Cumming and Mr. Anslinger came in to see the Secretary in regard to the attached memorandum on narcotics. Anslinger reported that we had a supply that will last up to January, 1937, and all of the supply is in the hands of retailers. We have no supply on hand. In case of war, there is danger of a shortage of narcotics in this country.

Mr. Anslinger recommended that we order 169,000 pounds for next year and hold out about 30,000 pounds as an excess reserve and keep these narcotics in London or Amsterdam. Mr. Morgenthau inquired as to the reason for keeping the narcotics abroad and Mr. Anslinger replied that he was afraid of theft. Mr. Morgenthau considered this perfectly ridiculous and suggested that we bring the narcotics to this country and keep it in the vaults here in the Treasury.

Mr. Morgenthau approved an order for 130,000 pounds to be distributed among retailers for next year and an additional 50,000 pounds to be kept here in the Treasury's vaults in Washington.

(COPY)

TREASURY DEPARTMENT  
PUBLIC HEALTH SERVICE  
WASHINGTON

November 16, 1935

The Honorable

The Secretary of the Treasury

Sir:

I have the honor to invite your attention to a possible menace to the normal and emergency supply of narcotic drugs for medicinal and scientific purposes of the United States occasioned by the disturbed political situation in Europe and the Near East.

This office is directed, in accordance with law (U.S.C. title 21, sec. 196) to make such studies and investigations as may be necessary \*\*\*\* of the quantities of crude opium, coca leaves, and their salts, derivatives, and preparations, together with such reserves thereof as are necessary to supply the normal and emergency medicinal and scientific requirements of the United States. Current studies of this nature have been in progress since the passage of the act in 1930 and the results, in accordance with law, have been made available annually to the Commissioner of Narcotics to be used at his discretion in determining the amounts of crude opium and coca leaves to be imported under the Narcotics Drugs Import and Export Act as amended.

It is believed that the unsettled political situation in Europe and the Near East may be considered as a potential menace to the normal and emergency reserve supply of these drugs for medical and scientific purposes in this country and it is recommended that some measures should be adopted to insure a sufficient reserve to meet any emergency that might arise.

Under ordinary conditions, the annual requirements for the Country are estimated to be between 100,000 and 130,000 pounds of crude opium for normal and emergency medical and scientific purposes, based upon a morphine content of 12.5%.

Respectfully,

(Sgd) H. S. Cumming,  
Surgeon General

November 22, 1935

Coolidge has been giving some thought to legislation for extending the Stabilization Fund and for the power to reduce further the gold content of the dollar. I think his comments are interesting. I quote from his daily report to me, of today, in which the following paragraph was sandwiched in with others on many and divergent subjects:

"I don't know what plans you may have under consideration for extending the powers of the Stabilization Fund and the power to reduce further the gold content of the dollar. My own feeling is that it would be a good thing economically to extend the Stabilization Fund authority but to let the power to further devalue the dollar lapse."

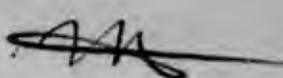
## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 22, 1935.

Mrs Klutz  
 TO The Secretary  
 FROM Mr. Coolidge

See page 2  
 make note of  
 my diary

this in  


(Memorandum of activities for the day)

I was interested to hear Mr. Baruch in regard to the tax on profits. I have always felt that these were taxed at uneconomic rates and a change was one of the main suggestions I made to Haas' committee last year. On the other hand, I do not agree with Mr. Baruch that they should not be taxed, as I know of no time when it is easier for a man to pay than when he is taking profits. The point, I feel, is that the rate of taxation should be such that he would not be prevented from selling securities on account of the tax. Under the present law I believe this is the case more frequently than it should be. This reasoning leads to a flat tax on the profit not graduated on the size of a man's income, although there might be exemption and reduction for the small fellow. I am certain that if the proper rate were chosen the Treasury would receive more money and there would be a tendency to prevent stocks from going to excessive values. I am not so certain, however, that the Securities and Exchange Commission is particularly qualified to deal with this rather broad theory of taxation. Extraordinarily high income taxes on the very rich defeat their own purposes, I believe, as to the collection of the maximum amount of money, and, to some extent, drive investments into uneconomic channels. I do not think that the amount of money thus affected, however, is great enough to be of much consequence as there are few with

very large incomes, whereas there are comparatively many who might have a very large income one year if capital gains were counted as direct income, and in the first case they have to invest their money in something to earn an income, and in the second case they can avoid the tax merely by not selling.

There is no particular news in regard to French francs. Gold is still moving this way and to London, but not in quantities which cannot be handled. The political situation must be tense there.

I am planning to send out a letter which has been approved by the Governors on the Open Market Committee, requesting the Federal Reserve Banks to order the new kinds of Reserve Notes for issue from now on, feeling that this will strengthen our hand in obtaining legislation from Congress to repay them for the old notes. If Congress fails to give us permission we will have to do our best to get the banks to pay for it, and I think most of them will. Some of them have already stopped using the old form.

I don't know what plans you may have under consideration for extending the powers of the Stabilization Fund and the power to reduce further the gold content of the dollar. My own feeling is that it would be a good thing economically to extend the Stabilization Fund authority but to let the power to further devalue the dollar lapse.

I often regret that our contacts on financing are so greatly with those representing the requirements of the banks and that it is so difficult to get information from the great mass of our holders. There is today, of course, a splendid bond market. Corporate bonds comprising our best non-callable list are two points higher than in April, whereas our 2-7/8s Treasuries are a point below the price at that time. I cannot help but feel

that there is a splendid investment demand for long Governments at present levels, but there is no way of finding this out beforehand as there is in the case of the banks. The 2-3/4 bond might go better the day of the offering, but I doubt if it would be as well invested as in the somewhat longer 2-7/8s. I cannot, of course, feel that the choice is of any major moment and conditions a week from now might suggest a variation.

With Mr. Fleming I went into the question of expenses of the Reserve System in regard to Treasury operations. In the old days this was of little importance as the Reserve Banks were making money and the excess went to the Government. Today it is of importance to them. Under the law they have to bear a good portion of expenses which could conceivably be charged to the Treasury, but the expenses of our refunding operations and security issues are in theory borne by the Treasury. They have been charging against us only the actual out of pocket expenses. I am inclined to let them add to this certain general expenses, such as rent for space, heating and lighting bills, etc. Bell and Broughton are making a study of the subject.

Had a conference with the Post Office officials in regard to Savings Bonds. I am satisfied we have cleared up the major difficulty of delays on mail orders. It was a bad situation with the orders coming to the Treasury and being forwarded only after checks had been cashed to the Post Office Department and then forwarded to the city Post Office. In the future, the orders will be sent directly to the Post Office by the Treasury previous to the cashing of checks; the Post Office will prepare the bonds and mail them under instructions from the Treasury on receipt of notification of check payment. This should insure the least possible delay, though there may be occasional complaints where the sender has not followed

instructions and with whom there would have to be correspondence.

The Post Office is unwilling to have the postmasters contact the banks and suggested that if we use banks we use them through the Reserve System. They were very nice about it but it was evident that they did not want the banks to sell. I said I was not as yet ready to start the sale of these Savings Bonds through the Reserve System, so I have dropped it for the moment. I believe the Post Office is very proud of selling these bonds. Nevertheless, I find them rather ponderous to move and not inclined to break their old customs.

Savings Bonds (mailed to Treasury).....	\$ 78,656.25.....	Total....	\$ 4,192,077.00
Savings Bonds (all sales).....	<u>685,690.71</u> .....	Total....	168,394,652.95
	\$764,346.96		

*gje*

November 22, 1935.

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The Executive Committee of the Open Market Committee met in the office of the Secretary of the Treasury at 10 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,  
G.J. Schaller, Governor, Federal Reserve Bank of Chicago,  
D. Bell, Acting Director, Bureau of the Budget,  
Geo. C. Haas, Bureau of Research and Statistics.  
C.B. Upham.

Mr. Bell presented the estimate of Treasury cash position (attached) showing that the cash balance going into December is about \$690,000,000 and that the December to March needs will be about 750 million to 850 million. This will take us into March with a balance of about 700 million. He explained that these computations are on the basis of the impounding of AAA processing taxes remaining in statu quo. He explained further that these figures are on the basis of 100 million bill issues in each of the first two weeks of December.

Mr. Coolidge said that it might be unnecessary to raise additional bill money after the financing. He thought it unnecessary to pile up March 15th maturities beyond 500 million. He thought the December 4 bill offering would have to be carried through because it would be announced prior to the announcement of the December 15th

financing.

Mr. Coolidge said he would like to ask 450 million each on a bill and a note rather than 500 million.

Mr. Burgess agreed with this and said that it made a difference to the market as between 900 million and 1 billion. He added that if funds fell short bill issues during the quarter could be increased.

Mr. Morgenthau said that he would like to get back to quarterly financing.

Mr. Coolidge said that he would be inclined to urge the conversion of notes prior to maturity if there was a good market.

Mr. Burgess thought that was a good idea and was inclined to the belief that the market conditions are more important than fixed quarterly dates for financing.

Mr. Coolidge reviewed the situation over the last year. He recalled that a year ago June we offered 3% bonds of 1946-48 and that a severe breakdown in the market came in September and we had trouble with refinancing the called Fourths. Then the market brought the 3's back to par. Simultaneously corporate bonds were advancing faster than Government bonds. This Spring we had a large issue of 2-7/8ths. There was a break in September less severe than a year ago but followed by trouble in refunding. Then the 2-7/8ths advanced to par. Again the corporate market came up faster than the Government market. He saw a curious resemblance between the experiences of the two years.

Last year in September we asked for no new money and in December for 900 million. He suggests the same thing this year. Last year there was a three way offering, a 1-1/2 year note, a 4 year note and an 18 year bond. This year he has great confidence in the note market. He found no real objection in New York to a 5 year, 1-1/2 note.

It will sell at about par and a half which is the usual premium on a note. He suggested that holders of maturing notes be given their choice of a note or a bond and that new money be raised on both as well. New York, for the most part, favors reopening the 2-3/4 of 1945-47 which are selling just below 101 and offering half of the amount in that issue.

Mr. Coolidge and Mr. Burgess think it safe to give option on either the note or the bond.

Mr. Coolidge would like to lengthen maturities and for that reason would like a new 15-18 year 2-7/8 bond which he believes would sell about the same as the 2-3/4. Some feel that this would be forcing the long-term market out with the background of corporate bond prices and all other elements in the picture he has no fear. He thought it unwise to make up our minds on the bonds today but thinks that should be left until Wednesday.

Mr. Schaller asked if there had been any consideration given to a 40 year 3% bond and said that there had been some inquiries in his district for such an issue.

Mr. Coolidge said he thought that with 2-7/8 selling at par that 3% was too high to pay for any bond and that he was afraid such a bond would force the long-term market down. If it didn't it would sell at 101½ and so we would be giving something away.

Mr. Seay inquired about the savings bond sales and was told that they are going at the rate of about 1 million a day and total cash receipts to date are running around 170 million.

Mr. Morgenthau asked Mr. Burgess if he had cleaned up his "swaps" and Mr. Burgess replied that they had about 5 million yet to go but

that they would not be in the market in the immediate future unless the market was very strong.

Mr. Morgenthau asked that they keep in mind the Treasury financing in completing their program. He referred apparently to the current conversion of some 23 million of bonds held by the Federal Reserve Bank of New York into bills.

Mr. Morgenthau asked if there was much difference between a 15-18 year bond and a 15-20 year bond.

Mr. Burgess said that a 15-20 would overlap other issues.

Mr. Burgess said that he was sure of the 10-12 year 2-3/4 and that he got very little encouragement in New York for anything longer than that. Insurance companies might buy but savings banks probably would not and other banks almost certainly would not. Dealers, he said, are scared to death of the bonus, of the budget and of Congress. Their portfolios are low. The feeling about the Treasury is not so bad. With the market quiet they are not earning their overhead.

Mr. Morgenthau said he very definitely wants a 5 year note and he wants holders of maturing notes to have their choice of a note or a bond.

Mr. Burgess said that he approved that and it would mean that some bonds would be sold that way. In reply to inquiry by Mr. Morgenthau, he said that the market has discounted the bonus to some extent in advance. The price of the 2-7/8ths reveals this -- but it has not been wholly discounted.

Mr. Morgenthau said if we went to a 15-18 year bond he was agreeable to asking only 450 million each.

Mr. Morgenthau said that if we decide on the 10-12 year bond

that he was inclined to prefer asking for 500 million of each.

Mr. Burgess said that could be done and Mr. Coolidge said he was not worried by that.

Mr. Burgess said that the war in Europe is not really a factor in the market but in the last 6 months people have become convinced that prosperity is returning and that as a result high-grade bonds are at their top price.

Mr. Eccles commented that the volume of money for investment is so great that the stock market can be and is being supported without borrowing from banks. This is true also, he said, of the long-term market. Bonds cannot be expected to go up.

On a round robin preference for the 2-3/4's was expressed by Mr. Fleming, Mr. Seay, Mr. Schaller, Mr. Young, Mr. Eccles (who stated that he suspected he was for them for a different reason than the others) and Mr. Bell. Mr. Haas said that he favored a 10-18 year bond at 2-7/8ths.

Mr. Burgess said that this would violate traditions and that the long spread was not liked by the banks.

Mr. Coolidge opposed the long spread also. He said that the Treasury didn't have enough long bonds and that he would like to have an issue which is attractive to the real investors. His preference is for a 15-18 year maturity.

Mr. Burgess said that he was generally speaking in favor of the 2-3/4's, but he thinks we can possibly do a 15-18 if there is a good market next week. It is largely a psychological matter and if this issue goes sour the whole market will be off.

Mr. Morgenthau said we can't overlook the fact that as a Presidential campaign comes nearer we must be more and more careful of our financing.

Mr. Coolidge said that Governor Harrison said that he would vote today for the 2-3/4's but that he would rather have the 2-7/8ths and for that reason would prefer to wait a week and see if we couldn't risk them.

Mr. Seay was inclined to be particularly positive that we should not go beyond the 10-12 year bond.

Mr. Eccles referred to the fact that the guaranteed bonds are running off -- that HOLC issues are at a minimum -- that FFMC offerings will not be heavy and that the RFC activities are declining and suggested that these competitive issues are on the decline and the Government market position should be improved.

ESTIMATE OF CASH POSITIONCONFIDENTIALNovember, 1935 - March, 1936

(In millions of dollars)

	Nov.	Dec.	Jan.	Feb.	Mar.	Total
Balances at beginning of periods . . . . .	791	694	1,251	986	731	791
Receipts . . . . .	220	415	225	250	650	1,760
U.S. Savings Bonds . . . . .	10	10	10	10	10	50
Sales of Treasury obligations . . . . .	200	750	-	-	1,000	1,950
<b>Total available:</b>	<b>1,221</b>	<b>1,869</b>	<b>1,486</b>	<b>1,246</b>	<b>2,391</b>	<b>4,551</b>
General expenditures . . . . .	165	165	160	160	160	810
Interest on public debt . . . . .	12	108	15	30	120	285
Emergency expenditures . . . . .	290	300	300	300	310	1,500
Special transactions . . . . .	10	10	10	15	10	55
Debt retirements . . . . .	50	35	15	10	550	660
<b>Total expenditures:</b>	<b>527</b>	<b>618</b>	<b>500</b>	<b>515</b>	<b>1,150</b>	<b>3,310</b>
Balances at end of periods . . . . .	694	1,251	986	731	1,241	1,241
Deficit in receipts . . . . .	257	168	260	255	- 50	890
Debt refunding:					(Cash 550)	
Treasury bills . . . . .	200	250	200	200	200	1,050
Treasury notes . . . . .	-	418	-	-	-	418
	200	668	200	200	200	1,468

RFC notes amounting to \$150M due December 15, 1935, not included. Decision as to refunding or payment in cash not made.

Accounts and Deposits  
November 18, 1935.

CONFIDENTIAL

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IN CONNECTION WITH

GERMAN COUNTERVAILING DUTIES

November 24, 1935

HM, Jr's dictation on making Eli Frank Assistant General Counsel so he will not have to decide whether Germans are dumping. p. 159

November 25, 1935

Memo to Secretary from Mr. Oliphant reporting on his conference with Secretary Hull. Hull was advised of developments in Treasury Department and asked for suggestions. p. 160

December 23

Dr. Viner's letter to Secretary suggesting revision of instructions on consular invoices. BK XV p. 179

March 28, 1936

Confidential report to the Executive Committee on Commercial Policy from Subcommittee on Countervailing Duties in Relation to Currency Problems. BK XIV pp. 169-175

April 2

Letter from Secretary Hull to Secretary Morgenthau inclosing report and recommendations of Executive Committee on Commercial Policy and stating application of countervailing duties in cases arising out of currency controls cannot fail to have deplorable repercussions on US foreign trade. BK XV p. 20

April 8

Taylor's memorandum to the Secretary after studying the report. He does not approve the proposed Treasury Decision and cannot recommend to Secretary that he approve it. BK XV pp. 105-107

April 9

Dr. Haas' memorandum to Mr. Taylor "An illustration of a hypothetical exchange rate-price-situation." BK XV pp. 109-110

April 10

Meeting in Secretary's office at which were present Viner, Johnson from Customs and others. Viner will stay over another day to make a report. HM, Jr. wants German countervailing duties treated on merit alone. BK XV pp. 202-203

April 11

Viner's report to the Secretary of his study of the subject. He recommended imposition of countervailing duties and revision of consular invoice. BK XV p. 14

April 15

Oliphant's legal opinion on Countervailing duties on German goods.

BK XV 161-165

April 15, 1936

Meeting in Secretary's office. Oliphant presented his legal opinion that law requires application of counter-vailing duties and it is the mandatory duty of the Secretary of the Treasury to so direct. HM, Jr. feels that since State Department is on record as opposing, he would like to refer to Attorney General for opinion. ~~OK XXI~~:  
pg 150-160

April 16

Secretary's letter to the President asking advice and guidance in view of State Department's opposition. President noted: "Atty. Gen. for report & recommendation," ~~OK XXI~~: p 177

April 20

Memorandum from Commissioner Allen furnished to the Secretary by Mr. Bell, entitled "Self-liquidating Stamped Scrip." ~~OK XXI~~: 252-269

April 20

Oliphant's memorandum to Secretary that Department of Justice had asked State and Treasury Departments for formal opinions. ~~OK XXI~~ p. 270

April 29

Memo from Oliphant's office - Justice has opinion prepared and will submit to President today unless memorandum from State Department changes views of Department of Justice. ~~OK XXI~~ p 151

April 30

Memorandum to the Attorney General from the Assistant Solicitor General recommending further serious study by Treasury and State Departments and perhaps conference with the President. ~~OK XXI~~: 157-169

May 4

Mr. Sayre's memorandum on the policy aspects of the proposed Treasury decision, addressed to Asst. Solicitor General, stressing injury to US trade. ~~OK XXI~~ pg 40-43

May 12

HM, Jr's conversation with the President. If Atty. Genl. says Treasury is legally right, then Hull's argument about trade for Germany does not hold water. President agreed.

~~OK XXI~~ p 126

May 18, 1938

Taylor's memo to HM, Jr. that information on foreign currency procedures not sufficiently complete to make possible a final conclusion as to application of the German decision in other cases. Bk ~~XXIV~~ : pp 172-184

May 18

Haas' memorandum to Secretary - scrip and bond procedures and currency manipulations - countervailing duties. Bk ~~XXIV~~ : 172-184

*Taylor granted  
- not yet passed in  
Haas' division*

May 20

Oliphant's memorandum to Secretary advising no opinion from Attorney General and urging early disposition. (See diary of May 22.) Bk ~~XXIV~~ : 60

May 22

HM, Jr's conference with President. Referred to fact Atty. Genl. has not furnished legal opinion because he agrees with Treasury on legal position but feels that for political and other reasons no opinion should be rendered. HM, Jr. urged President take steps to settle differences of opinion. President said he would send memo in which he will state he wants law carried out. Bk ~~XXIV~~ : 23

May 22

President's memo to Secretary of Treasury instructing him to confer with State and Justice and try to find an immediate method of carrying out the law. Bk ~~XXIV~~ : 59-61

May 22

Oliphant's memorandum to the Secretary again advising that Attorney General has not yet furnished his opinion and stating that early disposition is required. Bk ~~XXIV~~ : 60

May 24

Dr. Viner's letter to the Secretary. Case for application of countervailing duties is too weak to justify imposing them. Bk ~~XXIV~~ : 70-71

May 27

Letter from Secretary Morgenthau to Secretary Hull asking for a conference. Bk ~~XXIV~~ : 107

May 28, 1936

Olipphant's memorandum to the Secretary disagreeing with Dr. Viner's points. ~~Bk XXV~~:156

May 29

Report of meeting of State, Treasury and Justice officials to discuss countervailing duties. ~~Bk XXV~~:161-166

May 29

List of complaints in respect to bounty-fed goods from Germany and list of commodities imported against which complaints have been received. ~~Bk XXV~~:167

June 2

Attorney General's opinion and asking Treasury approval of its publication. ~~Bk XXVI~~:28-46

June 4

Excerpts from press conference. ~~Bk XXVI~~:94-99

June 4

Press release. ~~XXVI~~ 100

June 4

Memorandum prepared for the press on Treas. Decision 48360. ~~Bk XXVI~~:103

June 5

Olipphant's memorandum to the Secretary recording the fact that he had conference with State Department on November 25, 1935. ~~Bk XXVI~~:142

June 12

Telephone call from Phillips to Mr. Taylor that German exchange authorities want to send representative here to explore possibilities of postponing Treasury action. ~~Bk XXVI~~:179

June 13

Mr. Johnson's memorandum to the Secretary relating developments since Treasury Decision was promulgated. Dr. Meyer,

June 13, 1938 (Cont'd)

First Secretary of the Germany Embassy, talked with Gibbons and Johnson in Gibbons' office. Dr. Meyer asked that effective date be postponed. ~~OK XXVI~~ : 190-192

June 16

Letter from Secretary Phillips transmitting cable from American Embassy, Berlin, that there is considerable feeling in German Government circles over Treasury decision. ~~OK XXVII~~ : 4-12

June 18

Memorandum from Johnson to Secretary reporting on call from Dr. Meyer of German Embassy and attaching copy of note of protest left by Ambassador with State Department. Refers to fact that Germany Ambassador also requested to ask Treasury if effective date could be postponed and whether German experts could come from Berlin to discuss objects and requirements of our countervailing duties. ~~OK XXVII~~ : 13-19

June 18

Letter from Treasury Attache, Berlin, transmitting copies of editorial comment in German press on Treasury decision. ~~OK XXVII~~ : 49-80  
115-120

June 19

Letter from Cordell Hull transmitting copy of cable from Berlin that Mr. Brinkman and Ministerial-Rat Ludwig Imhoff are expected to sail from New York on June 20 to discuss Treasury decision. ~~OK XXVII~~ : 125-126

June 19

Letter to State Department, signed by Miss Roche, that Treasury has decided there is no authority of law or precedent for postponement of effective date and can not see what good purpose would be served by conversations with representatives of German Government. ~~OK XXVII~~ : 127

June 23

Letter from State Department transmitting copy of cable from American Embassy, Berlin, reporting article in Boersen Zeitung on Treasury decision. ~~OK XXVII~~ : 113-120

June 23, 1936

156

Letter from State Department inclosing copy of message from American Embassy, Berlin, and copy of message from State Dept. to American Embassy, Berlin, outlining US position with respect to proposed visit of German experts and copy of memorandum covering conversation between State Department and Dr. Meyer. ~~BK XXVII~~:155-167

June 24

State Dept. letter transmitting protest from German Ambassador. " :164

June 26

Memo from Johnson to Oliphant, reporting several instances of protest by Americans against imposition of countervailing duties. " :200

July 10

Oliphant had telephone conversation with Secretary today while latter was on farm. Confirmed in Oliphant's memorandum to Secretary filed in diary under date of July 23. ~~BK XXVIII~~ :116

July 11

Memo from Johnson to Secretary that there is no authority under the law for postponement beyond 30 days when it has been decided countervailing duties should be imposed. ~~BK XXVIII~~ :99A-102

July 22

Treasury Decision 48444 amending 48360 that gifts for personal use of the donee or articles purchased at retail for personal use are not subject to countervailing duties. ~~BK XXVIII~~ :105

July 23

Oliphant's memo to Secretary, confirming telephone conversation of July 10, that countervailing duties are immediately effective but adding opinion that 30-day period of notice is warranted. ~~BK XXVIII~~ :116

July 29

Instructions to Collectors of Customs (Circular Ltr.1598) quoting letter to Secretary of State of June 22, re consular invoices and instructing that invoices certified before Aug. 1 should not be rejected. ~~BK XXVIII~~ :161-162

August 4

Cable from American Embassy, Berlin, that as result of Treasury Decision 48360, German Govt. has issued Order prohibiting use of registered marks for payment of German exports to US. ~~BK XXVIII~~ :9-10

August 5, 1936

Press release, provisions of Treasury Decision 48360 shall not apply to cameras, calf and kid leather and surgical instruments from Germany. ~~BK XXXX~~ : 22

August 5

Discussion by Subcommittee on German standstill credits of situation created by withdrawal of Germany of Aski and Registered Marks for payment of exports. Decision made to cable Mr. Gibson, Chairman of American Committee, inquiring if he thought it advisable to arrange for further concessions from Germany in connection with travel Marks or Benevolent Remittances. ~~BK XXXX~~ : 24

August 5

Memo to President, reporting on Germany's action with respect to withdrawal of Aski and Registered Marks. ~~BK XXXX~~ : 25

August 10

Memorandum from Johnson to Oliphant referring to statement which German Ambassador has been directed to make to US: that effective August 3 all existing procedures to aid German exportation have been stopped. Johnson advised Dr. Baer this statement would probably not result immediately in the action desired by the German Government. ~~BK XXXX~~ : 130

August 10

Oliphant, Johnson and Taylor met with the Secretary and it was decided to take the German's word that they were no longer giving subsidies and that, therefore, Treasury could withdraw its decision of June 4. ~~BK XXXX~~ : 131

August 12

Oliphant's memo to the Secretary that Johnson was informed, last night, that German embassy had received cabled instructions from Berlin to give specific assurances to US Government that all German aids for exports had been discontinued on August 3. ~~BK XXXX~~ : 183

August 13

Memorandum from Oliphant to Secretary attaching copy of German Government note and copy of Dr. Baer's aide-memoire which Johnson obtained on confidential basis from Dr. Baer. ~~BK XXXX~~ : 215

August 14, 1936

Press release amending original Treasury Decision 48360 to allow importation of commodities listed therein after August 2.

BK ~~XXX~~: 232

August 19

Oliphant's memo to Secretary transmitting memo from Mr. Johnson in which he outlined further questions relating to German imports which will come up later. BK ~~XXX~~: 80

September 28

Haas' memo of effect of countervailing duties on U. S. trade with Germany. BK ~~XXXV~~: 163-175

November 24th

Jacob Viner said, "on this question of countervailing duties, if you decide to do anything I think you ought to get a ruling on it from the Attorney General's office to protect yourself because both Commerce and State are going to urge you to do nothing and, he said, "there is little question in my mind that the Germans are giving bounty to their exporters and the law is very clear and you should act and the responsibility is solely yours. If you do not, you subject yourself to attack. Furthermore, with Eli Frank number one lawyer at Customs you are doubly vulnerable and, he said, "I am not sure but I suspect that Dr. White, who represents Haas and you at the State Department is also Jewish".

I took the following steps before we are under any pressure. I called up Oliphant and suggested that inasmuch as he had already spoken to me about putting in a new assistant to Robert Jackson that he make this assistant Eli Frank. I said, "I do not have to tell you why" and he said, "no that is a swell idea" and what would you think of bringing Manning down to take Frank's place so that Manning can continue to work with Gorman". I said, "that would be fine".

For my own confidential reminder I never wanted Frank in the present position but Oliphant insisted and my only reason for turning him down originally would have been because he was a Jew and I could not do that. It seems unfair to him and me to have him in the one position where he may have to decide legally whether the Germans are dumping and if I wait until he is under fire I would of course stand by him. As he is not under fire the transfer is in the nature of a promotion.

I asked Viner, in strict confidence, what he thought of the President's idea to present his budget to Congress leaving out the figure for relief. He thought extremely well of it.

MEMORANDUM

November 25, 1955

At three o'clock today I saw Secretary Hall by appointment on the matter of German bounty payments. I had no sooner stated the subject of the conversation than he took hold and talked at considerable length, outlining the German procedure with reference to blocked marks and its payment of direct bounties from the proceeds of a tax levied on industries.

He concluded by saying, "I think we ought to throw onto the Germans the burden of showing the bounties are not being paid." Hall then asked me to tell him what I had on my mind.

I said that I was seeing him on the basis of advising him concerning the developments of the subject in the Treasury Department and of placing the whole difficulty before him for any suggestions which he might offer. I indicated the extent of the Treasury's study of the problem, and referred to the protests being received from American sources. I referred to the difficulty of fixing the exact amount of the bounty payment in the particular cases, and I made reference to Section 505 of the Tariff Act, permitting the Collector to require deposits on estimated duties.

He then took up the discussion and suggested that we impose a countervailing duty on some particular commodity, raising the whole issue in this way. As he talked further, it occurred to him to suggest also the desirability of our getting together the facts on a number of commodities, and use them as the basis of direct diplomatic representation. He referred to the slowness of the Germans in answering diplomatic notes, and suggested that both things might well be done simultaneously.

More generally, he disclaimed any precise or technical knowledge on the subject, and tendered the services of Dr. Feis and Mr. Livesey to aid the Treasury on any aspect of the matter.

No reference was made to any special difficulty which the Secretary might have in connection with this matter.

He concluded the conversation with a somewhat extended review of the way he had been handling the Italo-Ethiopian neutrality matter.



## Treasury Department

1935 NOV 25 AM 10 12

TELEGRAPH OFFICE

18W M 8 GOVT

CLEVELAND OHIO 1001A NOV 25 1935

HENRY MORGENTHAU JR

ANSWER BEING MAILED TODAY SHOULD REACH YOU TOMORROW

ROBERT J BULKLEY

1014A

COPY

162

COLLECTOR INTERNAL REVENUE

Cleveland

November 25, 1935.

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

Dear Sir:

Thank you for your letter of November 20th in which you state that my connection with a liquor sales agency in Ohio is not a violation of any statute law or contrary to the letter of any regulation of the Department; that the interests of the United States have not been damaged by the transaction in question and that I have acted in good faith in the matter believing my connection to be ethical.

I appreciate your point of view that a connection of this kind is not desirable for Treasury officials or employees. However, you may recall that any connection I had was severed the first of this year prior to receipt of any instructions from your office. My only connection since that time has been that my wife has eighteen shares of stock upon which she has received dividends.

The remaining matter is your request that I "make restitution of all proceeds of this transaction by arranging to turn them into the Treasury." I am sure that it is your intention to be fair and just and that you do not wish to single me out for unusual and harsh action, in which case any ruling should be made uniform.

I will, therefore, cheerfully comply with your request upon the taking effect of a Treasury Department regulation requiring all Treasury officials and employees, together with members of their families, to take similar action, even though such regulation should be retroactive to the extent of requiring that payments previously received should be paid into the United States Treasury.

With such a regulation the right of the Treasury to claim or to accept such payments would be established, which right in all sincerity does not seem to me to exist under the present state of facts.

Very truly yours,

(Signed) C. E. Moore

FEDERAL RESERVE BANK  
OF NEW YORK

163

OFFICE CORRESPONDENCE

DATE November 25, 1935.

To CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF FRANCE.

Mr. Cariguel called at 12:15 today and said that they had again had a heavy day, doing about \$13,000,000 in addition to which the Equalization Fund did about 120,000,000 francs. Nothing was done under our order.

I mentioned to Cariguel the cable received here late on Friday to the effect that Laval had been defeated in the Finance Committee by a 35 to 5 vote and that the fall of the Government was possible before Thursday. Cariguel's reply was that the first part of the cable was absolutely wrong and that if Laval were defeated it would not be on his financial program but rather on his general policy.

LWK:KMC

FEDERAL RESERVE BANK  
OF NEW YORK

164

OFFICE CORRESPONDENCE

DATE November 26, 1955.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF FRANCE

Mr. Cariguel called at 12:30 today. He advised that the dollar turnover for today had been \$19,000,000 and that the British had in addition done 60,000,000 francs. He added, "Here, we think that in a day or two that movement ought to subside." I asked whether that would not depend on Thursday's developments but he replied that they did not think that Laval would fall, adding, however, that in the political world of course things sometimes turn very swiftly.

In reply to my inquiry regarding tomorrow's statement he said that they would show a gold loss of about 1,500,000,000 francs and that the following week it would be larger.

LWK:KMC

November 27, 1935

On November 27, Mr. Morgenthau called Mr. Oliphant and Mr. Russell in to discuss with them the report made by Mr. Cameron, the income tax agent who examined Mr. Morgenthau's 1933 and 1934 returns.

Mr. Morgenthau read the attached letter which he received from Julius Martin in regard to the overassessment of the amount paid on Tri-Continental dividends. Mr. Morgenthau asked Mr. Russell if he did not sign the Form 874 accepting the amount overassessed, whether the Bureau would automatically refund the amount in question. Mr. Russell replied that they would treat Mr. Morgenthau as they would any other private citizen, but he thought that automatically a check for the refund would be mailed to him. Mr. Morgenthau said that if the check did not come through automatically, he did not want to request the Government to send the amount overdue. If he has to formally request the money which the Government wants to return to him, he would rather forfeit it. Mr. Russell said he would check further to see what the procedure would be.

In regard to the \$4,000 deducted from Mr. Morgenthau's 1933 income tax return, as a loss on the sale of the Axelrod Property, Mr. Morgenthau decided he did not want to have any further discussion about it, but preferred to pay the additional tax.

ONE WILLIAM STREET,  
NEW YORK, N. Y.

November 18th 1935.

Dear Mr. Morgenthau:

In regard to Mr. Cameron's visit in connection with the examination of Mrs. Morgenthau's income tax return for 1934, desire to state that he reports same in order with exception of amounts reported as dividends.

Included in the return were all amounts received from Selected Industries, Inc., \$618.75 and from Tri-Continental Corporation \$3,000.00.

Mr. Cameron advises that amounts reported should have been in accordance with advices received from these companies, i.e., Selected Industries Inc. \$592.89 Tri-Continental Corporation \$2,813.52 should have been applied against and reduce the cost of these investments, thus reducing the amount of dividends reported. Claim for refund had been prepared but the filing of same was advised against.

In consequence tax liability is less than amount reported.

-SUMMARY-

Amount originally reported income		\$31,827.39
Less above amounts		<u>3,406.41</u>
Amended income		<u>\$28,420.98</u>
Surtax		\$ 2,699.99
Normal tax		<u>372.03</u>
		3,072.02
Tax paid at source	29.35	
Tax paid to foreign country	<u>79.83</u>	109.18
Tax liability		\$ 2,962.84
Tax previously assessed		3,610.05
Overassessment		<u>\$ 647.21</u>

If you agree to the proposed overassessment will you please have Mrs. Morgenthau sign enclosed acceptance and return same to me.

Sincerely,

*J. Martin*

Hon. Henry Morgenthau, Jr.,  
Washington, D. C.

ONE WILLIAM STREET,  
NEW YORK, N. Y.

167

November 18th 1935.

Dear Mr. Morgenthau:

Reference is made to Mr. Cameron's visit concerning your 1933 income tax return.

Mr. Cameron called today and advised me that the valuation section of the upper New York Division states that the Axelrod property taken back in 1932 and sold to Wicopee Corporation in 1933 had a value in 1932 of \$19,000. This is the amount that subsequent gain or loss should be computed upon.

You will recollect that the property was set-up on your records, upon re-possession, at the amount of the unpaid balance of the Axelrod mortgage, viz, \$23,000.

In the preparation of your amended return for 1933 I used as the cost, the unpaid portion of the Axelrod mortgage and from this amount deducted the proceeds of the sale to Wicopee Corporation \$18,719.66 and showed a loss of \$4,280.34.

In view of the valuation section's contention as to the value to be used upon which to compute gain or loss, \$4,000. of the loss deducted in the return will be disallowed. The difference between the amount deducted in the return \$4,280.34 and the amount disallowed, \$4,000. (\$280.34) represents fees at closing and are permitted to remain as deduction.

The matter has come up regarding the distributions made by the Tri-Continental Corporation during 1933, all of which were included as dividends and tax paid thereon. You will remember that I wanted to file claims for refunds on the basis of the corporation's notice received in 1935, but you advised against my doing so, on August 20th 1935.

Mr. Cameron states that information on file in the revenue office indicates that certain of amounts paid by Tri-Continental are non-taxable distributions and should be applied against and reduce the cost of this investment. In consequence thereof \$327.55 has been reported in excess of the amount that should have been reported as dividends.

Based on a Supreme Court decision your deduction for contributions will be disallowed on account of your net income being less than your capital losses. In the preparation of your return I followed the theory as laid down in the Elkins case, which since has been reversed.

-SUMMARY-

Net income as reported on amended return	\$54,429.82
Loss disallowed	<u>4,000.00</u>
	58,429.82
re: Tri-Continental capital distributions	<u>327.55</u>
	58,102.27
Contributions disallowed	<u>864.00</u>
	<u>\$58,966.27</u>
Normal tax	\$ 3,962.20
Surtax	<u>7,180.39</u>
	11,143.09
Adjustment for capital losses	<u>8,245.45</u>
	2,897.64
Tax paid at source	.55
Tax liability	<u>\$ 2,897.09</u>
Tax originally assessed	<u>1,334.54</u>
Additional tax due	<u>\$ 1,562.55</u>

If you do not desire to protest this additional tax will you please sign enclosed Waiver and return same to me.

Sincerely,

*J. Martin*

Hon. Henry Morgenthau, Jr.,  
Washington, D. C.

(DATE RECEIVED)  
170

### Waiver of Restrictions on Assessment and Collection of Deficiency in Tax and Acceptance of Overassessment

Pursuant to the provisions of Section 274 (d) of the Revenue Act of 1926, and/or Section 272 (d) of the Revenue Act of 1928, and/or Section 272 (d) of the Revenue Act of 1932, the undersigned taxpayer waives the restrictions provided in Section 274 (a) of the Revenue Act of 1926, and/or Section 272 (a) of the Revenue Act of 1928, and/or Section 272 (a) of the Revenue Act of 1932, and consents to the assessment and collection of a deficiency in income tax for the

..... year ended December 31st 1933 ..... in the sum of \$ 1,562.55 .....

..... year ended ..... in the sum of \$ .....

..... year ended ..... in the sum of \$ .....

amounting to the total sum of ..... \$ 1,562.55 .....

together with interest thereon as provided by law, and accepts as correct the overassessment of income tax for the

..... year ended December 31st 1934 ..... in the sum of \$ 177.25 .....

..... year ended ..... in the sum of \$ .....

amounting to the total sum of ..... \$ 177.25 .....

*HWT*

.....  
(Name)

.....  
(Address)

Date .....

By .....

NOTE.—The execution and filing of this waiver at the address shown in the accompanying letter will expedite the adjustment of your income tax liability as indicated above. It is not, however, a final closing agreement under Section 606 of the Revenue Act of 1928 and does not, therefore, preclude the assertion of a further deficiency in the manner provided by law should it subsequently be determined that additional tax is due, nor does it extend the statutory period for refund, assessment, or collection of the tax.

Where the taxpayer is a corporation, the waiver shall be signed with the corporate name, followed by the signature and title of such officer or officers of the corporation as are empowered to sign for the corporation, in addition to which the seal, if any, of the corporation must be affixed.

## ACCEPTANCE OF PROPOSED OVERASSESSMENT

The undersigned taxpayer hereby accepts as correct the overassessment of income tax for the  
..... year ended December 31st 1934 in the sum of \$ 647.21  
..... year ended ..... in the sum of \$ .....  
..... year ended ..... in the sum of \$ .....  
amounting to the principal sum of ..... \$ 647.21,  
as indicated in the statement furnished me under date of .....

EFH-

.....  
(Name)

.....  
(Address)

Date .....

By .....

**NOTE.**—Execution of this acceptance and its filing at the address shown in the accompanying letter will expedite the indicated adjustment of your tax liability. This acceptance is subject to the approval of the Commissioner and is not a final closing agreement as provided under Section 606 of the Revenue Act of 1928.

Where the taxpayer is a corporation, the agreement shall be signed with the corporate name, followed by the signature and title of such officer, or officers, of the corporation as are empowered to sign for the corporation, in addition to which, the seal, if any, of the corporation must be affixed.

COPY

November 29, 1935.

Hon. Carl E. Moore,  
Collector of Internal Revenue,  
Cleveland, Ohio.

Dear Sir:

I have your letter of November 25th in reply to mine of November 20th, 1935.

I believe that you are by this time sufficiently aware of my views in matters of this kind to realize that it is entirely impossible that there should be any singling out of your case for "unusual and harsh action." You may be quite sure that, in all cases which come to my attention in which a similar situation is presented, I shall make the same ruling that I have in your case, unless in the special circumstances of the particular case more drastic action is called for.

As I have stated before, it is not necessary to insist that you have violated the letter of any regulation in order to support my decision in this matter. The question as to the desirability of issuing a general order more specifically to cover this subject will be considered in due course on its merits and apart from your case.

Please let me know at your earliest convenience that you are prepared to comply with the request in my letter of November 20th, 1935.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary

CVO:gmc

November 29, 1935

HM, Jr., spoke to Coolidge over the telephone from the Farm today and settled the December 15 financing. Coolidge said he and Burgess were very nervous about making it a billion dollars, so HM, Jr. gave in and made it 900 millions.

November 29, 1935

Ed Flynn called up from London and said that he wants to go to see the American Consul in London and that he would like Mr. Morgenthau to send a cable to the American Consul telling him that he has known Mr. Flynn for some years. He did not tell Mr. Morgenthau what he wanted to talk to the American Consul about, but simply said he wanted the American Consul to know that Mr. Morgenthau knows Mr. Flynn. The following cable was sent:

"American Consul  
London

Mr Edward Flynn of New York telephoned me from London asking me to introduce him to you stop I have known Mr Flynn for a great many years but as I do not know the nature of the business which he wishes to discuss with you I simply ask you to extend to him every courtesy that he is entitled to

(Signed) Henry Morgenthau Jr  
Secretary of Treasury"

November 29, 1935

My dear Mr. Secretary:

I transmit to you herewith a memorandum from Commissioner Helvering which sets forth the attitude of the Treasury Department to your suggestion for a postponement of collection of processing taxes pending the forthcoming decision by the Supreme Court.

Sincerely yours,

(Signed) T. J. Coolidge

Acting Secretary of the Treasury.

The Honorable

The Secretary of Agriculture.

Enclosure.

ANK-hkb

JGH HO WNT McR

## DEPARTMENT OF AGRICULTURE

Washington, D. C.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

It has come to my attention that a large number of processors of basic commodities who are friendly toward the Agricultural Adjustment Act and who do not desire to obtain injunctions restraining the collection of processing taxes are at a great competitive disadvantage by reason of the fact that certain of their competitors have secured injunctions. If the Act were to be declared unconstitutional, those who had previously obtained injunctions would have a still greater competitive advantage over those who had supported the Act, by reason of their having the sum of money involved in the tax suits as available capital. This situation, then, is working and will work a considerable hardship upon our friends, in view of the fact that several hundred injunctions against the collection of processing taxes have been issued by the courts in different parts of the country.

The present insistence on tax payment and the general refusal of the Commissioner of Internal Revenue to postpone payment is undoubtedly due in large part to our informal request that this be done and the fine cooperation we have received from the Commissioner.

However, since the Supreme Court will probably pass upon the constitutionality of the Agricultural Adjustment Act within the course of the next two months, in the case of *United States v. Wm. M. Butler*, it is believed that justice now requires a general postponement until January 31, 1936, of the collection of all processing and compensating taxes with respect to which the 180 day limitation as to postponement has not expired, pursuant to Section 19 of the Agricultural Adjustment Act. Accordingly, it is respectfully requested that such a postponement be effected, if, in your judgment, such a course of action is proper.

Sincerely yours,

(Signed) H. A. WALLACE

Secretary.

November 29, 1935

Secretary Morgenthau  
Commissioner Helvering

Reference is made to an undated letter from the Secretary of Agriculture to yourself in which the request is made that a postponement of further collection of processing taxes be effected, if, in your judgment, such a course of action is proper, pending a probable decision by the United States Supreme Court within the next two months adjudicating the constitutionality of the processing tax. You have requested my judgment and recommendation with respect to this proposal.

While it appears that there is legal authority vested in me, subject to your approval, to establish by Treasury Decision a new date for the filing of monthly processing tax returns and thereby in effect postpone the collection of such taxes for the period desired, the exercise of such power involves weighty considerations of high administrative policy. We believe that the action proposed would be unwise and fraught with dangerous possibilities for the following reasons: First, the hardship to the numerous small processors to which the letter of the Secretary of Agriculture refers will exist in fact generally only in the event of an unfavorable Supreme Court decision. Second, the general policy of the courts in

granting injunctions, with scattered exceptions, has been to require complaining taxpayers to pay in and impound the taxes as they become due. Hence, such taxpayers do not presently enjoy any substantial competitive advantage over processors who are still paying the tax. Third, any general extension of time for filing of returns or for payment of taxes would inevitably be interpreted at this time as a confession of weakness on the part of the Government. Fourth, it is probable that a large part of the postponed taxes could never be collected or at least could be collected only at the cost of closing out numerous processors, in the event of a decision favorable to the validity of the tax.

It is believed that sound administrative policy must proceed upon the assumption that the constitutionality of the processing tax will be sustained. Congress possesses the power to correct by legislation any serious inequalities as between groups of processors which may result from an adverse decision. In the meantime, it is my recommendation that we proceed to collect the processing taxes in the regular manner, except where such collection has been restrained by court order.

(Signed) Guy T. Helvering.  
Commissioner.

AHK-hkb 11/29/35

AHK JGH HO MoR

November 29, 1935.  
Friday

H.M.Jr.: - processing, and then I can talk to you after that.

T. J. Coolidge: I think that Mr. Helvering was - is better on that - for the talk to you on that.

H.M.Jr.: Well, whenever you think they're ready, let them talk.

T.J.C.: All right, just a minute -

McR.: Hello, Secretary.

H.M.Jr.: Yes

McR.: We've all discussed this processing thing and I think the judgment here in the room is that we really can't do anything about it.

H.M.Jr.: Well now, would you mind telling me - what did Wallace put up to us?

McR.: He wanted us to suspend their - to grant an extension to all processing tax payers who have not secured injunctions so that they wouldn't have to file until the end of January - they - you see, they're due the end of each month -

H.M.Jr.: Yes

McR.: They're due tomorrow for November -

H.M.Jr.: Yes

McR.: - and would be due the end of December also. He wanted us to extend - to grant them an extension so they wouldn't have to file nor pay any processing tax until after the Supreme Court decision has been made on the case that's before them.

H.M.Jr.: Well, what argument is there for that - public and private?

McR.: Well, I think there are two: - The first is that he feels that - it's fairer to the small - large number of small processors who haven't gone in to court to stop the payment - to treat them the same as the smaller number who pay seventy five per cent of the tax - or don't now pay it - relieved from paying it under the injunction. -

H.M.Jr.: Yes

McR.: - the second - and he thinks also, I believe, that a very large number of suits will also be filed - in the smaller cases unless this is done - in other words, there's a couple of thousand of them and he thinks ten times that many will be filed.

H.M.Jr.: Well -

McR.: And he also feels that - he says they've got other things in consideration trying to get farmers and these other people to sign up on and they think it will have a better effect if they can extend. Of course, the attitude here - that - what we feel is that it's a matter of major policy because of the fact that it seems to us that the Government would be - Hello -

H.M.Jr.: Hello

McR.: - it seems to us that the Government would be - practically abdicating its position with respect to processing taxes if they went out and said, 'We won't collect any more', in other words the attitude would be - the ordinary interpretation would be that we don't expect - we expect the Supreme Court to turn us down on this and therefore we're just walking out before they do.

H.M.Jr.: What does Stanley Reed think?

McR.: Oliphant is the one that talked to Stanley and you better let him tell you directly.

H.M.Jr.: I - Hello

Herman  
Oliphant: Hello

H.M.Jr.: I was under the impression that that's just what Stanley Reed didn't want us to do.

H.O.: Well, Stanley Reed said they had asked him about it -

H.M.Jr.: Yes -

H.O.: - and that he said so far as he could see it wouldn't have any substantial effect on the litigation.

H.M.Jr.: No

H.O.: He said he told them that he thought it was useless to take it up because he thought the Treasury would surely turn it down because if it postponed these taxes we'll never get them.

H.M.Jr.: Well, from the straight legal standpoint, have we any right to postpone them?

H.O.: Yes, there is ample authority to do it.

H.M.Jr.: But, I take it that the combined opinion of the room there is that we shouldn't.

H.O.: Yes

H.M.Jr.: Does anybody think we should?

H.O.: ---- He wants to know if anybody thinks we should do it. (not spoken to Secretary)  
No - everybody shakes their head.

H.M.Jr.: Well now - isn't this the letter from Henry Wallace to me?

H.O.: Yes

H.M.Jr.: Has anybody drafted an answer?

H.O.: Not yet. - Wallace has been trying to get you on the phone this morning - I don't know what about - I suspect it may be this.

H.M.Jr.: Well - suppose that you people draft an answer - then read it to me over the telephone.

H.O.: All right

H.M.Jr.: What?

H.O.: All right, we'll do that.

H.M.Jr.: Now, is Helvering satisfied that - that we have not complied?

H.O.: (spoken to Mr. Helvering) He wants to know if you're satisfied, Mr. Helvering.  
Yes, he's quite satisfied at this decision.

H.M.Jr.: I should think that this decision could take the form of a letter - that I could write the letter to Mr. Helvering and ask him to-provided -

H.O.: Yes

H.M.Jr.: - Helvering would write to me and I'd forward the answer to Mr. Wallace.

H.O.: I think that's very good.

H.M.JR.: See?

H.O.: I think that's very good.

H.M.Jr.: Shall I repeat that?

H.O.: No, I get it.

H.M.Jr.: I'd write a letter to Mr. - you know, an office memorandum, 'My dear Mr. Helvering, please advise me how to Mr. Wallace' -

H.O.: Yes

H.M.Jr.: an answer, then I could show it to Wallace.

H.O.: That's good.

H.M.Jr.: What?

H.O.: That's the regular way to do it.

H.M.Jr.: That's the right way to do it?

H.O.: That's the regular way to do it.

H.M.Jr.: Is Helvering satisfied with that?

H.O.: Yes, he says that's satisfactory.

H.M.Jr.: Well, if the fellows can get together and Helvering's letter, although it's not necessary -

H.O.: Yes

H.M.Jr.: Why, he can sign it as Acting Secretary or he can sign - could we sign my name in addition to that?

H.O.: Yes - all right, we'll handle it that way.

H.M.Jr.: - would you rather have it go over my signature?

H.O.: (spoken to Mr. Helvering) Would you rather have it go over his signature?  
(spoken to Secretary) He says he doesn't care.

H.M.Jr.: Well, either way.

H.O.: All right.

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H.M.Jr.: And I don't care whether you read it over the phone to me or not.

H.O.: All right - all right.

H.M.Jr.: Now, is there anything - I want to talk with - Is Helvering satisfied?

H.O.: Yes, Helvering's satisfied.

H.M.Jr.: Well, I think what Helvering ought to do is - Helvering ought to call up Wallace and tell him that that letter will be over there in an hour or two, so that he knows what he is going to get.

H.D.: All right.

H.M.Jr.: See?

H.O.: Yes, he says he will.

H.M.Jr.: - He ought to call him up.

H.O.: He's coming on the phone now in case you want to speak to him.

H.M.Jr.: Who?

H.O.: Helvering. He's on now.

H.M.Jr.: You mean, on the phone?

H.O.: Yes

H.M.Jr.: Hello  
Guy T.  
Helvering: Yes

H.M.Jr.: Is that agreeable to you, Guy?

G.T.H.: Yes, I think we're really admitting a great weakness in this to - from a policy standpoint - of admitting that we're going to give these fellows a chance to get out because we think the other fellows are going to be out.

H.M.Jr.: Well, what I would do - I would get that letter ready just and try to get it over there within a half an hour. -- Hello -

G.T.H.: Hello - Yes

H.M.Jr.: And you needn't bother to call me back.

G.T.H.: All right. Now you want to talk to Jeff?

H.M.Jr.: No. I'll tell you what I'd like to do. I'd like -  
I'd like to have them stay in my room  
Oliphant get Lochhead.

H.O.: All right.

H.M.Jr.: I'd like to talk it over with Lochhead.

H.O.: All right. We'll get Lochhead.

H.M.Jr.: All right - I want to talk on another matter.

H.O.: On another matter? All right.  
(whispering)

H.M.Jr.: Hello

H.O.: Hello - Lochhead is coming in now.

H.M.Jr.: -

H.O.: Coolidge is on.

T.J.C.: Hello

H.M.Jr.: Jeff, do you hear me?

T.J.C.: Yes

H.M.Jr.: -

H.O.: Lochhead is not here yet.

H.M.Jr.: Is Mrs. Klotz there?

H.O.: Mrs. Klotz here.

H.M.Jr.:

H.O.: How's the weather up your way?

H.M.Jr.: Very cold and the sun is just coming out. We've got  
a number of clouds and - it's cold but -

H.O.: Did you ride this morning?

H.M.Jr.: Yes

H.O.: That's pretty nice, I expect.

H.M.Jr.: better.

T.J.  
Coolidge: Henry, do you want me to have a Press Conference?  
I usually do on this financing.

H.M.Jr.: I think you ought to have it Saturday.

T.J.C.: Yes, that's all right, I'll Saturday.

H.M.Jr.: Yes.

T.J.C.: Now the law requires the President's approval -

H.M.Jr.: Well I - I'll get that.

T.J.C.: You'll get that? And I thought I'd send for the files and I thought I'd mail him the usual letter for him to sign.

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

T.J.C.: Yes.

H.M.Jr.: You know, the mail goes down at three o'clock.

T.J.C.: Yes.

H.M.Jr.:

T.J.C.: I haven't got any new thoughts on the -

H.M.Jr.: Well, I want to talk to you about it after the market closes.

T.J.C.: All right (whispering) after the market closes, fine.

H.M.Jr.: Is Lochhead there?

H.O.: Not yet.

H.M.Jr.: Third button down.

H.O.: The third button down, Mrs. Klotz just pressed it.

H.M.Jr.: All right - third button down.

H.M.Jr.: Did Mrs. Klotz find the button?

H.O.: Yes, she just pressed it.

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H.M. Jr.:

H.O.: (not spoken to Secretary) Where's Lochhead?

H.M. Jr.: Well I'll go ahead -

H.O.: He went out to lunch.

H.M. Jr.: Well I'll

H.O.: All right.

H.M. Jr.:

I don't know what I'm going to do. I might

Do I make myself clear? and other Governments cut out.

H.O.: I didn't hear very well, Henry.

H.M. Jr.: Well, I'll say it again. We're talking - I told  
Oliphant to prepare the paper in case he wants to  
see it -

H.O.: Yes

H.M. Jr.: prevent other countries -

H.O.: Yes

H.M. Jr.: - from buying gold from us -

H.O.: Yes

H.M. Jr.: Well -now submitted a brief

H.O.: Yes

H.M. Jr.: And when I suggested that if we make that shift -  
we make the possibility that they can only sell or  
buy, as between Governments, - in other words,  
the Guaranty Trust couldn't buy gold in Paris and  
send it over. We'd buy gold from the Bank of France,  
and the Bank of Belgium.

H.O.: I see. So it would be Government or Central Banks.

H.M.Jr.: Government or Central Banks.

H.O.: Yes. Well, I think that's just the way it's set up now.

H.M.Jr.: No

H.O.: Isn't it?

H.M.Jr.: No - Guaranty Trust and City -

H.O.: Oh!

H.M.Jr.: - are private banks and private banks and are

H.O.: I see

H.M.Jr.: What?

H.O.: I get it now.

H.M.Jr.: You get it?

H.O.: Yes

H.M.Jr.: And if he doesn't feel like buying it, then they call me up in the middle of the night and say, 'Oh, my God the Guaranty has reached its limit and you've got to help me'. - And I don't think, after all, all the risk is ours when this - said

H.O.: Yes

H.M.Jr.: I wanted you to put directly from the Bank of France, the Bank of England and the Bank of Belgium. Couldn't we study that whole thing out?

H.O.: Yes, well now - let me be sure I understand. Suppose a private banker in France buys some gold from a private hoarder in France -

H.M.Jr.: Or he could buy it from the Bank of France.

H.O.: I say, suppose he did, though -

H.M.Jr.: Yes

- and shipped it over here - Your thought is that we wouldn't buy that gold from him.

H.M. Jr.: No

H.O.: We'd stop that.

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

H.O.: And we'd let gold move between the countries only through the Government or the Central Banks.

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

H.O.: In either direction.

H.M. Jr.: In either direction.

T.J.C.: Yes, well now, Henry, I think this is what would happen. I'd like to think it over some.

H.M. Jr.: Well, this isn't - this isn't something I want to do at this moment.

T.J.C.: Yes

H.M. Jr.: I'M thinking - I wouldn't make the shift unless you make a complete shift.

T.J.C.: Yes - Well, I think -

H.M. Jr.: If we're going to permit non-gold countries to come in then I just raised the point - I think it's a very important one -

T.J.C.: Yes

H.M. Jr.: If we're going to make a shift then we can only do business between the Treasury or Central Banks.

T.J.C.: Yes

H.M. Jr.: And if the Bank of France, in order to support the franc, wants to buy some gold the French hoarded - all right.

T.J.C.: Well you see, Henry, what would happen, I think, take the Bronx Bank of France - unless you have a constant order in at a certain price they wouldn't sell any gold because the only people they sell under their laws are to people that buy francs and ask for payment in gold.

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- H.M. Jr.: Yes, but we can do what we have now. We've got an order at the gold point.
- T.J.C.: Yes, you'd have to have that order in every - every foreign country.
- H.M. Jr.: Well, that's all right - then we'd control the situation.
- H.O.: Well, what it would mean, as I get it, is that if some country not on gold wanted to use us as a springboard we'd know it immediately - they'd deal directly with us.
- H.M. Jr.: Yes, because they'd have to keep the money on deposit in the Federal Reserve in New York.
- T.J.C.: I think a good many of the countries would not sell you gold for dollars - you'd have to buy their currency first and ask for it.
- H.M. Jr.: Well now, George Harrison said we couldn't do it with England and we've done it.
- T.J.C.: Yes
- H.M. Jr.: You weren't there - he told for three days that I couldn't do that. And I finally got a little bit annoyed and I said to Lochhead, 'You go ahead and send that telegram the way I told you to and I'm not going to wait for George Harrison any more'.
- T.J.C.: Yes
- H.M. Jr.: And the Bank of England accepted and they take the risk on the dollar and we don't and they've sold us some gold.
- T.J.C.: Yes
- H.M. Jr.: And George was wrong.
- T.J.C.: Well I, - that's an interesting idea - I'd like to think it over.
- H.M. Jr.: Well, I'm not - now don't misunderstand me - this is what - remember Oliphant called one of my -
- H.O.: Something nice, now, something nice.
- H.M. Jr.: Well - the idea that I guess is why the good reason I should stay away from Washington.

(Laughter)

- T.J.C.: I think, off hand, Henry - I think you'd have to fix up an arrangement with every country in the World and a good many of them wouldn't want to, -
- H.M.Jr.: Well, that's all right. And then if some of these countries didn't play ball we wouldn't play ball with them.
- T.J.C.: Yes
- H.M.Jr.: - Look, - you think this thing over.
- T.J.C.: I will.
- H.M.Jr.: And Jeff, I think I've got an interesting idea.
- H.O.: Yes, I think that's very interesting.
- T.J.C.: Yes, it is, it's interesting, Henry.
- H.M.Jr.: What?
- T.J.C.: It goes pretty deep on the whole theory of philosophy.
- H.M.Jr.: I know it does. I'm a deep guy.
- (Laughter)
- T.J.C.: You're full of - go ahead - (Laughter)
- H.M.Jr.: No, I mean that George Harrison - I mean I've got - this is purely an intellectual difference - I mean there's nothing personal.
- T.J.C.: Yes
- H.M.Jr.: He said that it couldn't be done - that the Bank of England wouldn't accept it. Well they did and they've taken the risk and we're doing business with them directly in dollars again st gold.
- T.J.C.: Of course - you - you wouldn't buy any gold from their mines either, would you?
- H.M.Jr.: Oh, yes, I'd buy it in New York - newly mined gold at thirty-five dollars, New York.
- T.J.C.: But - only United States mines?
- H.M.Jr.: No - anybody's.

- H.O.: Well now, wait a minute, I'd want to think of that - whether you'd want to admit that exception to your rule.
- H.M. Jr.: Well, if South Africa wants to send their gold to New York, why not?
- H.O.: Well, it depends on who had bought the gold. Now I should think if one thing you were interested in was to see that any country who wanted to manipulate their currency should take the risk of exchange in doing it -
- H.M. Jr.: Yes
- H.O.: - why they might use this newly mined gold to avoid that risk.
- H.M. Jr.: Well -
- H.O.: I'd want to consider that - whether or not that wouldn't be a loop hole.
- H.M. Jr.: Well, I'm giving you fellows an interesting idea.
- H. O. & T.J.C.: Yes (in unison)
- H.M. Jr.: Am I not?
- H.O.: It's very interesting.
- H.M. Jr.: What?
- H.O.: It's very interesting.
- H.M. Jr.: And I want - I want to make this shift - I might want to do that. I'm not going off half cocked - I want you to talk about it. I'd be glad if Jeff Coolidge would discuss it with George Harrison.
- T.J.C.: I'll do that.
- H.M. Jr.: And when I come back Monday or Tuesday I'd like to talk about it. And in the meantime Herman could explore the legal side of it.
- H.O.: I'll explore the legal side of it.
- H.M. Jr.: But, I just cannot get it in my nut to let these fellows buy when there's no risk, and then when the risk is there, we take it and in the meantime

they make the money. And we don't know at any time how much they have on deposit. This other way we know every day just what they're doing.

H.O.: Yes

H.M.Jr.:

H.O.: Yes - yes - all right

H.M.Jr.: All right, fellows, think it over.

T.J.C.: All right - you'll call in about three fifteen?

H.M.Jr.: Well, it may be three twenty-one, I don't know.

T.J.C.: O. K.

H.M.Jr.: It depends on how long I sleep.

(Laughter)

T.J.C.: Goodbye

H.M.Jr.: Goodbye

H.O.: Goodbye

H.M.Jr.: I want to talk to Mrs. Klotz

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