

DIARY

Book 15

January 1 - January 15, 1936

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- a) Treasury balances will inevitably drift from commercial banks to Reserve banks
- b) Treasury should not be in position of constantly putting money into the market and then pulling it out - not Treasury function to control credit
- c) HMJr says he and George Harrison agree it is not a Treasury function to regulate excess reserves; Treasury will try to keep \$500 million in Reserve banks but it may fluctuate \$300 to \$800 million
- d) Comment that banks are paying for Treasury securities with cash rather than credit
- e) Viner does not approve of freezing balances since Treasury balances are easiest of credit controls
- f) Bell suggests that he be informed on Monday and Thursday how Reserve System wants balances adjusted and he will take care of matter through "calls" on banks
- g) HMJr wants Federal Reserve to put request in writing
- h) Viner suggests public should know Treasury is not attempting to control credit
- i) HMJr does not approve letters back and forth between Treasury and Federal Reserve System and a public record of shifts in Treasury balances
- j) Treasury financing - Executive Committee suggests:
 - 1. Bill maturing in December, 1936
 - 2. " " " September, 1936
 - 3. " " " June, 1936
 - 4. In long-term field, 10- to 12-year bond considered best
- k) Bell says Treasury will need about \$2.8 billion new money for entire year
- l) HMJr says this takes no account of \$1.6 billion in maturities before July 1 and borrowing before July 1 of additional \$500 million to use in last half of calendar 1936
- m) HMJr asks if Committee advises raising money before March 15 or of sitting tight and waiting until then; advised to begin "while the going is good"
- n) HMJr says he's not too "sold" on idea of piling up large bill maturities on tax dates
- o) HMJr and Burgess agree "we are in the dark until we know about bonus"

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- a) Further information may be secured from
 Financial Attache at Mexican Embassy
- b) Silver pesos: originally 300 million in circulation;
 about 205 million called in when paper currency was
 established; therefore about 95 million outstanding

Purchase of newly mined Mexican silver: United States will
take 5 million ounces in January at daily price,
allowing thirty days for delivery..... 2

- a) Mines to stamp all bars "1936" and to number each bar
- b) On January 15 and 15th of each month following,
 United States will notify Mexico whether we will
 buy up to 5 million ounces and Mexico is to let
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 price set
- c) See Silver tables..... 4,5

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- a) Renewable from month to month, also on the 15th
- b) Peso exchange to be purchased with dollar credits
 up to \$5 million from time to time when requested -
 Mexico to repurchase upon request; rate to be fixed
- c) As security, Mexico will place in escrow with a
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b) HMJr promises to think over situation		
c) HMJr tells Sze he would like to talk <u>directly</u> to Kung or Soong		
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January 2, 1938

All those who attended Tuesday's conference on silver were present again today.

Mr. Suarez handed Mr. Morgenthau the figures asked for on Tuesday and these were turned over to Mr. Haas. (A translation of one of the tables and a memorandum from Mr. Haas translating the contents of the second are attached, marked Exhibit I.) HM, Jr. asked the Mexicans if, in event he needed further information, Mr. Haas might get in touch with the Financial Attache of the Mexican Embassy here in Washington and both the Mexican Ambassador and the Mexican Secretary of the Treasury agreed that this would be entirely proper and agreeable to them.

Mr. Oliphant asked whether Mr. Suarez had given us the number of silver pesos in circulation and Mr. Suarez replied that they were not included in the figures given in the report that was just handed to Mr. Morgenthau, but that originally there were 300,000,000 pesos and at the time they went on a paper currency they were able to call in about 205,000,000 and there are now about 95,000,000 pesos in circulation.

Mr. Morgenthau told the Mexicans the following: "In regard to our buying your newly-mined silver, for the month of January we are ready to take up to 5,000,000 ounces of newly-mined silver on the daily price, allowing you 30 days for delivery. We have asked the mines to stamp the bars "1938" and to start numbering each bar." (Obviously this is so we will know, beginning with today, that we are really getting newly-mined silver.) HM, Jr. further said, "On January 15 and the 15th of each month following, we will notify you whether or not we care to continue to purchase up to 5,000,000 ounces and you, in turn, will let us know whether you wish to sell us up to 5,000,000 ounces for the following month. We do not want you to feel that you have to sell us that amount of silver at whatever price we set, but we will offer to buy it from you."

At this point Mr. Lochhead explained that arrangements would be made to have the Federal Reserve Bank in New York telegraph to the Banco de Mexico each day giving a price at which we would purchase silver under this arrangement, in order that the Banco de Mexico might have ample time to make the necessary arrangements with the producers each day. He said it would be agreeable to us to have the Banco de Mexico

send a telegram each day to the Federal Reserve Bank of New York indicating the amount of silver sold to us that day. This telegram should be despatched in time to reach the Federal Reserve Bank by the opening of business the following day.

HM, Jr. said, "We thought we would make this arrangement on a month-to-month basis and give both you and ourselves a chance to cancel the agreement on the 15th of each month."

As to the dollar exchange proposal, it was agreed as follows:

"1. The following arrangement for supplying Mexico with dollar exchange from time to time as it may require will be renewable from month to month, the United States Treasury indicating on the fifteenth of any month if the arrangement is not to continue after the end of that month.

2. The United States will purchase peso exchange with dollar credits up to \$5,000,000 from time to time as requested, Mexico agreeing to repurchase such peso exchange at any time upon request. Such peso exchange is to be purchased at a fixed rate and repurchased at the same rate.

3. As security for the performance of such repurchase agreement, Mexico will place in escrow with a Federal Reserve Bank the eleven million ounces of silver which it now has in this country, out of the proceeds of the sale of which by such bank at the world market price will be paid to the United States Treasury any sums necessary to save it harmless from its participation in this agreement."

Mr. Morgenthau also explained that "This, too, is on a month-to-month basis and we will take it up on the 15th of each month. When you are using the exchange we will charge you 3% interest on the average balance." Suarez said that that would be very agreeable and that \$5,000,000 would be enough.

"As to the 200,000,000 pesos of monetary reserve that you have, what we do depends upon the following", said Mr. Morgenthau:

- "a. What Mexico's program will be for increasing the use of silver.
- b. Mexico's calling a conference with Canada and North and South America.

-3-

We stand ready to offer you the facilities of the United States mints to recoin.

- c. The question of what your Government will do in regard to the liquor smuggling.

That is the whole picture," Mr. Morgenthau continued, "and we definitely say today that we are ready to do two things, (1) provide dollar exchange and (2) enter into an agreement to buy 5,000,000 ounces of silver for this month." Mr. Suarez replied, "That is very satisfactory."

Mr. Morgenthau inquired if he had overlooked anything and Mr. Suarez said, "Nothing." HM, Jr. then told the Mexicans that the technical details would be worked out and asked that we have another meeting on Monday at 11 o'clock.

Secretary Morgenthau explained to the Mexicans that we do not discuss with the press anything having to do with our Stabilization Fund. "I, therefore, would rather not give out any statement to the press on this particular arrangement," he told Mr. Suarez, "but as to the purchase of the silver each month, that is entirely up to you." Mr. Reed, of the State Department, agreed that it was preferable not to give out any statement. Mr. Morgenthau then said, "After Monday's meeting we will just say that we have ended our negotiations in a very satisfactory way."

In shaking hands in farewell, Mr. Suarez thanked Mr. Morgenthau for his splendid cooperation and Mr. Morgenthau said, "I do hope that your Government will find means of encouraging the use of silver."

In connection with the President's budget message of
January, 1936.

Jan 3, 1936

Office of the Acting Director

To Mr. Haas

Here is what
President dictated
yesterday. I don't
think he intended for
you to be bound
by his exact words, but
use your own thoughts
covering the points made.
The suggestions of the
President are noted on
the statement.

swB

MR. BELL

Referring to the last paragraph of the text on the economic outlook and especially on recovery and residential building: "Surveys by many public and private bodies agree that there exists today in every part of the country a serious shortage of adequate housing for the families of America. In many places lack of sufficient houses appear. In every place replacement of insanitary, badly constructed, and poorly equipped houses creates a vast need for new construction.

"The principle objection which can be raised against the current pick-up in residential construction is that it consists chiefly of houses which only the better-off type of citizen can afford to build or live in. The greatest need of the country is for housing for that half of the population which can only afford to build or live in houses costing far less. ^{It} ~~There~~ has been well said that a great opportunity presents itself to American industry and American labor as well as to private capital to come forward with ^{plans} ~~plans~~ and concerted effort looking to the building of hundreds of thousands and even millions of houses that are within the purse of the citizens now compelled to live under circumstances out of accord with a proper standard.

"In this field alone there lies opportunity to give employment to the unemployed and to idle capital, so great that the National economy (?) can be placed on a secure footing for many years to come."

The Economic Outlook

Fundamental to any realistic appraisal of the financial position of the Government is a consideration of the economic situation of the Nation. Since March, 1933, the National program of activities and expenditures has reflected the effort to combat the economic stagnation which was stifling the progress and threatening the morale of the Nation. Gradually yet surely with each succeeding year gains have been made first on one front and then on another with continuous and healthy improvement of the economic status. In the Budget Statement of September, 1935, a number of factors were cited which showed that the outlook for the current fiscal year was favorable. These optimistic gains are being realized.

The Report reveals that the improvement which took place during the past year ended in June 1935 has continued, and in the six months ending in the economic gains of the early part of 1935 have been maintained. Industrial activity was at the highest level in the history of the Nation, although still 20 per cent smaller than in 1929. The improvement in industrial activity in 1935 was broader than that which occurred during any previous year of the post-war period. During recent months war has accelerated in the production of certain other durable goods. The production of automobiles, while still relatively small, showed a marked increase. The production of less durable goods held by 1935. The improvement, well justified and the...

...over exceeded 1934. A fast of equal importance with
...during 1935 was the rapid movement of goods into
...The calendar year 1935 opens without violence of
...which proved a burden during average working
...in the calendar year 1935, some indication
...from financial reports from financial institutions
...is illustrated by the spectacular increase in
...and sale of automobiles and trucks. This had
...of the Government's income from

...in 1935, however, will not begin to appear until
...from State or individual and corporate income
...and gifts until the calendar year 1936. The
...of income in 1935 is at approximately 1934
...in Treasury receipts in 1936 and 1937.

...and a more profitable level of operations
...and agriculture are estimated to have added approximately 10
...of dollars to the total money income received by the
...people in the calendar year 1935. A significant proportion
...from the marketing of farm products. This means,
...conditions have favored ^{better} larger crops and prices have held up
...so that total cash income realized from the sale of crops and
...and from ^{Government} benefit payments in the calendar year

1935 is estimated to have risen from 5 to 8 per cent above that of 1934, and well over 50 per cent above 1932. Moreover, the heavy debt burden hanging over the agricultural population at the beginning of 1933 was considerably lightened during ~~the first~~ two years of the recovery period. Higher incomes and lower interest charges have made possible greatly increased purchases of consumer goods and equipment by farmers during 1935. These purchases contributed greatly to the improvement in industry and trade which gave employment to city and town dwellers last year, and which was continuously reflected in receipts during 1935 from ~~various~~ miscellaneous tax sources.

Wholesale prices in general advanced during 1935. Agricultural products and industrial materials both moved upward. During the year a better adjustment was achieved between prices received by farmers and the prices charged for industrial products used on the farm, the ratio between the two price groups rising from 85 in January to 89 in November 1935. Meanwhile, the cost of living in cities increased by about 4 per cent during 1935. It is now about 17 per cent above March 1933, when the prices obtained by the primary producers of many food products as well as by a large number of merchants and manufacturers were at distress levels.

An expression of the continued improvement in agriculture and in business in the past year is found not only in higher incomes received by individuals, but also in the profits of corporations. Industrial profits, as indicated by available reports of the large

Industrial corporations, were greater in each of the first three quarters of 1935 than in the corresponding periods of 1934, and are expected to make an even better showing in the final quarter, due to the maintenance of activity and of consumer purchases at a high level during those months. For the calendar year 1935 as a whole, the combined net income of industrial, mercantile, utility and railroad corporations is expected to show an increase of about 30 per cent over 1934. Corporation income tax receipts will begin to reflect these gains in the latter half of the current fiscal year ending on June 30, 1936.

The revival in the capital markets which began in the spring of 1935 is of great importance for future economic developments, since the expansion typified by new capital investments is essential to full re-employment. Although most issues thus far have been for the purpose of reducing interest charges on ~~existing debts~~ ^{new bonds and other issues}, it is significant that the capital markets, after several years of inactivity, are again absorbing new capital securities. Surplus funds available for investment and the continuation of exceptionally low interest rates have been favorable to these operations. Despite some increase in new offerings, however, the volume of surplus funds remains large, and bank loans of all types continue to be small relative to earlier years.

The outlook is for ^{an even} better economic record in the next fiscal year, beginning in July 1936, than in either 1934 or 1935. Present indications are that buying of consumers' goods by city and farm dwellers will be sustained, that demand for industrial equipment and machinery will continue to increase, and that construction will be larger.

Among the gains in industry and trade which are of particular significance to the future, the recovery in residential building which first became apparent early in 1935 is outstanding. ~~The value of residential contracts is now only one sixth as great as in 1928, the peak year of residential construction in the 1920's. Other types of construction, with the exception of public works, are also relatively inactive.~~ It is encouraging, however, that residential construction in recent months has been more than twice as large as in 1934. The upturn of 1935 represented the first sustained rise in new home building since the latter part of 1927, and the existence of a considerable deferred demand for housing provides the basis for further expansion in this field.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 6, 1936.

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Mexican tables on silver (in Spanish).

Attached is a translated copy of one of the two tables on silver, in Spanish, submitted to you by the Mexican Minister of Finance.

The second of the two tables received is released by the Secretariat of Finance and Public Credit of Mexico, and contains the following information:

1. Monthly production of silver in Mexico from January 1932 to October 1935 in kilograms. (These figures correspond to the figures available to us in convenient sources.)
2. Monthly price of silver per kilogram in terms of Mexican pesos. (Prices of silver are available elsewhere.)
3. The monthly rate of tax in Mexico on the production of refined silver.
4. The total tax collected in pesos on refined silver. This is the product of 1, 2, and 3 above.

The following is a translation of the notes appearing at the foot of the table:

"(1) Data furnished by the Department of Mines of the Secretariat of National Economy and which correspond to the accounts compiled in the months indicated.

"(2) Tax rate on refined silver.

"(3) Excluding 10% additional. The total of the tax which appears in the months of 1932 and 1933 was calculated according to the prices and tax rates indicated; that corresponding to 1934 and 1935 is that actually collected.

"(4) Figure calculated according to the total tax, since it was not obtained from the source which furnishes the other data."

Exhibit I 4

DIRECCION GENERAL DE CREDITO
Oficina de Bancos y Moneda

Comparative Statement of the Principal
Assets of the Monetary Reserve

December 27, 1935

G O L D

Commercial value Today U. S. \$35.00 per oz.
Previous day U. S. \$35.00 per oz.

Unit	Today	Previous day	Increase	Decrease
Grams	38,853,951.936	38,844,683.412	9,268.524	
Converted to ounces	1,249,183.42	1,248,885.59	297.83	
Value in U. S. dollars	43,721,419.70	43,710,995.65	10,424.05	

S I L V E R

Commercial value Today U. S. \$0.4975 per oz.
Previous day U. S. \$0.4975 per oz.

Produced and refined	oz. 7,793,601.76	oz. 7,925,500.46	oz. 131,898.70	
Total	" 76,022,894.64	" 75,988,684.90	34,209.74	
Value in U. S. dollars	41,698,706.96	41,747,307.22	48,600.26	

O T H E R A S S E T S

Foreign balances abroad	U.S.\$ -952,194.04	U.S.\$ -603,973.00	U.S.\$ 348,221.04	
Foreign exchange	Pesos 2,294,751.92	Pesos 2,305,998.79	Pesos 11,246.87	
Reserves on drafts	Pesos 284,705.77	Pesos 284,705.77		
Reserves of Mexico - Current account in national money	Pesos 2,822,993.23	Pesos 1,893,282.19	Pesos 929,711.04	

Mexico, D. F., December 27, 1935

1. newly mined
silver duty free
going time to
delivered to U.S.

2. calling conference
with Canada and
Mexico should
sound out Latin A.

3. Mexican monetary
reform. I said
our purchase
was dependant
on their increasing
use of silver in their

Mexico liked to
get reserve down
to U.S. tons, and
encourage N & S.
America to do
likewise

Can we assist
them in any way
furnish \$ exchange

Should we agree
to buy all of
Mexican silver
newly mined

1. 11 million oz in U.S. belonging to Mexico. ~~we~~ We propose to buy them up to 5 million # or this at any time. They to maintain this metallic reserve in U.S. for stabilization purposes. Ref. Balance in Federal Reserve

2. We propose for month of Jan to buy up to 5 million oz nearby mined on daily price. Giving 30 days delivery. Beginning Jan 15 we notify Mexico what our program is for Feb. and will continue notifying them the 15th of each month what we can do in the following month.

3. as to their 200 million ~~oz~~ less of monetary reserve, what we do depends upon.

a. Mexico's program for increasing use of silver within her own borders

b. Mexico calling U.S. American silver conference

4. U.S. stands ready
 put our mint facilities ~~at~~
 at Mexico's disposal,
 Mexico put in decrees
 against smuggling.

AND WASHINGTON, SILVER
 WASHINGTON'S SUGGESTION WAS TYPICAL. HE SAID HE HAD BEEN
 TO PRESIDENT ROOSEVELT'S CONGRESSMAN'S OFFICE OF THE U.S. DEPT. OF
 HE INDICATED SUCH A COURSE HAD BEEN TAKEN.
 ADOLPH WAGNER, SECRETARY OF THE BOARD OF MINE AND SILVER
 INDUSTRY, PROMISED TO CONFER WITH WASHINGTON AT 11:00 A.M.
 IT ANSWERED TO WASHINGTON AS TO WHETHER THE UNITED STATES AND
 OTHER SILVER PRODUCING COUNTRIES SHOULD PRESENT A UNITED FRONT AGAINST
 THE TRADING MANAGERS OF THE MEXICAN BANK. WASHINGTON SAID: "I THINK IT IS
 THE INTEREST OF SILVER PRODUCING COUNTRIES TO WORK CLOSELY TOGETHER"

1/2-11037

WCNS43

ADD MORGENTHAU, SINVER

MORGENTHAU'S SUGGESTION WAS INDIRECT. HE MERELY REFERRED QUESTIONER TO PRESIDENT ROOSEVELT'S CONGRESSIONAL MESSAGE OF MAY 22, 1934, WHICH HAD INDICATED SUCH A COURSE HAD BEEN STARTED.

EDUARDO SUAREZ, SECRETARY OF TREASURY OF MEXICO NOW HERE ON A SILVER MISSION, ARRANGED TO CONFER WITH MORGENTHAU AT 11:00 A.M.

IN ANSWER TO QUESTIONS AS TO WHETHER THE UNITED STATES AND OTHER SILVER PRODUCING COUNTRIES SHOULD PRESENT A UNITED FRONT AGAINST THE STERLING MANAGED CURRENCY BLOC MORGENTHAU SAID: "I THINK IT IN THE INTEREST OF SILVER PRODUCING COUNTRIES TO WORK CLOSELY TOGETHER."

1/2--R1059A

Secy. Morgenthau's Press Conference

WNS41

SECRETARY MORGENTHAU TODAY HINTED THAT THE U.S. HAD BEGUN INTERNATIONAL SILVER CONFERENCES WITH RESPECT TO USE OF BOTH SILVER AND GOLD A COORDINATED BASIS AS A STANDARD OF MONETARY VALUE.

1/2--R1054A

THAT HE SAID THAT AN AGREEMENT...
...OF SILVER...
...HE WILL...
...IT...
...FOR...

10.55

MORGENTHAU INDICATES CONFERENCES ARE DISCUSSING
MEXICAN MONETARY SYSTEM JAN 2 1936

WASHN - SECY MORGENTHAU SAID TODAY THAT THE
conversations with Mexico on silver were in line with
Pres. Roosevelt's statement last year saying that America
would discuss the use of silver as a money with other countries
This statement was taken as an indication that the current
conversations between Morgenthau and the Mexican Finance
Minister are centering largely on the use of silver as a

MONETARY RESERVE OR CURRENCY IN MEXICO- MORGEN-
THAU ALSO SAID THAT HE BELIEVES -IT IS IN THE
INTEREST OF SILVER PRODUCING COUNTRIES TO WORK
TOGETHER- HE WILL MEET THE MEXICAN DELEGATION
AGAIN AT 11 O-CLOCK THIS MORNING- THE DINNER
WHICH HE GAVE FOR THEM LAST NIGHT HE SAID
WAS -PURELY SOCIAL-

JAN 2 1936

158

ADD MORGENTHAU - WASHN

SECY MORGENTHAU HINTED THAT THE PRESENT
CONFERENCES WITH MEXICO MIGHT BE A PRELUDE TO
WORLD ACTION ON SILVER THROUGH EITHER AN
INTERNATIONAL CONFERENCE OR BI-LATERAL CONVERSA-
TIONS BETWEEN U S AND OTHER COUNTRIES - HE
STRESSED PARTICULARLY THAT THE TREASURY IS NOW
CARRYING OUT THE PROMISE WHICH PRESIDENT
ROOSEVELT MADE WHEN HE SIGNED THE SILVER PURCH-
ASE ACT IN 1934 - THE PRESIDENT SAID AT THAT
TIME THAT THE U S WOULD ENDEAVOR TO BRING
ABOUT WORLD ACTION STABILIZING THE FUTURE OF
SILVER

LONDON SILVER MARKET

10.20 9661 8 LONDON
NYP

LONDON - THEN TURNOVER IN THE SILVER MARKET WAS
EXTREMELY SMALL - UNIMPORTANT GENERAL SELLING
ORDERS COUPLED WITH THE LOWER EASTERN RATE
WAS RESPONSIBLE FOR THE EASIER SPOT PRICE -

LONDON SILVER MARKET

9.20

JAN 2 1936

LONDON - BULLION BROKERS REPORT THAT ONLY
SMALL AMOUNT OF BUYING AND SELLING ORDRS
FOR SILVER HAVE BEEN RECEIVED SO FAR TODAY THE
PRICE IS EXPECTED TO BE ABOUT UNCHANGED

NS52

Silver

Mexican Conference

ADD MORGENTHAU, SILVER

AMBASSADOR DR. DON FRANCISCO CASTILLO NAJERA AND EDUARDO SUAREZ,
SECRETARY OF TREASURY OF MEXICO, CONFERRED WITH MORGENTHAU FOR A HALF
HOUR SHORTLY BEFORE NOON AND DEPARTED WITH NO COMMENT OTHER THAN THAT THE
CONFERENCE WOULD BE RESUMED NEXT MONDAY.

1/2--R1147A

SILVER CONFERENCE ADJOURNS TEMPORARILY
WASHN - THE MEETING BETWEEN SECY OF TREASURY
MORGENTHAU AND THE MEXICAN FINANCE MINISTER
THIS MORNING BROKE UP AFTER A 35 MINUTE DIS-
CUSSION - CONFERENCES WILL BE RESUMED MONDAY
ACCORDING TO THE TREASURY

12.05

JAN 2 1936

JAN 2 1936

SILVER GROUP DOUBT IF OVERTURES FOR INTERNAT-
IONAL CONFERENCE WOULD BE HOSPITABLY RECEIVED
WASHN - DISCUSSION AT THE NEW YEARS DAY
SILVER DINNER AT THE HOME OF TRE-- SECY OF
TREASURY MORGENTHAU CENTERED AROUND THE POSS-
IBILITIES FOR AN INTERNATIONAL SILVER CONFER-
ENCE- CONSENSUS OF OPINION HOWEVER SEEMS TO
BE THAT PROPOSALS FOR A CONFERENCE WOULD NOT BE
HOSPITABLY RECEIVED BY IMPORTANT COMMERCIAL
NATIONS OF THE WORLD IN VIEW OF UNSETTLED
CONDITIONS-

10.25

10 42 AM

ADD SENATOR KING PREDICTS MONETARY CONFERENCE
WASHN - BY U P- KING ATTENDED AT -- A DINNER
GIVEN LAST NIGHT BY SECY OF THE TREASURY HENRY
MORGENTHAU JR AND SAID HE EXPECTED TO CONFER
AGAIN TODAY WITH THE TREASURY SECRETARY -
A CONFERENCE OF THE PRINCIPAL NATIONS TO
DISCUSS MONETARY PROBLEMS HAS BEEN TALKED OF
FOR SEVERAL MONTHS BUT NO NATION HAS TAKEN THE
INITIATIVE - MORGENTHAU FAVORS SUCH A CONFERENCE
BUT HAS NOT MENTIONED A DATE-

SEN KEY PITTMAN -DEM NEV - ANOTHER GUEST AT
THE MORGENTHAU DINNER FOR EDUARDO SUAREZ
SECY OF THE TREASURY OF MEXICO SAID THAT AN
INTERNATIONAL CONFERENCE COULD NOT BE CALLED
UNTIL THE POLITICAL SITUATION HAS IMPROVED-
THE VISIT OF THE MEXICAN OFFICIALS TO
WASHINGTON TO DISCUSS SILVER PROBLEMS PROMPTED
SEN ELMER THOMAS -DEM OKLA- A SILVER BLOC
LEADER TO PROPOSE A CONFERENCE BETWEEN AMERICAN
CANADIAN AND MEXICAN GOVERNMENT OFFICIALS TO
DEVELOP A UNIFIED SILVER POLICY
SUCH A POLICY THOMAS SAID WOULD BE THE
FIRST STEP IN A WAR AGAINST MANAGED CURRENCIES

SENATOR KING PREDICTS MONETARY CONFERENCE
WASHN - BY U P - A WORLD MONETARY CONFERENCE
IN -THE NEAR FUTURE- WAS PREDICTED TODAY BY
SENATOR WM H KING DEM UTAH AFTER MEETING
OF AMN AND MEXICAN FISCAL OFFICIALS-

Senator King

10.19

JAN 2 1938

WCNS11

See King - Silver - See Pittman

A WORLD MONETARY CONFERENCE IN "THE NEAR FUTURE" WAS PREDICTED TODAY BY SENATOR WILLIAM H. KING AFTER A MEETING OF AMERICAN AND MEXICAN FISCAL OFFICIALS.

KING ATTENDED A DINNER GIVEN LAST NIGHT BY SECRETARY MORGENTHAU AND SAID HE EXPECTED TO CONFER AGAIN TODAY WITH THE SECRETARY.

SENATOR KEY PITTMAN, ANOTHER GUEST AT THE MORGENTHAU DINNER FOR EDUARDO SUAREZ, SECRETARY OF THE TREASURY OF MEXICO, SAID THAT AN INTERNATIONAL CONFERENCE COULD NOT BE CALLED UNTIL THE POLITICAL SITUATION HAS IMPROVED.

1/2--R858A

WCNS61

TREASURY OFFICIALS SAID "VERY SATISFACTORY PROGRESS" WAS MADE IN A SHORT CONFERENCE BETWEEN SECRETARY MORGENTHAU AND MEXICAN SILVER EXPERTS.

1/2--R1212P

... if you will advise us ...
... received from Mr. ...
... Fund.

Very truly yours,

/s/ H. Morgenthau, Jr.
Secretary of the Treasury.

OWing 1/2/36.

COPY

January 2, 1936

Famous Brands Ohio, Inc.

Cleveland, Ohio.

Attention: Mr. Gardner Abbott, President.

Dear Sirs:

I have received your letter of December 20, from which I note that you will forthwith pay to the Cleveland Community Fund, representing many Cleveland charities, certain sums which Mr. C. E. Moore, Collector of Internal Revenue, Cleveland, Ohio, may pay to you. I shall appreciate it if you will advise me from time to time as such sums are received from Mr. Moore and paid to the Cleveland Community Fund.

Very truly yours,

/s/ H. Morgenthau, Jr.

Secretary of the Treasury.

CVO:mg 12/30/35.

COPY

22

January 2, 1936

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Very truly yours,

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

CVO:mg 12/30/35

SILVER IMPORTS RUNNING ABOVE GOLD ^{JAN 3 1936} ^{10.20}
WASHN - IMPORTS OF SILVER INTO THE U S DURING
THE WEEK ENDED DEC 27 AMOUNTED TO 15 369 836 DL
COMPARED WITH 7 231 765 DLS IN PRECEDING WEEK
THE COMMERCE DEPT REPORTED WHILE GOLD IMPORTS
FOR WEEK ENDED DEC 27 WERE ONLY 8 073 325 DLS
COMPARED WITH 11 432 178 DLS IN PRECEDING WEEK-

9 27 AM

JAN 3 1936

DOW JONES MORNING SUMMARY

NY - THE TURNOVER IN THE LONDON SILVER MARKET
WILL LIKELY AGAIN BE SMALL WITH NO DEFINITE
TREND

JONES
2.30
JAN 3 1936 NYP

ADD SILVER IMPORTS - - WASHN
SILVER EXPORTS WERE 9 235 DLS COMPARED WITH
400 626 DLS IN PRECEDING WEEK- EXPORTS OF
GOLD WERE NONE COMPARED WITH 82 618 DLS IN THE
PRECEDING WEEK -

WCNS137

MONTREAL--THE DROP IN WORLD SILVER PRICES TODAY SENT FUTURES TO LOWER LEVELS IN DULL TRADING ON THE CANADIAN COMMODITY EXCHANGE TODAY.

SALES TOTALLED SEVEN LOTS OR 70,000 OUNCES. FUTURES CLOSED EASIER 190 TO 250 POINTS LOWER.

1/3--R4P

LONDON SILVER MARKET

10'

LONDON - WEAKNESS IN SPOT SILVER WAS DUE TO THE
ABSENCE OF BUSINESS COUPLED WITH SMALL GENERAL
SELLING INCLUDING INDIAN-

JAN 3 1936

THE TREASURY RESUMED LARGE SILVER PURCHASES IN THE WORLD MARKET IN THE LATTER PART OF DECEMBER AND PRICES WERE RISENING. DEPARTMENTAL FIGURES SHOW:

AMOUNT OF THE WHITE METAL IN THE WEEK ENDED DEC. 27, ROSE TO A VALUE OF \$7,351,760 IN THE PRECEDING WEEK. OF THE SAME METALS SELL FROM \$11,221,276 IN THE WEEK ENDED DEC. 20, PRECEDING WEEK.

January 3, 1936.

30

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

Henry Morgenthau, Jr. Secretary of the Treasury,

Roy A. Young, Governor, Federal Reserve Bank of Boston (Acting Chairman of the Executive Committee)

W. Randolph Burgess, Deputy Governor, Federal Reserve Bank of New York,

M.J. Fleming, Governor, Federal Reserve Bank of Cleveland,

G.J. Seay, Governor, Federal Reserve Bank of Richmond,

G.J. Schaller, Governor, Federal Reserve Bank of Chicago,

M.S. Eccles, Chairman, Board of Governors, Federal Reserve System,

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

D.W. Bell, Assistant to the Secretary, Bureau of the Budget,

G.C. Haas, Bureau of Research & Statistics, Treasury,

Jacob Viner, Former Assistant to the Secretary.

C.B. Upham, Assistant to the Secretary.

Mr. Young stated that he was Acting Chairman of the Executive Committee in the absence of George Harrison. He referred to the new set-up of the Open Market Committee beginning March 1 and intimated that whatever recommendations were made today might not be considered official after that date.

Mr. Morgenthau replied that he considered the Committee official for all purposes up to the first of March and stated that his working relationship with the present Committee had always been more than satisfactory.

Mr. Young said that the Committee thought Treasury balances

would inevitably drift from commercial banks in to the Reserve banks because the commercial banks are not eager to hold them, partly due to the fact that Federal Deposit Insurance premiums are based on a deposit figure which includes Government deposits. He suggested that banks who want to pay for Government securities by credit be permitted to do so as they have in the past.

Mr. Burgess said the Committee had one additional thought, namely: that the Treasury should not be in the position of constantly putting money into the market and pulling it out -- that it was not a function of the Treasury to control credit. For that reason it was the opinion of the Committee that Treasury balances should be kept fairly steady, leaving credit control to the Federal Reserve System. Mr. Coolidge interposed to say that such an arrangement would mean that the Treasury maintain a reasonably large balance at all times. Mr. Bell suggested that the ultimate solution is an amendment to the Banking Act eliminating Government deposits from insurance premium calculations.

Mr. Morgenthau said that he had discussed the situation with George Harrison and that they were in agreement that it is not a Treasury function to regulate excess reserves. The Treasury will try to keep \$500 million in the reserve banks if feasible but will not obligate itself to do so. The balance may be from \$300 million to \$800 million.

Mr. Coolidge commented that in normal times it is easy to keep a steady balance.

Mr. Eccles referred to the fact that excess reserves had fallen from a high point of 3.2 billion down to 2.7 billion and are now

back up to 2.8 billion plus. He thinks the Reserve System should give consideration to a top figure beyond which excess reserves would not be permitted to accumulate. It is easier, in his opinion, to say that excess reserves will not be permitted to pass the 3 billion mark than it is to knock them down from 4 billion.

Mr. Young said that banks are taking Government deposits now to increase their totals, for the sake of size and that balances will rise.

Mr. Coolidge commented that the Treasury balance will fluctuate unless we sell bills.

Mr. Young was of the opinion that there is a general inclination of the banks in his section to get rid of Government deposits.

Mr. Seay said that banks are paying for Treasury securities with cash rather than credit and Mr. Burgess commented that in the last financing an unusually large number of banks paid cash.

Mr. Bell reported that the Treasury balance in Federal Reserve banks is now \$600,000,000 and in commercial banks \$870,000,000.

Mr. Eccles asked if the Treasury could regulate its balances within \$200 or \$300 million, to which Mr. Bell said it can be down within \$50 million except for financing periods.

Mr. Young said that the Committee's opinion was that the situation might be watched but apparently members of the Committee had different ideas. It seems to be the general idea that balances with Federal Reserve banks should be kept down.

Mr. Eccles said he thought balances should be kept down as a normal thing. In that he agreed with George Harrison.

Mr. Bell said that from \$50 million to \$90 million has been

considered normal.

Mr. Burgess said he thought that steadiness in size of balance was important -- that it made no difference whether the total was high or low.

Mr. Coolidge said that the Treasury tries to keep its balance down but that at financing periods it goes up.

Mr. Burgess was of the opinion that it can be well controlled except for temporary periods.

Mr. Bell asked if it is not the problem of the Federal Reserve to correct money market conditions when the Treasury is engaged in financing operations.

Mr. Young's comments were that the Treasury certainly would not ask the Federal Reserve banks to increase reserve requirements and add to their portfolio for periods of 2 or 3 weeks at a time.

Mr. Viner said he thinks it a mistake to freeze balances because after all Treasury balances are the easiest of all credit controls. Credit control is not a Treasury function but the implement of the Treasury balance should be available to the Federal Reserve System as a control. He suggested that the Treasury undertake at the request of the Federal Reserve System to keep such balances as the Federal Reserve System desires them to.

Mr. Young said that sounded good to him.

Mr. Eccles said he would like to see the Treasury run along the same as it has with comparative low balances while there are excess reserves.

Mr. Coolidge suggested that the next time the Treasury draws its balance down it might keep it down.

Mr. Eccles said that excess reserves are at a low point now but

with currency flowing back may reach a high of 3.3 billion or 3.4 billion within the next thirty days or so.

Mr. Coolidge said he sees no objection temporarily to keeping such balance as the Reserve System asks.

Mr. Eccles said he would like to have the Treasury balances maintained at whatever point is necessary to keep excess reserves below 3 billion.

Mr. Morgenthau asked if that was a verbal request or if it would be put in writing to which Mr. Eccles said that he was now asking verbally but he would confirm it by letter. His idea is that the Treasury transfer balances from banks to the Reserve System to offset currency inflow.

Mr. Bell suggested that if he knew on Mondays and Thursdays how the Reserve System wanted balances adjusted he might take care of the matter through his "calls" on banks.

Mr. Viner and Mr. Burgess were agreed that this proposal was a very important action and ought to be well thought out before it is put into effect.

Mr. Morgenthau added that he has taken the whole matter of excess reserves very seriously and, with due respect to the Federal Reserve System, if any such action is taken he wants it in writing.

Mr. Burgess said attention must be given the public impression that might be created. If it looks as if the Treasury is the arbiter of credit control it would be bad. He suggested a public announcement of just what is being done if it is done.

Mr. Eccles disagreed and said that no one would know whether action was initiated by the Treasury or by the banks.

Mr. Coolidge remarked that "calls" become known.

Mr. Burgess was likewise fearful that the public may interpret such action as the passing of the buck by the Federal Reserve System to the Treasury.

Mr. Coolidge was of the opinion that if it is done an announcement would be needed.

Mr. Eccles said the first decision should be whether we want a top to excess reserves. He said that question might be decided at a January meeting of the Open Market Committee.

Mr. Viner thought the public should know that the Treasury is not attempting to control credit.

Mr. Morgenthau interposed to say that he did not like the trend which the discussion had taken and that he did not favor letters back and forth between the Treasury and the Federal Reserve System and a public record of shifts in Treasury balances and the reasons therefor -- that he would like to think the thing over thoroughly before any such action was taken. He stated that the Treasury will try to keep its balances around \$500 to \$600 million for the next 4 or 5 weeks.

Mr. Eccles interposed to comment that that is all that he had requested, to which Mr. Morgenthau replied that Mr. Eccles hadn't requested anything so far as he knew to which Mr. Eccles further replied there had been some discussion between them a few days ago to which Mr. Morgenthau made further reply that he knew what Mr. Eccles wanted.

Mr. Eccles said that he preferred, as does the Secretary, no immediate formal arrangement, as suggested by Mr. Viner. He thought

informal agreement such as that suggested by Mr. Morgenthau better for the present.

Mr. Morgenthau said that for the time being it seems advantageous to the Treasury to keep balance of \$500 to \$600 million with the Federal Reserve but we do not care to announce our reasons.

Mr. Eccles said that a balance of that size will keep excess reserves below 3 billion.

Mr. Morgenthau said that if later Federal Reserve policy is fixed the Treasury will be glad to consider the matter anew.

Mr. Young suggested that the group take up the matter of Treasury financing and stated that the Executive Committee had three suggestions: (1) A bill maturing in December 1936, (2) a bill maturing in September, 1936, and (3) a bill maturing in June 1936. If the Treasury is going to enter the long-term field the Committee is of the opinion that a 10-12 year bond is the best thing to try. The Committee realizes that with the bonus in the offering long-term financing may be difficult. He added that some of the Committee thought a one year bill unorthodox. If the Government is going to use the short-term mark it should have a September or preferably a June bill. Mr. Burgess added that this was the preliminary judgment of the Committee before listening to the Treasury story.

Mr. Bell reported that the Treasury would need \$800 million new cash up to June 30 to keep its balance around a billion. He explained that this does not include the \$450 million bill maturity on March 15th. He thought we would need about 2.8 billion new

money for the entire year.

Mr. Morgenthau said this took no account of maturities of which there would be 1.6 billion between now and the first of July and that it also takes no account of the fact that he would like to borrow before July 1st an additional \$500 million to use in the last half of the calendar 1936.

Mr. Burgess suggested facetiously that he presumed that desire gr^ew out of the unusual economic conditions that would exist during the last half of the year.

Mr. Coolidge said he thought it fair to sell bills to take up the \$450 million bill maturities in March, and that he would like to go ahead on bills selling \$200 million into the September tax date and \$300 million into the December tax date. Moreover, he said, he would like to go certainly as far as 15 years on a bond maturity and sell all of the 2-7/8ths that he can, as long as he can. He would like to aim at issuance of 2-7/8th bonds and 5 year notes to raise the rest of the money needed.

Mr. Young said that the objection to the December bill is that it is not a bill.

Mr. Burgess said that there might be possible to sell a bill in February against taxes in December and agreed generally with the idea of selling against tax dates.

Mr. Coolidge said if the 2-7/8ths reached a quotation where notes can be exchanged into them he would like to do that.

Mr. Young said the program sounded all right to him.

Mr. Morgenthau said he did not want to increase weekly bill offerings over \$50,000,000 until the "economic crisis" referred

to by Mr. Burgess as impending in the second half of 1936 is passed.

Mr. Young said the public would take a year bill.

Mr. Burgess said there were two problems in connection with such proposal: (1) whether the Treasury could get away with it and, (2) whether it was a measure in accord with the reasonably conservative, sound constructive lines so far allowed. He was of the opinion that a one year bill would not be so in accord. That it would be regarded as amateurish and a shock to the market. He thought a 10 month bill not bad.

Mr. Morgenthau asked if the Committee would advise him to raise money before March 15th or to sit tight and wait for that time.

In reply, Mr. Seay, Mr. Fleming, Mr. Schaller and Mr. Young said to begin now while the going is good.

Mr. Burgess said that was O.K.

Mr. Morgenthau said that he did not want to increase any maturity between now and December 1st and so he must have some instrument maturing after December 1st. His problem is, he said, to find a way to raise money now or an obligation which matures after December 1st.

Mr. Young suggested that the Treasury sell \$500 million of 11 month bills in January for December 15 -- a tax date. If someone says that is amateurish let them say it.

Mr. Bell commented that the same objections that are now being raised to a one year bill were raised when we issued 9 month

bills.

Mr. Burgess said there is no such thing as one year bills.

Mr. Bell asked how about a one year certificate on a discount basis and Mr. Burgess said "no". It would introduce a new Treasury instrument and would be an innovation and shock to the market.

Mr. Coolidge commented that cities sell one year obligations on a discount basis against taxes and thought the Federal Government ought to be able to do what the City of Brookline can.

Mr. Eccles suggested a 10 month bill in February.

Mr. Burgess said some people are looking for a chance to call the Treasury amateurish and this would give it to them. The complaint is, he said, that the Treasury is always trying something new. Feeling is especially bitter over the auction method of selling bonds.

Mr. Bell said he wanted a bond in March to take care of March and April maturities.

Mr. Burgess suggested that we are working in the dark until the matter of the bonus is settled. If it were not for that, he thought, we might sell a billion notes on February 15.

Mr. Morgenthau said he does not feel strongly one way or the other about the matter. He is not too sold on the idea of piling up large bill maturities on tax dates. He raised the point that getting \$50 million additional weekly on bills now might be interpreted as getting ready for the bonus. If it were not election year, in his opinion, the picture could not be prettier. Because of the election year he wanted to keep Treasury financing out of

the papers and off of the first page. He thinks that even though it is an election year we could borrow \$400 or \$500 million on September 15.

Mr. Burgess said that could be done but it might land the Treasury on the first page.

Mr. Morgenthau referred to Mr. Burgess as "front" or "general salesman" for the Treasury in New York and said that the Treasury could make up its mind what it wants to do and tell him to go ahead, but that the desire is to get all doubts out of Mr. Burgess' mind before he starts. Heretofore, he has believed that the program agreed upon could be put through and Mr. Morgenthau wants that condition to continue to prevail. Mr. Morgenthau suggested that we sleep on the discussion, take a look at the Budget Message on Monday and see how we feel. He was inclined to insist on the limitation that there be no increases in maturities prior to December 1.

Mr. Coolidge suggested another possibility -- starting December maturities in March and continuing them into March or June of 1937, to which Mr. Morgenthau commented that it might become necessary to finance the bonus that way.

Mr. Eccles said the Government can always sell short terms. Mr. Young said that the return is now so low on bills that many banks are not bidding and wondered if the Treasury is not going to be almost driven to longer term obligations.

Mr. Coolidge commented that notes usually carry a refunding privilege and that he does not want to guarantee that now.

Mr. Morgenthau said he thought that it is fairer to the investing public to do nothing until we know about the bonus.

Mr. Young thought it dangerous to wait. We will have some kind of a bonus in his opinion and it may hurt the Government market. It certainly won't help.

Mr. Coolidge said a cash bonus would shock the market.

Mr. Morgenthau asked how about sitting tight for another month or maybe until the first of February.

Mr. Coolidge said he would like very much to convert notes ahead of time if the market is good.

Mr. Young said he would wait a month.

Mr. Eccles said put out a December 15 bill now.

Mr. Morgenthau asked for show of hands on December 15 bill and it was favored by Mr. Young, Mr. Schaller, Mr. Eccles, Mr. Seay and Mr. Fleming. All of these but Mr. Fleming said to offer the December 15 bill next week.

Mr. Morgenthau commented that he guessed he would have to make up his own mind this time, to which Mr. Eccles replied that he always had.

Mr. Coolidge said that if he expected to raise cash by bonds before March 15 it may be better to keep the bill market for use later, to which Mr. Burgess agreed.

Take to White House Thursday 42
TREASURY DEPARTMENT
2 o'clock

INTER OFFICE COMMUNICATION

DATE January 6, 1936.

TO Secretary Morgenthau
FROM Herman Oliphant

Confirming our telephone conversation this evening, a preliminary examination of the decision in the AAA case indicates that the following action, for the present, is appropriate:

1. Stop permanently collection of processing taxes, both under the original and under the amended AAA Act.
2. Until the decision and existing appropriations can be further studied, or until new appropriations can be made, hold up the issuance and delivery of benefit and rental checks, refund checks, and checks for administrative expenses.

Speaking generally, it is clear that the Court has held the taxes invalid and their collection illegal. It will require further study to determine whether benefit payments and rentals can be made out of funds already received from processing taxes, and whether they can be made out of general funds, both under decision of the Court and existing appropriations. So, also, what payments for administrative expenses can be made under the decision of the Court and existing appropriations will require further study.

You probably know it has been officially announced that a new appropriation out of general funds will be immediately sought to make benefit and rental payments and to pay administrative expenses heretofore or hereafter obligated, except that none of such appropriation shall be available to pay benefit or rental payments on crop control contracts entered into after today.

January 6, 1936

The Mexican Ambassador and the Mexican Secretary of the Treasury met again today with Mr. Morgenthau. Also present were Mr. Livesey and Mr. Reed of the State Department and Mr. Oliphant, Mr. Haas and Mr. Lochhead of the Treasury.

Mr. Morgenthau handed Mr. Suarez the drafts of two letters which the Federal Reserve Bank in New York are to send to the Banco de Mexico. Mr. Suarez read both proposals and said he had no further suggestions to make. HM, Jr. said that the letters would be sent by air mail today. (Copies are attached marked Exhibits I and II.)

"On Friday," HM, Jr. told Mr. Suarez, we got the usual offer from Mexico of 2,000,000 ounces of silver, 'the old way'. I ignored it," he said, "because of our pending negotiations and thought it would be much better to wait until our conferences had ended. Since this letter is going forward tonight, beginning with tomorrow we will be able to work together on the new basis of buying 1936 bars."

At this point, Mr. Morgenthau inquired if Mr. Suarez had had any further word from his Customs people in regard to the regulations concerning the smuggling of alcohol and Mr. Suarez replied that he had been in touch with them and that when he got back, on Thursday, "I think we will be ready to issue decrees." Mr. Morgenthau called in Commander Thompson and introduced him to Mr. Suarez.

Mr. Morgenthau explained, "I am just thinking out loud. After all, here are two countries going to work together on silver. You are going to sound out Canada and let me know. I think we ought to find some place where we can combine our statistical information. If we could designate a central place, where we could exchange our information, it would be very helpful and we would really know what is going on. For example: Friday the silver brokers in Bombay said they would not buy any more silver for import. They gave no explanation. On checking up I found the reason was that for that week London exported about 2½ million ounces to India. This is the first important shipment this year from London and I think is very significant. We pick up information like this all the time and I am sure you do, and if we could

exchange our information on silver we would be able to get the world picture." Mr. Morgenthau suggested to Mr. Suarez that Mexico could send its information through to the Ambassador here in Washington who, in turn, would give it to us and we could send our information through the State Department to Mr. Suarez. HM, Jr. said, "I hope to get another report today on the interior of India. The information we get out of China is worth very little." The Mexican Ambassador said they got very little information out of China themselves.

HM, Jr. said he had information that London claimed they had only 15,000,000 ounces of silver in London and said, "I think they are not telling the truth. I think they have three times that amount."

He also told the Mexicans that we are going to get together a statement showing what the United States has done on silver and give it to all the countries who signed the London Agreement in the hope that they would cooperate with us and furnish similar information to us. He said, "I think if we make the first move, the other countries will follow."

Mr. Gaston was called in to the meeting because of discussion as to the nature of the publicity to be given out now that the negotiations were completed. Mr. Suarez and Mr. Morgenthau were in agreement that we should confine the publicity to a statement that the conversations were concluded and that the two countries had come to a mutually satisfactory agreement, and say nothing more. Mr. Morgenthau told Mr. Suarez that he was having a press conference today at 4 o'clock and would give out a statement as agreed upon. Mr. Gaston called attention to the fact that this statement leaves the newspaper men open to speculation as to what was discussed.

HM, Jr. told Mr. Suarez that he had confided to Senators Pittman and McNary, in detail, what we have done and that they are both entirely satisfied.

Mr. Suarez then expressed his appreciation for all that we have done for them and asked that this be passed on to the President and Mr. Morgenthau told Mr. Suarez that the President was very much pleased with the outcome

of our negotiations and that he is very much interested in further conferences between North and South America on silver. HM, Jr. told Mr. Suarez that he felt it was a good deal for both countries.

* * * * *

Mr. Morgenthau called the President at five minutes to twelve and told him that London was offering us 600,000 ounces of silver at 45 1/2 cents. The President exclaimed, "What happened?" And HM, Jr. said, "Simply that the price has just been dropping. If we want to keep the price at 50 cents in New York, I think we ought to take the silver offered by London." The President then told HM, Jr. to take the silver.

Eshelby I
46

DRAFT OF LETTER FROM FEDERAL RESERVE BANK OF NEW YORK
TO BANCO DE MEXICO

Reference is made to your telegram No. 50 of December 19, 1935, and to our reply No. 126 of the same date. We have discussed the proposal contained in your telegram with the United States Treasury Department and are now, as fiscal agent of the United States, authorized by the Secretary of the Treasury to enter into the following arrangement with you:

We, as fiscal agent of the United States, will purchase from you during the month of January, 1936, for delivery aboard American steamer at Vera Cruz or for delivery at Monterey, up to 5,000,000 ounces of silver newly mined in Mexico in refined silver bars of the customary size, of the degrees of fineness and carrying the marks required "for good delivery" in the New York market, which according to the production date marked thereon were produced in Mexico during such month (hereinafter referred to as "silver"), as follows:

- (a) We will advise you daily during January, 1936, by telegram, the price at which we (as fiscal agent of the United States), will purchase from you on that day such amount of silver as you may elect, within the foregoing limitations, to sell to us on that day.

- (b) If on any day during such month you elect to sell silver to us at the price specified in our telegram to you of that day, you shall so advise us by telegram leaving your office not later than 5 p. m. your time of the same day, stating the amount of silver which you have so elected to sell to us.
- (c) The receipt by us of any such telegram from you shall conclude a contract between us for the sale by you and purchase by us, as fiscal agent of the United States, of the amount of silver specified in such telegram, at the price specified for the day the telegram is dispatched.
- (d) You shall ship the silver covered by each such contract, consigned to us, to such United States mint or assay office as we may designate, so that it will be delivered there within 30 days from the date of each such contract.
- (e) Payment for the silver purchased by us as aforesaid will be made by a credit to your account on our books, all as stated in our letter to you of August 31, 1934.

If you wish us to consider renewing this or entering into a similar arrangement for the month of February, 1936, and from month to month thereafter, will you kindly so advise us on or before the fifteenth day of January, 1936, and on or before the fifteenth day of each succeeding month, and we will advise you as soon as possible thereafter whether any such arrangement is acceptable.

DRAFT OF LETTER TO BE SENT BY FEDERAL RESERVE BANK OF
NEW YORK TO BANCO DE MEXICO

Exhibit
II

48

LWK:KC
January 3, 1936

The Secretary of the Treasury of the United States has, as a result of his recent conversations in Washington with the Secretary of the Mexican Treasury, authorized us, as fiscal agent of the United States, to enter into the following arrangement with you, on behalf of the Republic of Mexico, for the purpose of supplying the Republic of Mexico with dollar exchange, from time to time as may be required:

1. We, as fiscal agent of the United States, will purchase from you, from time to time as requested by you, Mexican pesos, the pesos so purchased to be credited to us (as fiscal agent of the United States) on your books in a special account to be opened in the name of "Federal Reserve Bank of New York as Fiscal Agent of the United States." Interest at the rate of 3% per annum is to be credited on such account. Upon receipt by us of advice by telegram that this account has been credited with a stated amount in Mexican pesos, we shall in turn credit you on our books in a special account to be opened in the name of "Banco de Mexico as Fiscal Agent of the Republic of Mexico" in an amount in U. S. dollars equal, at the then prevailing rate of exchange in New York for telegraphic transfers on Mexico, to the amount in pesos so credited to us on your books.
2. The total amount of pesos purchased by us from you and standing to our credit on your books as aforesaid, exclusive of interest, shall not at any time exceed in the aggregate the equivalent of U. S. \$5,000,000, computed at the actual buying rate for such pesos.

2.

3. You agree that any or all pesos purchased by us from you, together with interest thereon as aforesaid, and standing at any time to our credit on your books as aforesaid, shall be repurchased by you from us at any time, and from time to time, upon our request, at the same rate or rates of exchange at which such pesos were purchased from you by us.
4. As security for the performance by you of your agreement to repurchase such pesos as aforesaid, you authorize and request Federal Reserve Bank of New York and Federal Reserve Bank of San Francisco to set aside from time to time and to pledge to Federal Reserve Bank of New York as fiscal agent of the United States, so much of the silver now held for your account under earmark by Federal Reserve Bank of New York and Federal Reserve Bank of San Francisco (amounting to approximately 11,000,000 ounces) as the dollar equivalent of pesos purchased and then standing to our credit on your books as aforesaid, bears to U. S. \$5,000,000; and in the event of your failure to repurchase such pesos as hereinabove provided, you do further authorize us as pledgee aforesaid, to sell so much of such silver so held under pledge, at any time, at the so-called official price for silver as then quoted by Messrs. Handy & Harman, New York, New York, and to apply the proceeds thereof in such manner, as may be necessary to save us, as fiscal agent of the United States, and the United States, harmless from any loss by reason of any failure to repurchase said pesos as herein provided, and you do hereby authorize and

request Federal Reserve Bank of San Francisco to honor any request made by us to hold or deliver for our account, as fiscal agent of the United States, and as pledgee aforesaid, any or all of the silver now held for your account under earmark by said Federal Reserve Bank of San Francisco.

5. It is understood and agreed that our obligation, as fiscal agent of the United States, to purchase any amount of pesos pursuant hereto shall be conditional and dependent upon your maintaining with us and/or the Federal Reserve Bank of San Francisco, an amount of silver sufficient to secure, as hereinabove in paragraph 4 provided, your obligation to repurchase such pesos.
6. It is understood that you will take such further action as may be reasonably requested by us to effectuate the purposes and intent of this arrangement.
7. This arrangement shall continue in effect until February 1, 1936, and from month to month thereafter, except that we, as fiscal agent of the United States, may on or before the fifteenth day of any month advise you that our offer to purchase pesos under the foregoing arrangement in so far as it has not been accepted, is to be discontinued at the end of that month.

January 6, 1936

Oliphant, Jackson, Kent and Russell met with the Secretary today to discuss the stock transactions between Pierre S. Du Pont and John J. Raskob for the months of November and December, 1929 and January, 1930. Details of these transactions are set forth in the attached Exhibit "A".

Oliphant pointed out that in filing the Government's answer it would be necessary to set out the fact that after these sales were made and when they got all through, it was only \$48,88 out and the facts will have to come out just that way. The only question open, he said, is whether we could go further and charge fraud. Our three agents think the evidence is insufficient to warrant our charging fraud, but Hamels thinks we ought to do so. It is a question, according to Oliphant, of what is fair and equitable. He said it is clear that this sort of practice ought to be exposed.

HM, Jr. wanted to know just what the mechanics are and Kent responded. He said that Mr. Du Pont took a \$3,000,000 loss on his 1929 tax return. The examiners in the field disallowed it and additional taxes were assessed. Du Pont refused to pay that tax and went to the Board of Tax Appeals, where the case is now pending, and Kent said the Government has to file an answer to the petition. The answer must be filed before the Board of Tax Appeals.

Oliphant added the remark that if we can prove that this is fraud, we can add a 50 percent penalty. HM, Jr. replied, "As I have said before, I want to be sure before we go into a charge of fraud that we have at least an 80 percent chance of winning." Mr. Oliphant said, "I agree with you that when it comes to fraud, unless we have substantial evidence to win the case, it is too dangerous to be asserted. Kent said that if fraud is not asserted, there is a good chance that they will settle.

Jackson told the Secretary that he had discovered, this morning, that in a subsequent year we have treated a similar case as a genuine transaction. He said, "There is no question that Raskob and Du Pont sat down and figured a way to avoid paying this tax. That was

-2-

recognized as a legitimate practice! This was conceived as fraudulently as the Mitchell, the Mellon and other cases and we are going to receive a great deal of criticism if we do not treat this case as well as a fraud case.

Oliphant said he did not know anything about Jackson's statement about a similar case having been treated as a genuine transaction and was quite surprised. He said he wanted to look into it further. So HM, Jr. asked the group to come back at 12:30 and told him that "If the Bureau of Internal Revenue treated, in a subsequent year, this case as a genuine transaction and now we feel it is a tax evasion, that this is just the kind of case I want to put before the Joint Committee on Taxation." What he wanted to know was whether a previous Administration had treated it as a legitimate transaction, and if that is a fact and we are now of the opinion that it is tax evasion, what is our policy in such a case. He repeated, "It is just the sort of example I want to bring before the Committee on Joint Taxation."

* * * *

The group returned at 12 o'clock and Kent said, "It was entirely understood between the representatives of the Government and the representatives of Du Pont and Raskob that the Government would take the position in the 1929 case before the Board that these sales were fictitious and that the loss should be disallowed. In spite of that, they saw fit to go ahead and pay the 1931 tax without prejudice and file a claim for refund in case the Government should win in the 1929 case."

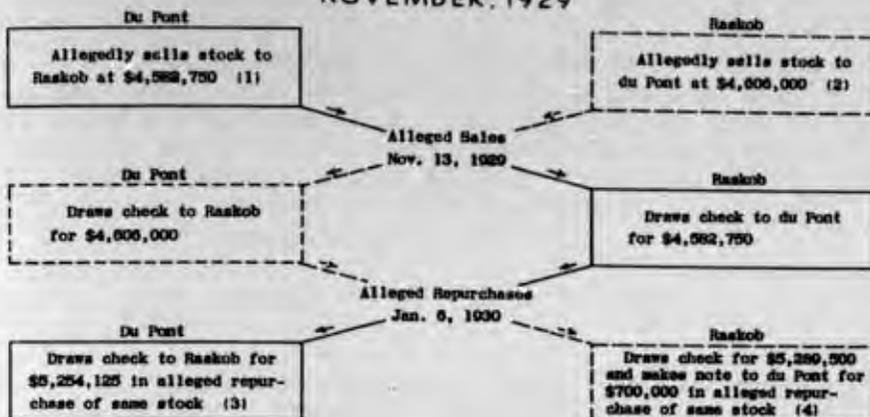
Mr. Morgenthau said, "It gets down to the fact that we should not try them for fraud; just file the answer and charge tax due."

The decision was that the Government would not at this time charge fraud, but would try to collect the tax which is due.

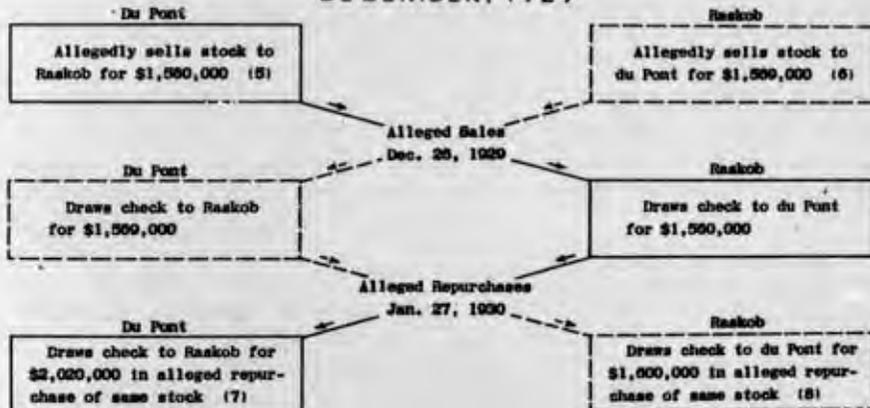
HM, Jr. called McIntyre and said he wanted to bring over Oliphant and Jackson to discuss a few tax cases and it was suggested they they come in at ten minutes to two immediately after Mr. Morgenthau's luncheon with the President.

TRANSACTIONS BETWEEN
PIERRE S. DuPONT - JOHN J. RASKOB

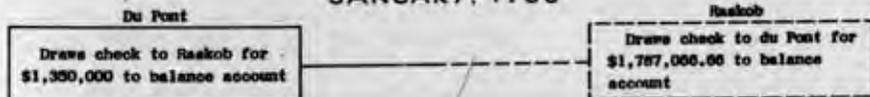
NOVEMBER, 1929



DECEMBER, 1929



JANUARY, 1930



SUMMARY OF ABOVE TRANSACTIONS

Du Pont Received Checks from Raskob:	
For stocks (2), (3), (6), (7) separate checks were drawn for transfer taxes aggregating	\$13,032,250.00 9,284.20
To balance (cashd Jan. 31, 1930)	1,787,086.66
During period Nov. 1929 to Jan. 1930 du Pont received dividends on Raskob's stocks	54,800.00
Total	\$14,883,400.86
Du Pont's total	\$14,883,400.86
Raskob's total	14,883,354.00
Difference	46.86

Raskob Received Checks from du Pont:	
For stocks (1), (4), (5), (8) separate checks were drawn for transfer taxes aggregating	\$13,440,125.00 8,360.00
To balance (cashd Jan. 31, 1930)	1,380,000.00
During period Nov. 1929 to Jan. 1930 Raskob received dividends on du Pont's stocks	75,830.00
Total	\$14,883,354.00
Du Pont deducted an alleged loss of	\$3,120,645.00
Raskob deducted an alleged loss of	4,375,523.51

January 6th

Oliphant called me on the phone to say that he had just learned that when the government tries the appeal of the Mitchell case E. S. Greenbaum will be dropped by the Department of Justice and that Bill Stanley has been employed to defend Mitchell. The question asked me was should Oliphant and Jackson ask the President to ask Justice to have E. S. Greenbaum re-instated and I told him it was O.K.

* * * * *

At lunch the President said that Ickes had gone south in a very brown mood implying that he was sulking. Ickes says that he, the President, does not see enough of him and sees me every Monday for lunch, talks to me on the telephone every day and that the President also sees the five Assistant Secretaries of the State Department all the time. I asked the President whether Ickes wept on his shoulder and the President said, "no he told this all to Charlie West". The President said, "I see the State Department people because Hull does not like to bother with details and delegates these various duties to the Assistant Secretaries." He said, of course, I have to talk to you on the phone on gold and silver".

I then said to the President, "when this man told you that we would rather sue on tax cases than settle was that a reflection on Helvering or me" and he said, "no - neither". He said, "I think it was Arthur Mullen who told me this" (yesterday the President told me that it was not Arthur Mullen). He said, "no, that is just the way these Washington tax lawyers try to make trouble". The President said he argued with Arthur Mullen a long time that he charged too much on his fee and I really think that that was why he saw him.

Early came in and asked who the President was going to see besides Wallace at 2:30 about the AAA decision. The President said he was going to see Wallace and Early said, "don't you think you had better see the Attorney General" so I piped up and said, "I suppose we will be there because we will have to raise the money" and the President, quite disagreeably, said, "no, it is not necessary for you to be there at this time". Therefore, I was very surprised when we came out to see that amongst the group was Bell and I suppose on account of West telling the President to-day that Ickes said I saw him too much the result is that I am not called in at the conference and Bell is. It seems so petty that it really amuses me. I said to the President, "the trouble with Ickes is that he likes to step on everybody else's toes but if anybody tries to defend himself he cannot take it and the President said, "that is absolutely true".

In discussing possible suggestions for a Receiver of Associated Gas I suggested Earle Bailie and the President said, "would he not have to disassociate himself from his company" and I said, "possibly" and then he said something which really annoyed me. He said, "a couple of weeks ago one of those people who likes to bring me stories said that Earle Bailie is connected very closely with Moscow" so I said, "what does that mean, Mr. President" and he said, "I do not know. It is just one of those stories".

MEXICAN SILVER CONFERENCE TO BE RESUMED

WASHN - CONFERENCE BETWEEN SECY MORGENTHAU^{9.50}
AND EDUARDO SUAREZ MEXICAN FINANCE MINISTER
ON THE SILVER QUESTION WILL BE RESUMED AT
10 O-CLOCK THIS MORNING-

WCNS143

SECRETARY MORGENTHAU REFUSED TO REVEAL DETAILS TODAY OF HIS
MEXICAN SILVER CONFERENCE OTHER THAN TO SAY THERE WAS A
"MUTUALLY SATISFACTORY AGREEMENT."

1/6--R439P.

WCNS145

ADD MORGENTHAU, SILVER.

THE SECRETARY INDICATED THAT DETAILS OF THE CONVERSATIONS WITH MEXICAN FINANCIAL OFFICIALS WOULD BE WITHHELD FOR THE TIME BEING.

IT WAS LEARNED, HOWEVER, THAT THE CONFERENCES RESULTED IN NO SUBSTANTIAL CHANGE IN THE SILVER RELATIONS BETWEEN THE U. S. AND MEXICO.

1/6--R459P.

Mexican Silver Conference

WCNS76

CONVERSATIONS BETWEEN SECRETARY MORGENTHAU AND MEXICAN FINANCE MINISTER EDUARDO SUAREZ ENDED TODAY "IN MUTUALLY SATISFACTORY AGREEMENT ON POINTS DISCUSSED," A TREASURY OFFICIAL SAID.

THE OFFICIAL DECLINED TO STATE WHETHER THE AGREEMENT CONCERNED SILVER, OR TO DISCUSS ITS TERMS.

1/6--R1P

U S - MEXICAN SILVER CONFERENCES END

WASHN - BY U P- CONVERSATIONS BETWEEN SECY
OF TREASURY HENRY MORGENTHAU JR AND MEXICAN
FINANCE MINISTER EDUARADO SUAREZ ENDED TODAY IN
MUTUALLY SATISFACTORY AGREEMENT ON POINTS
DISCUSSED- A TREASURY OFFICIAL SAID-

THE OFFICIAL DECLINED TO STATE WHETHER THE
AGREEMENT CONCERNED SILVER OR TO DISCUSS ITS
TERMS-

JAN 6 1936

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THE PRICE OF SILVER IN LONDON IS LIKELY TO BE
 SLIGHTLY EASIER ON SOME SMALL GENERAL SELLING-
 JAN 6 1936

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Monday
January 6, 1936

HM,Jr: Morgenthau speaking -
Commissioner
Landis: Yes

HM,Jr: I hope I haven't disturbed you.

L: Not at all

HM,Jr: Is this Commissioner Landis?

L: Yes

HM,Jr: Look - I wondered if in your many hearings any person who has come before you who happens to be a Democrat and who is favorable to Mr. Roosevelt's Administration who you might - who has impressed you as an outstanding able person who I might get to come down here to be an assistant to me, you see?

L: Yes

HM,Jr: I've got to get some more help down here -

L: Yes

HM,Jr: And when you look around for people who are Democrats who are able and who know finance it - it narrows the field down almost to an infinitesimal.

L: Yes - and - let me - let me think of that for about a half a day and I think I - I can give you some suggestions.

HM,Jr: Well, that would be grand, I didn't expect you just to pull it out of the hat.

L: Yes

HM,Jr: But I've got to have somebody who really knows finance who's - and who's really able and who is sympathetic to Mr. Roosevelt.

L: Yes - yes - well, I'll - I'll go through my and see whom I can suggest on that.

HM,Jr: Well, I'd greatly appreciate it.

L: All right

HM,Jr: How are you?
 L: Oh, pretty good
 HM,Jr: Fine - thank you very much.
 L: You're welcome
 HM,Jr: Goodbye.

Dear Secretary [Name]

Your request for a study of the situation of the 1935 Cotton Producers' Loan... Administration and the Department of Agriculture... referred to me by the Director of the Cotton Producers' Loan... work of you as Director of such work... If an report is received in... that the Government's... will be... will be... will be...

Reference is made to the... 1935. There has been at least... 1935 Cotton Producers' Loan... of actual... and future... have the correct position of the...

There have been some... commodity credit Corporation... 1935, and the... of the project line as follows:

1935 - 30 Cent Loan		
Held by Commodity Credit Corporation -	1,000,000	\$1,000,000.00
1935-36 24 Cent Loan		
Held by Commodity Credit Corporation -	2,000,000	\$2,000,000.00
Held by banks which have contracts of purchase with Commodity Credit Corporation -	1,000,000	\$1,000,000.00
1935-36 Loan		
Held by Commodity Credit Corporation -	1,000,000	\$1,000,000.00
Held by banks which have contracts of purchase with Commodity Credit Corporation -	1,000,000	\$1,000,000.00
Total -	5,000,000	\$5,000,000.00

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UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION
WASHINGTON, D. C.

PERSONAL AND CONFIDENTIAL

January 6, 1936

MEMORANDUM FOR HON. HENRY A. MORGENTHAU
Secretary of the Treasury

Dear Secretary Morgenthau:

Your request for a weekly report upon the holdings of the 1933 Cotton Producers' Pool of the Agricultural Adjustment Administration and the Commodity Credit Corporation has been referred to me by the Secretary of Agriculture. I shall forward to you on Monday of each week this report as requested. If no report is received for any week, it may be presumed that the Government's net position with respect to its cotton holdings remains unchanged.

Reference is made to my memorandum of December 14, 1935. There has been no change in the net position of the 1933 Cotton Producers' Pool since that time and the quantities of actual cotton and futures contracts as shown therein represents the current position of the Cotton Pool.

There have been some changes in the stocks held by the Commodity Credit Corporation since the report of December 14, 1935, and the Commodity Credit Corporation has outstanding loans at the present time as follows:

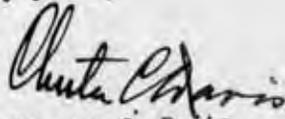
1933 - 10 Cent Loan Held by Commodity Credit Corporation -	6,501 bales	\$ 317,331.94
1934-35 12 Cent Loan Held by Commodity Credit Corporation	4,040,587 bales	\$246,500,522.65
Held by banks which have contracts of purchase with Commodity Credit Corporation -	366,837 bales	\$ 22,476,200.30
1935-36 Loan Held by Commodity Credit Corporation	5,394 bales	\$ 275,128.34
Held by banks which have contracts of purchase with Commodity Credit Corporation	50,567 bales	\$ 2,582,605.53
Total -	4,469,886 bales	\$272,151,788.76

-2-

Special reference is made to the 6,501 bales held in the 1933 ten cent loan. This cotton is now being sold in liquidation of the loans pursuant to authority contained in Resolution of the Executive Committee of the Board of Directors of the Commodity Credit Corporation of February 26, 1935, as amended September 7, 1935. A total of 69 bales had been sold on December 31, 1935. Offers have been received on practically all of this cotton but inasmuch as prices offered were considerably lower than the loan value, these offers were not accepted. Negotiations are continuing for the ultimate liquidation of this cotton.

Forms are being developed for the submission of these weekly reports to you which will be in the nature of a consolidation of the daily reports which are received in my office. I know that it is unnecessary to emphasize the confidential nature of these reports. It has been the policy of the 1933 Cotton Producers' Pool to refrain from making public its day-to-day operations and we have repeatedly stated that when information of public interest is available, an announcement will be made in an appropriate manner. It may be expected that in view of the fact that the Pool is entering a period of liquidation and the further fact that it is probable that the Commodity Credit Corporation may begin the sale of some of its stocks, that increasing pressure will be exerted from time to time to obtain the exact status of the Government's operations. I know that you recognize the wisdom of the policy that we have adopted in this respect and reference is made to this policy solely for your information and guidance.

Sincerely yours,



Chester C. Davis
Administrator

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE JAN 7 1936

TO Secretary Morgenthau
FROM Herman Oliphant

You have asked my opinion on amending the income tax to provide more liberal allowances for depreciation with the object of stimulating production and employment in the heavy and durable goods industries.

I have considered also several other plans for achieving the same objective, including a proposal which I am suggesting looking towards the more liberal treatment of capital gains and losses, provided the entire proceeds of the capital transaction, giving rise to gain or loss, is spent for durable goods. This latter proposal takes into consideration the current campaign waged by certain interests to secure some measure of relief from the existing provisions of the income tax affecting capital gains and losses, which it is said have brought about a frozen condition in the capital market and are preventing capital transactions the proceeds of which might be reinvested in industries which need new capital for productive purposes.

Both proposals involve loss of revenue, but the loss under my proposal would be less and most of it would not come now but in later years.

(1) Liberal Allowances for Depreciation, Including Obsolescence.

This proposal presupposes that the industries using heavy and durable goods, as well as the manufacturers of such goods, have on hand a considerable amount of obsolete or partially obsolete plant and equipment which they would be willing to replace with new plant and equipment if permitted, for tax purposes, to write off the remaining value of such properties.

Under existing law, where a taxpayer has established a separate rate for depreciation, including obsolescence, for its individual units, the proposal would confer no additional benefit, since it may now take a deduction sufficient to recover its investment upon the abandonment of any such unit. Where it has established a composite rate upon several units, there would be some advantage if it were allowed an additional deduction for abnormal obsolescence upon the abandonment of any one in the group. Such deduction it is unable to take today, in the absence of casualty or other unforeseen event.

However, it is believed that the acceleration of the rate of depreciation would not provide a sufficient incentive towards the accomplishment of the objective in question even for those corporations

having a taxable net income. For those corporations which neither have nor anticipate having a taxable net income, the incentive would be nonexistent. Moreover, to have any broad beneficial effect, it would probably be necessary to include substantially all the products of the heavy and durable goods industries. Certainly any attempt to limit the products in which investment might be made would raise difficult questions of classification. In the absence of limitation, the class of taxpayers affected would in effect include all industry. The difficulties of administration, both from the point of view of the taxpayer and that of the Bureau, would be enormous, as the field covered involves one of the most technical branches of tax and accounting practice. Much additional policing would certainly be necessary in order to insure that the relief afforded did not open the door to a great amount of tax evasion.

(2) Exemption from Taxation of Capital Gains and More Liberal Treatment of Capital Losses. Under the second proposal, it is suggested, capital gains will be exempt from taxation, and capital losses may be deducted in computing taxable net income, provided an amount equal to the entire proceeds of the capital transaction goes into products of the heavy and durable goods industries.

This proposal in the main affects essentially different property and income of the taxpayer than that affected by the first proposal. Under (1) above the property in question is held chiefly for productive use in trade or business and gives rise to income in the ordinarily accepted use of that term. Under this proposal we are concerned with property held primarily for investment. The gain or loss on such property is recognized when "realized," that is to say, upon sale or exchange. In the case of a corporation, the entire amount of the gain, computed with reference to the adjusted basis for determining gain or loss, is taken into account. In the case of individuals, the gain is taken into account according to a graduated scale depending upon the number of years the property is held. Losses in the case of both individuals and corporations are limited to the amount of the taxpayer's capital gains during the taxable years plus \$2,000.

Such amendment would create some administrative difficulties but they could be met. Here again the amendment would furnish no incentive unless the taxpayer had a taxable net income in the year in which the gain or loss became realized, but this could be circumvented by permitting the taxpayer to carry over the gain or loss into the subsequent year or years.

Perhaps the strongest argument in favor of this proposal is that it would not with certainty involve substantial loss of revenue, which the Government might otherwise obtain. This arises from the fact that gains and losses do not become taxable or deductible except when realized, an event (barring economic necessities) which is solely within the determination of the taxpayer.

Precedents exist for the action proposed. A case directly in point is found in Section 23 of the Merchant Marine Act where, in aid of the development of an American Merchant Marine, the owner of a vessel built

prior to January 1, 1914, was exempted from taxation on the gain arising from the sale of such vessel if the entire proceeds were invested in the building of new ships in American shipyards. Other examples of favorable treatment accorded certain classes of taxpayers, based upon their actual or supposed necessities, may be found in existing and earlier revenue laws.

— 0 —

Other proposals, including labor or payroll deductions or credits, and several plans for the direct stimulation of the construction business, have been considered but are not recommended either because previously considered and rejected by the Department, or because open to one or more serious objections.

Herman Chapland

January 7, 1936

At the 9:30 group meeting this morning, the following were present:

Mr. Bell
Mr. McReynolds
Mr. Coolidge
Mr. Haas
Mr. Oliphant
Mr. Gaston

HM, Jr. said he wanted to discuss financial problems and that was why he did not include the other members of the staff who usually come to the 9:30 meeting. He asked that any discussion that took place be considered very confidential.

He said, "Last year I moved fast enough to keep Congress from spending the 700 or 800 million dollars of the gold increment out of the Stabilization Fund. If we leave the silver seigniorage as it is, they are going to spend it. I am on record and so is the President that we will use this for retiring the public debt. Including all the silver that is in transit, we have \$635,000,000 worth of silver seigniorage.

"My thought is to use that silver seigniorage to retire the bills that are coming due on March 15, which amount to about \$450,000,000. I want to plant this seed now. I would like to have all of you think about it and we can discuss it again in a couple of days. I have a feeling that Congress will either use it for AAA or the bonus or something if we do not do something about it."

Mr. Morgenthau also said, "My own personal opinion is that with the public, who are interested in finance, it would "sit much prettier" to use this money to retire the debt than it would be to spend it. The effect on the excess reserves would be the same."

Coolidge asked, "Do you want the Treasury to take the responsibility of spending this money or do you think Congress ought to have the responsibility?" Mr. Morgenthau replied, "I think it would be much better if the Treasury spent it."

At the President's conference yesterday on the Farm Tenant Bill, which HM, Jr. was unable to attend because of the Mexicans' conference, Haas represented the Secretary. Haas read the attached memorandum relating what took place

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at the conference. HM, Jr. said that in order to carry out our end there is some bill drafting to be done. Mr. Haas said the President seemed to have preferred that be done in Wallace's shop and that the Treasury was only concerned about the \$50,000,000 which had to be raised. Oliphant stated that he would like to draft the legislation for the fiscal end right here and not in Wallace's shop.

HM, Jr. said, "Sometime, at the right time, I should write the President a letter on this Farm Tenant Bill and point out the fact that it is not provided for in the Budget.

Bell read a memorandum prepared by Maurice Collins, who attended the Executive Session of the Ways and Means Committee of the House on the Bonus. It is attached hereto.

Bell also read a memorandum on the conference with the President concerning the Supreme Court's decision on the AAA. It is attached hereto.

Bell objected to certain procedure in connection with the mail orders for Baby Bonds. He cited the delay incident to orders coming from California and then having to be returned to a bank in California. He said for fifteen years we have been trying to cut red tape and this is what is happening. HM, Jr. said he would have Sloan confer with Bell.

Oliphant made the request that all publicity in connection with Baby Bonds clear through the Legal Division and HM, Jr. agreed that it should.

STATUS OF SILVER UNDER SILVER PURCHASE ACT OF 1934
AS OF DECEMBER 31, 1935

(On basis of Treasury
daily statements)

	<u>Fine Ounces</u>	<u>Cost</u>	<u>Monetary Value</u>
Silver bullion in Treasury . . . ✓	420,932,328	\$ 260,978,043.27	\$ 544,223,406.87
Silver in transit.	46,217,684	28,306,749.12	59,754,843.64
Silver in Stabilization Fund .	74,470,628	47,652,507.60	96,283,074.94
Purchased for future delivery.	17,020,063	10,386,234.00	22,006,239.45
	-----	-----	-----
	558,640,703	347,323,533.99	722,266,564.90
Seigniorage not realized . . .		374,943,030.91	-----
		\$722,266,564.90	722,266,564.90
		=====	=====
Seigniorage realized to Dec. 31, 1935			\$260,729,692.58 -
Seigniorage not realized as of Dec. 31, 1935.			374,943,030.91 -

Total seigniorage available:			\$635,672,723.49

✓ Approximate figures.

January 6, 1935.



TREASURY DEPARTMENT

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OFFICE OF THE SECRETARY

WASHINGTON

COMMISSIONER OF
ACCOUNTS AND DEPOSITS

January 6, 1936

TO MR. BELL:

In accordance with your oral instructions I attended the Executive Session of the Ways and Means Committee of the House in the company of General Hines and Mr. Breining.

Only one bill was considered, that offered by Congressman Vinson. After the bill had been read and explained by Congressman Vinson and discussed by General Hines, the bill was put to a vote and after amendment was voted upon favorably. There were no votes in opposition to the bill.

The following amendments to the bill were made:

- (1) The provision for the refunding of loan interest was eliminated so that, as the bill now reads, those who borrowed and did not pay the interest will have the interest cancelled, while those who borrowed and paid the interest will not have the amount of such interest payment refunded.
- (2) The rate of interest for the bonds to be issued to redeem loans made from the United States Government Life Insurance Fund was increased from $3\frac{1}{2}\%$ to $4\frac{1}{2}\%$.
- (3) The provision for payment to the designated beneficiary in the event of death after application for benefits under the bill was changed so that payment will be made to the estate of the deceased veteran.
- (4) A provision was inserted authorizing the Administrator of Veterans' Affairs to call upon banks holding veterans' loans to present them for redemption, and failure to so present the veterans' notes would result in interest ceasing on the veterans' loans forty-five days after demand by the Administrator.
- (5) The constitutionality saving clause was added so that if one part of the Act is declared unconstitutional the remaining portions will not be affected thereby. This clause was considered necessary because of the addition of the section relating to the calling of bank loans and stopping of interest prior to the maturity date of such loans.

- 2 -

The following amendments offered by Congressman Treadway of Massachusetts were rejected by a vote of 7 to 2:

(1) That payment be made from the \$4,800,000,000 appropriation provided by the Emergency Relief Appropriation Act of 1935.

(2) That the payment be made from the Exchange Stabilization Fund.

(3) That the Secretary of the Treasury be specifically directed to raise the money by means of a bond issue. Mr. Treadway stated that this last amendment was offered to prevent the President from taking advantage of the inflationary measures authorized by the statutory amendments pushed through Congress by the so-called silver bloc.

McCallum



TREASURY DEPARTMENT

WASHINGTON

January 6, 1936

CONFERENCE WITH THE PRESIDENT REGARDING
THE SUPREME COURT DECISION ON THE
AGRICULTURAL ADJUSTMENT ACT

Those present besides the President were Senator Bankhead, the Attorney General, Congressman Jones, the Secretary of Agriculture, Mr. Davis and Mr. White from the Agricultural Adjustment Administration, and Mr. Bell.

The decision of Justice Roberts for the majority and the decision of Justice Stone for the minority, were read. It seemed to be the opinion of the Attorney General that the whole Agricultural Adjustment Act was declared unconstitutional. Apparently the question before the Court was only the question as to whether the processing taxes were constitutional, but it seems that the Court took the position that the question of processing taxes and the question of benefit payments were inseparable under the Act. Its decision, therefore, affected the whole Act.

The main question raised was as to what should be done, first to liquidate the contracts now in force, and second, what should be developed to take the place of the Agricultural Adjustment Administration. After a great deal of discussion as to the effect of the decision politically and economically, it was decided that the first thing to do was to give immediate consideration to the matter of securing an appropriation from Congress to liquidate the outstanding obligations under existing contracts. In this connection the President said that we should begin an immediate study to see what taxes could be levied to take the place of the processing taxes. The question should also be considered as to whether these taxes could be made retroactive to the date on which the processing taxes became effective, so that the persons who had not paid the processing tax would be compelled to pay the new tax, and the people who had paid the processing tax but would get refunds thereof because of the Court's decision, would be compelled to pay another form of tax which would more or less offset the processing tax.

- 2 -

The President authorized the Secretary of Agriculture to call to Washington the leaders of the farm organizations who were here in 1933 and any others he thought it advisable to invite, for the purpose of discussing ways and means of carrying out the purposes of the Agricultural Adjustment Act. It was generally agreed that the purposes of the Act might be carried out through the form of grants to States, but this would require legislation by each State, and as most of the State legislatures do not meet until 1937, any plan along this line could not be put into operation until some time next year.

It was also thought that the purposes of the Act might be accomplished in the form of a bonus to farmers who would carry out certain conditions laid down by the Government. This would necessarily have to be a voluntary arrangement.

The matter of legislation is to receive a thorough study by the Department of Agriculture and the Department of Justice.

SWB

January 6, 1936

TO: Secretary Morgenthau

FROM: Mr. Haas

Subject: Meeting held at White House, January 6, 1936, 11 A.M. on
S. 2367 "The Farmers' Home Act"

Present: President Roosevelt, Secretary Wallace, Senator Bankhead, Congressman Marvin Jones, Governor Myers, Mr. Will Case and Mr. Lee Pressman, Agriculture Department, and Mr. Haas.

The President opened the discussion by expressing the view that it was particularly desirable from a political, economical, and social standpoint that some legislation be enacted this session which would deal with the farm tenant problem. He said he felt that it was important at this time to indicate by legislation that a start at least was being made in the solution of this problem. He suggested that \$50,000,000 or less, taken from the RFC fund, probably would be sufficient for the time being. This the President pointed out would leave the budgetary position intact, as no new appropriation would be requested.

The President asked Secretary Wallace if he favored doing something with regard to the farm tenancy problem at this time. Secretary Wallace said he did but advised moving slowly. The President said he was anxious to get this bill moving early in the session. Congressman Jones thought it would be unwise to press the matter until the AAA question was out of the way. The President agreed, but suggested that the bill be amended now and hearings held pending the disposition of the AAA question.

Congressman Jones indicated that he would have some difficulty with the bill in the House, but the President suggested that he go to work immediately to improve the sentiment of the opposing Congressmen who would be largely urban representatives. The President pointed out that this bill was a real aid to the cities in that it would provide an outlet on farms for a large number of the poorly situated individuals in the cities, etc.

The President was opposed to setting up an independent commission to administer the Act. It was finally decided that the bill be amended so as to place the administration of the Act in the Department of Agriculture. Secretary Wallace said he thought it came under his jurisdiction because of the close relationship between its administration and that of other activities in the Department of Agriculture, Agricultural Extension Service, etc. Governor Myers expressed the view that it did not come within his perview, and he thought it should be placed under Agriculture.

The bill as it now stands includes a provision for issuance of Government guaranteed bonds by a corporation set up in the bill. After discussion it was agreed to eliminate this provision because of the adverse effect it would have on the governmental fiscal picture. Senator Bankhead yielded rather reluctantly on this point but the remainder of the group, including Congressman Jones, felt that it would be very unwise not to exclude this provision at this time with elections coming during the year.

The President closed the discussion by asking Secretary Wallace, Governor Myers, Mr. Case, and the Treasury representative to draw up amendments to the present bill in conformity with suggestions made at the meeting, the only Treasury concern being the amendment relating to the \$50,000,000 revolving fund.

The President asked that the Treasury Department get in touch with Mr. Jesse Jones of the RFC with regard to the \$50,000,000 which is to come with RFC funds.

January 7, 1936

Before the group meeting, at 9:30, HM, Jr. spoke to Lochhead and said, "I want to get control of the big movement of silver in Canada and the only way to do it is to stop buying Canadian silver. I think this would throw them into a panic, and they would come down to see us on the next train. Now the question is, How can we do it? If we are successful with Canada, I would like to go after Peru next."

January 7, 1936

Upham was sent down to Birmingham, Ala., to get some idea of General John C. Persons' background and sound him out as to whether he would come to Washington as an Assistant Secretary of the Treasury.

Upham telephoned from Birmingham and gave the information that he was very impressed with General Persons and had arranged to have him come in to see the Secretary at three o'clock on Wednesday.

In the meantime, however, Mr. Awalt gave HM, Jr. the attached report which shows that General Persons' financial condition is such that HM, Jr. could not bring him down here as an Assistant Secretary because he would never be confirmed.

HM, Jr., however, saw General Persons today and told him very frankly that if he were going into business with him personally, his record would be entirely satisfactory but that politically he did not think General Persons would get confirmed.

JOHN C. PERSONS.

John C. Persons, about 48 years of age, graduate of the University of Alabama, admitted to practice law in 1910 and practiced law at Tuscaloosa, Alabama, where he served as city attorney and assistant county attorney; was treasurer of the University of Alabama from 1912-1913; was president of the Persons Lumber Company of Tuscaloosa; enlisted in the Army, served for two years, received the distinguished service cross for rescuing a soldier in his Regiment while under heavy fire, participated in five major battles.

From 1919 to 1922 he was president of the Persons Lumber Company of Tuscaloosa; a director of the Merchants Bank and Trust Company of Tuscaloosa.

In 1922 became vice president of the First National Bank of Tuscaloosa, served in that capacity until 1927 when he became vice president of the Traders National Bank of Birmingham.

In July, 1927, upon the consolidation of the Traders National Bank with the American Trust and Savings Bank of Birmingham, he became executive vice president of the merged institution, known as the American-Traders National Bank. In January, 1928, he was made president of this bank. This bank was consolidated with the First National Bank of Birmingham in 1930 at which time he was made president of the First National Bank of Birmingham.

At the present time he is Brigadier General and head of the Alabama National Guard from which he probably receives an income of

Re: John C. Persons.

around \$1,000 annually. His salary as president of the First National Bank of Birmingham is \$17,500.

He has a wife and two daughters - age of the daughters 17 years and six years - the eldest daughter now attending the University of Michigan. His wife is from Mississippi. He belongs to some of the local clubs of Birmingham - his hobby is golf.

Statements as to General Persons' ability, energy, etc., are divided. The following are statements made by one examiner:

"As to character, popularity, and general deportment as a citizen, he is in these efforts outstanding and has a large following of friends all over the State of Alabama."

"I have been impressed as to his apparent high class character, and regard him ever as being of the strictest integrity."

"It has been my feeling that General Persons is honest, sincere and trustworthy in every respect and a hard worker but is not an outstanding banker."

Another examiner states:

"He does not, however, consider the subject as being an outstanding banker of Alabama, but is an honest, conservative and hard worker and in every other way a good citizen."

Another examiner states verbally in substance that while Mr. Persons is likeable, he does not consider him able and he is inclined to be lazy.

Re: John C. Persons.

Another examiner makes the verbal statement that he can be summed up as being a "stuffed shirt."

The bank of which Mr. Persons is president is in unsatisfactory shape. It has \$5,000,000 preferred stock owned by the Reconstruction Finance Corporation; \$2,500,000 of Class B preferred stock owned by local parties and \$2,500,000 of common stock; surplus \$1,000,000; undivided profits and reserves of approximately \$1,000,000. At the time of the last examination it showed losses of \$715,000, doubtful paper of \$2,000,000 and slow of approximately \$11,000,000. This bank has been in the past completely dominated by the chairman of the board, Oscar Wells.

FINANCIAL CONDITION.

At the time of the last examination of the bank, of which Mr. Persons is president, there was no financial statement on file showing his financial condition. It is stated, however, that it is believed his financial condition has not changed greatly since September 18, 1933, when his indebtedness was reported to be \$112,250, of which \$84,800 was owing to the Chemical Bank and Trust Company and the Chase National Bank of New York City; \$8,600 to the First National Bank of Birmingham and the remainder to the other banks in Alabama. His indebtedness to the First National Bank of Birmingham, Alabama, has been reduced from \$8,600 to \$7,250. The report from the Chase National Bank as of May 3, 1935, shows an indebtedness of \$17,800 listed by the examiner as a loss. The amount owing to the Chemical Bank and Trust Company at this time is not known - this bank being a

Re: John C. Persons.

State bank. The figure of \$112,250 does not appear to be correct since a standstill agreement was entered into on August 3, 1933, between the Chase National Bank holding his obligations of \$17,800 and creditors Ward, Sterne and Company; H. Hammond; L. C. Morton; T. J. Kidd and John F. Fletcher who held his obligations for \$220,000, "waiving interest and any payments on principal except such as he was able and willing to make and to permit him to make such other interest and principal adjustments as are necessary to maintain his credit and position." This agreement was for three years ending August 31, 1936.

As of September 18, 1933, General Persons admitted that his assets at such time were insufficient to pay his debts but claimed to have a settlement pending with the New York banks which would relieve him personally of the indebtedness and leave him in much better financial condition. The major portion of his debts were incurred to carry stock of the First National Bank of Birmingham, most of which was pledged as collateral for such loans.

Statement is also made by the examiner that:

"General Persons is regarded as an able official but unless his personal finances are put into better shape, his obligations may reflect on the group."

BUREAU OF INTERNAL REVENUE
OFFICE OF
CHIEF, INTELLIGENCE UNIT

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January 6, 1936.

MEMORANDUM FOR MR. MCREYNOLDS:

In accordance with your request of January 4th, inquiries have been made concerning Mr. John C. Persons, of Birmingham, Alabama, and there is quoted below a telegram just received from Special Agents Burdick and Cavanaugh:

"John C. Persons, Birmingham, Alabama, is forty-seven years of age; married; two children. Graduated University of Alabama Law School 1910. Has been president First National Bank, Birmingham, past five years. Prior thereto was for two years president American Traders National Bank, Birmingham. Prior thereto was vice president City National Bank, Tuscaloosa. Poise, bearing and appearance excellent. Mr. Persons mentally alert, reported to possess great executive ability, splendid personality and outstanding type. Character and reputation in community excellent. Revenue Agent's report on Hammond Iron Company shows it advanced various sums to Mr. Persons since 1928, now amounting to approximately \$50,000, which company proposes to write off as bad debt in tax return. No criticism, however, by creditor. No other adverse developments. Recommend favorable consideration."



January 6, 1936.

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Tuesday
January 7, 1936.

Jesse
Jones: Hello, Henry

HM,Jr: Hello, Jesse?

J: Yes, how are you?

HM,Jr: Oh, pretty well - how are you?

J: I'm feeling fine, Henry, I've had a rest.

HM,Jr: Where are you?

J: I'm in Chicago.

HM,Jr: Well, Jesse, I wasn't at a meeting yesterday that took place at the White House but I sent Haas over to represent me because I couldn't go.

J: Yes

HM,Jr: And at that - I mean, it's a kind of a strange message, but I'm just carrying out orders -

J: Yes

HM,Jr: They took up this question of the Bankhead Tenant Bill and in this thing, I mean, there was Bill Myers, Henry Wallace, Marvin Jones and Bankhead and they decided that they would put this thing into the Department of Agriculture -

J: Yes

HM,Jr: - and they would get a revolving fund of fifty million dollars out of RFC -

J: Yes

HM,Jr: And I was instructed to tell you that.

J: Yes

HM,Jr: Now, I'm just carrying out my instructions. Now, at the same time I want to tell you that I've got to let the President know that there's no such thing provided for in his budget.

J: Yes

HM,Jr: And if he goes through with it why then there's the first thing that busts his budget wide open.

J: Yes

HM,Jr: But, I am transmitting the message to you as I was told to.

J: That's all right, Henry. - Now, this fifty million dollars they'll - they'll use to make these

HM,Jr: Well, now, I've got a three page memorandum from George Haas, who reported what took place -

J: Yes

HM,Jr: - at that meeting.

J: Yes

HM,Jr: And when you return I'd be very glad to turn the memorandum over to you in just the way he wrote it to me personally.

J: All right, I'll be there in the morning, Henry.

HM,Jr: Well, I'll send it over to you and mark it "Personal" and then you'll have it on your desk.

J: If you'll do that I'll appreciate it.

HM,Jr: But, when you get back I'd like to talk to you about this, see, because I think the President's got to - realize that he's laid down for himself certain rules of the game and does he want to kick them over the first week.

J: Yes

HM,Jr: See?

J: Henry, he's not going to - he oughtn't to make any decision that quick on what he's going to do.

HM,Jr: I don't think so, but, as I say, I wasn't there - the message came back that I should tell you and now I've done it.

J: That's fine -

HM,Jr: And I will -

J: I'll work it out when I get back.

HM,Jr: And I'll have on your desk -

J: Yes

HM,Jr: - the memorandum that George Haas gave me as to what took place at the meeting.

J: All right

HM,Jr: Now, as I understand it, Marvin Jones doesn't like it at all.

J: He doesn't?

HM,Jr: No

J: Well, maybe we can work something in shape form, Henry.

HM,Jr: Maybe -

J: We - we get the idea and then I'll - I'll go into it and maybe we could help him out.

HM,Jr: Well -

J: Maybe we can switch it around and help him do something.

HM,Jr: Well - let's see when you get back

J: I'll do that, Henry. I'm glad to talk to you - how's Mrs. Morgenthau?

HM,Jr: Thank you, she's fine .

J: Well, I hope the boss won't make any too - any too quick decision -

HM,Jr: Well, I don't think he can this week on that anyway, because he's got his hands full with three A.

J: Yes - all right I'll see you then tomorrow.

HM,Jr: Thank you

J: Goodbye

HM,Jr: Goodbye.

Tuesday
January 7, 1936

Father
Coughlin: Good morning, Secretary Morgenthau, - Father Coughlin -

HM,Jr: Good morning to you, Sir.

C: A very happy New Year to you.

HM,Jr: Well, I wish you the same. Are you going to be here any length of time?

C: Well, I'm going to be over until tomorrow at noon.

HM,Jr: Well, I'd be glad to see you.

C: Well, I'll be glad to drop over, Secretary.

HM,Jr: When would you care to do it?

C: Tomorrow - some time tomorrow morning? Are you too busy?

HM,Jr: No - I'm never too busy -

C: Well, you set an hour and I'll be glad to -

HM,Jr: You're not - you don't by any chance happen to be free now?

C: Now? - Well, I have an appointment here within an hour - an hour and a half.

HM,Jr: You mean, you're going to have an appointment?

C: Yes, I have an appointment here in an hour and a half from now.

HM,Jr: Oh -

C: I could run over now for a - for a half an hour.

HM,Jr: Well, I think that would be - that would be fine.

C: Well, I'll come over then.

HM,Jr: Because I never when I'll be called on the Hill, you see .

C: Surely - well, I'll come over now.

HM,Jr: That would be fine.

C: Well, thank you very kindly.

HM,Jr: Thank you.

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Tuesday
January 7, 1936

(Laughter)

HM,Jr: Just a minute, just one second -

Harllee
Branch: Fine, thank you, Sir, I hope you're all right.

HM,Jr: I'm pretty well for an old man. Look, Harllee, -
Harllee
Branch: Yes

HM,Jr: You know Atlanta well, don't you?

B: Pretty well, I've lived there about thirty-five
years.

HM,Jr: Yes, Now, without giving any reasons why - you
can do your own guessing, but being a good fellow you
won't guess too hard, see?

B: Yes

HM,Jr: I've been looking over some bankers there and the number
one suggestion has been made to me through our -
Treasury people, you see?

B: Yes

HM,Jr: Is Clyde Williams.

B: For what?

HM,Jr: Well -

B: Oh, yes -

HM,Jr: Let's say as an assistant to me -

B: Oh, yes, I know -

HM,Jr: Let's -

B: I know what you're talking -

HM,Jr: Let's say as an assistant to me.

B: Yes

HM,Jr: He's number one and number two is Archie Clay. Now
I don't know these people but they tell me that this
fellow Williams is extremely able.

B: I think he is, Henry.

HM,Jr: Yes

B: He hasn't been out in the front in banking but he's been behind the scenes.

HM,Jr: Well, they tell me that he's the fellow that really operates that bank - that he's not the handshaker.

B: Which bank are you talking about?

HM,Jr: First National, of Atlanta.

B: Well, he's - he's a good banker and he's behind the scenes there and he's not a handshaker and he's not known much in their public things -

HM,Jr: No -

B: But among the bankers -

HM,Jr: Yes

B: - he is known.

HM,Jr: Yes

B: Now the other fellow -

HM,Jr: Yes

B: -the other fellow is a peculiar type of fellow -

HM,Jr: Yes

B: He's made a success down there but he's^a/rather hard-boiled ruthless fellow -

HM,Jr: Yes

B: He looks - blows hot and he blows cold.

HM,Jr: That's Clay?

B: That's Clay.

HM,Jr: Yes

B: He's right now, as a result of his peculiar temperament -

HM,Jr: Yes

B: He's having a domestic break-up.

HM,Jr: Oh -

B: It's happening right now.

HM,Jr: Oh -

B: And he's friendly at some times with us and then again he's unfriendly.

HM,Jr: Yes

B: He - you never know where to put your finger on him.

HM,Jr: Yes

B: Peculiar fellow -

HM,Jr: Yes

B: He's - he's made a success, however, of his business and made some money -

HM,Jr: Yes

B: But I - and regarded as a right good banker.

HM,Jr: Yes

B: He really is.

HM,Jr: Yes

B: But he's - temperamentally he's a peculiar fellow.

HM,Jr: Yes

B: And you never know what tangent he's going to go off on.

HM,Jr: I see.

B: Now the other fellow is one of those sturdy, steady, quiet, cautious, constructive moving fellows, who evidently knows the banking business.

HM,Jr: Yes

B: And he's never pushing himself out to the front, you know, for publicity and all.

HM,Jr: Yes

B: I really believe that the line you've got is perhaps the best

HM,Jr: It is?

B: That's the way it appears to me.

HM,Jr: Clyde Williams?

B: Yes, I'd say - I'd say that for your purposes he would be more desirable than the other fellow.

HM,Jr: Well -

B: The other fellow is a good banker.

HM,Jr: Well, would you put it this way? - you know Washington - you know what we're up against - would Williams fit into the picture up here?

B: Well, Herry, unless I knew just what you had him in mind for - you know what's running in my mind?

HM,Jr: What?

B: And I can't believe I'm right.

HM,Jr: What?

B: That is that you might be considering him for the Federal Reserve Board.

HM,Jr: No, no -

B: Oh, well, for this other

HM,Jr: Oh, no, right in my own shop.

B: Oh, well, yes, he'd be all right.

HM,Jr: No, no , I mean in my own shop.

B: Oh, well, he'd be all right.

HM,Jr: I want some fellow that can work and take some -

B: I tell you what I'd do though, Henry -

HM,Jr: Yes

B: I think it's important for you to do this if there's

any way to do it and I think we could do it.

HM,Jr: Yes

B: I'd want to find out just whether he has been friendly and sympathetic with you.

HM,Jr: Well, that's - of course of the greatest importance.

B: Now that's - to my mind is of paramount importance.

HM,Jr: Well, I -

B: You can find plenty of men of ability if you search -

HM,Jr: Yes

B: But you often times may get a man who - who is not striking on the same notes you are - who is - who will blow a discord on you.

HM,Jr: Well, haven't you got channels of finding that out without - ?

B: Yes, I could do that for you if you wanted me to.

HM,Jr: All right - I would.

B: I'll be glad to do it.

HM,Jr: Now Chip suggested James D. Robertson or Robert Strickland.

B: Well -

HM,Jr: But this other - Clyde Williams came through our own banking people.

B: Well, now, my own advice to you, and I say this reluctantly -

HM,Jr: Yes

B: Because, personally I've had twenty odd years of rather - very friendly relationship with Chip -

HM,Jr: Yes

B: But I would not want, under these circumstances under the situation that has grown up - I wouldn't want to have Chip naming anybody.

HM,Jr: Yes

B: Now, that's my own feeling.

HM,Jr: Yes

B: Now, Bob Strickland is a good banker -

HM,Jr: Yes

B: He's been right successful down there -

HM,Jr: Yes

B: - built up a good reputation as a banker and Jim Robertson is a very fine fellow and he is a fairly good banker.

HM,Jr: Yes

B: He'd do all right in your Administration, Jim Robertson would, and he's a friend of - in a way, as far as those fellows go - he's been very friendly with the Major and the crowd that supported Roosevelt -

HM,Jr: I see

B: But he - we - we haven't known in recent months but what he was rather quietly playing with Talmadge but - just like Clay did -

HM,Jr: Yes

B: We haven't known but they apparently attracted suspicions - there was a fraud when I was down there about a month or two ago -

HM,Jr: Yes

B: Now, if - if Clyde Williams - he may not have taken any interest at all, but you'd like to know that he hasn't been joining the Liberty League or something like that. That's what the crowd of those bankers down there have been furthering - the Liberty League down there.

HM,Jr: I get you. Now, look, could you - do you want to use the telephone through the Treasury switchboard so that we can officially pay for the calls - you want to call up a couple of people about Clyde Williams?

B: You want it done right away?

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HM,Jr: Yes, I do.

B: Yes, I do.

HM,Jr: Well, I'll tell - you - I'll tell my operator, see? If you call District 2626 -

B: District 2626?

HM,Jr: - you'll get the operator that handles my calls -

B: Yes

HM,Jr: And I'll tell her that you're going to put through some calls to Atlanta and that they're official.

B: Yes

HM,Jr: And so - the Treasury will pay for them.

B: That's right.

HM,Jr: And I wish that if you have a little time that you would call -

B: I'll do it right away, Henry.

HM,Jr: And if you'll call District 2626 then my own operator - I have one operator who handles my calls, you see?

B: Yes

HM,Jr: She'll handle it and if you let me know -

B: All right, I'll do it right away.

HM,Jr: And - I - I know that - I feel confident in asking you that you're going to do something first that is good for Roosevelt and second that's good as an American citizen.

B: I'll do my best -

HM,Jr: And -

B: - and meet both tests.

HM,Jr: Right, Sir.

B: All right, Henry.

HM,Jr: Thank you

B: Goodbye.

A group met in the office of the Secretary of the Treasury at 11:30 A.M. to discuss Treasury bills. Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,
T. Jefferson Coolidge, Under Secretary of the Treasury,
George Harrison, Governor, Federal Reserve Bank of New York,
D.W. Bell, Assistant to the Secretary,
Geo. C. Haas, Bureau of Research and Statistics,
C.B. Upham, Assistant to the Secretary.

Mr. Coolidge said that he thought it would be bad psychology to ask for new money now by increasing the weekly bill offering. He thought there might be engendered a feeling that the Treasury is more fearful than it was two weeks ago. If the processing tax is completely invalidated by a decision of the Supreme Court next Monday that might be a good excuse for increasing bill maturities. Generally speaking, Mr. Coolidge thinks the time to sell bills is when the balance has been drawn down to around \$1 billion. If the Treasury sells bonds in February no new money from bills will be needed until March or April.

Mr. Bell said that he had been counting on needing about \$700 million new money to run the Treasury until July. Now that the processing tax is out we will probably need \$300 million additional to take care of that. This does not include impounded funds, about which there is still some uncertainty as to whether they will be paid back or come to the Treasury. This means that we will need \$1 billion or \$1,100,000,000 to run us up to July.

Mr. Morgenthau said that he is inclined to sit tight this week and not increase bill maturities. We can meet next Wednesday

and decide. It might be that the public would misinterpret and magnify unduly action at this time.

Mr. Coolidge said that increasing bill maturities now might have an adverse affect on bonds to be issued in February.

Mr. Harrison said the public might think that the Treasury knows something not known to them and that it might for that reason have an unfavorable effect to increase bill maturities now, otherwise he thought not.

January 8, 1938

Mr. Coolidge, Mr. Lochhead, Mr. Oliphant and Mr. Haas met with the Secretary today to discuss a cable received from Shanghai, dated January 8, as follows:

PARAPHRASE OF MESSAGE FROM AMERICAN
CONSULATE GENERAL

According to a reliable source Sir Frederick Leith-Ross has advised the Chinese Government to abandon the existing standard of eight eighty for silver coins and to substitute therefor an alloy used in Great Britain which is reported to be 500 silver, 400 nickel, 50 zinc and 50 copper. Telegraphic inquiry has been made of London by Leith-Ross whether there can be supplied promptly blanks for fifty-cent and one-dollar pieces. From Philadelphia dies have been or are about to be ordered. To have coins that will not meet melting point unless the world price of silver reaches approximately one point twenty-nine United States currency is the objective in view.

The purpose is to reduce the amount of silver in the yuan by one-third. China is putting at present about 30 cents worth of silver, based on \$1.29 an ounce, into the yuan.

HM, Jr. told the group the Chinese Ambassador was coming in to see him today and that he was going to listen to what the Ambassador had to say, but "I will say to him that if the tendency in China is to reduce the use of silver in China, I cannot help but say that I look upon this unfavorably."

The Mint has received an inquiry from the Chinese Embassy regarding some die work to be handled by the Philadelphia Mint. Archie Lochhead brought out the fact that although they had asked us regarding the dies, they had sent the inquiry regarding the blanks to Great Britain and he did not think we should handle the dies alone without knowing where they were actually going to get the silver to make the blanks.

HM, Jr. said he thought the Chinese ought to buy the blanks from us instead of giving the business to someone else; in other words, they should let us make the blanks for them. He asked the group to think about it because he wants to know

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whether it is worth our while to take on this business. He also said that the Chinese have some of their money on deposit with us. "Suppose they want to use some of their money to pay for the blanks. What will we do then,"

Miss O'Reilly, who had been called in after the meeting began, reported that China has its own plant and that we sent them modern machinery to set up this plant and that they are in a position to manufacture about 3,000,000 ounces a day into coins.

* * * *

Ambassador Sze came in. Lochhead was present. The Ambassador said, "I got a message from Kung that they have now delivered all of the silver. The last delivery was made on Monday. Kung asked me to ask you whether you want to consider any more."

HM, Jr. replied, "As to your monetary program, I am completely in the dark. What Professor Buck sends me is useless." The Ambassador asked what Mr. Morgenthau would like to have and HM, Jr. said, "I don't know a thing. We got a cable from Shanghai stating that Leith-Ross has recommended that you mint some new coins and they are going to ask us for the dies and get the blanks somewhere else. We got this information unofficially, not through Buck nor through you. I do not know what your program is."

The Ambassador then said, "What you want to know then is what our program will be," and HM, Jr. replied, "I am not getting any information through Buck that is worth anything." Mr. Sze said, "Perhaps you could tell Buck what you want."

HM, Jr. told the Ambassador, "I know more what is going on in India, where we have no agreement, than in China. In the last month it is evident to everybody that we have changed our buying program. We think what we have done should have been a great help to China, because, according to the information I have gotten, up to that time Japan was paying a great premium for silver. They were exporting it. Now we have dropped the price to where we are paying 50 cents and I think the country it has helped the most is China. It ought to stop the Japanese from smuggling."

Continuing, he told the Ambassador, "You are going to

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have over here 32 or 33 million dollars and up to date you have not used any of it. The thing I want to know -- if I am to be at all helpful to China and this is the only place you are going to get any help without any strings attached -- is what are your problems. Our Senators' attitude on silver has changed since last summer. The feeling towards China is one of friendship. It can be cultivated, but if our two countries are going to talk about money and finance, I cannot be left completely in the dark. The way I look at it is this: I want to see China succeed in its monetary policy. I want to do everything I can to help her. I think it is good for China and good for us. If I am to be of any help, I cannot be left here sitting completely in the dark. What has Leith-Ross done for China? And here he is making all these recommendations! All he gives you is lip service. He doesn't help you. Every time I could, I stretched a point to help your country and have asked nothing in return. The one thing that can pull your country out is stable money."

The Ambassador agreed with Mr. Morgenthau.

HM, Jr. said, "I have been telling everybody that for three months Chinese money has not varied 1%; that they have withstood all the raids that Japan has made on it. I have been telling everybody that you are coming through this crisis. Why should I have to get from another source what Leith-Ross is recommending? At least 70,000,000 ounces of silver have been smuggled out of China to Japan. Why didn't we know this sooner?"

Mr. Morgenthau then asked Ambassador Sze: "Have you been able to get together with the R.F.C. and the F.C.A.?" To which Mr. Sze replied, "Oh! Oh! I have been in a terrible jam! Oh! I wanted to come to you for help, but I knew the Mexicans were here and you were so busy, I decided not to, but this is just what happened."

"On November 19 we sent a communication to the State Department. I handed a copy to Governor Myers and Jesse Jones. What Kung wanted was to avoid a default. On December 19 I got a reply that there would be two tentative schedules which would be operative if China showed good will toward American creditors. There are two loans of \$5,000,000 which were in default. One was the Pacific Development Company and the other is the Chicago-Continental Trust Company. Kung asked me to ask the Chicago Bank to send a representative

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to China. We asked the State Department and they said it is not practical. I heard nothing again from them until on December 30, I telephoned and told them that tomorrow \$3,000,000 is due the Farm Credit Administration. What are we going to do? The Farm Credit Administration asked us to pay \$250,000 principal and \$136,000 interest. The State Department answered that they did not know what to advise us."

"I cabled to Kung and told him not to depend upon getting a definite answer from the State Department. Kung cabled the Chase and said, 'Pay the Federal Reserve Bank \$250,000 principal and \$136,000 interest. If the Federal Reserve refuses to accept it, pay on December 30 \$3,000,000 out of the Central Bank of China's account with Chase.' At ten minutes to twelve on December 31 the State Department said it is O.K. to pay the \$250,000 plus interest. I then telephoned the Chase and told them that by paying \$250,000 principal and \$136,000 interest it will not be permitted to be a default. I asked the State Department what that means and they told me that the decision rests with the Farm Credit Administration. I called up Governor Myers. He said he would take the responsibility. But in the meantime Kung had cabled to the Chase that if the \$250,000 plus interest was not acceptable, that they should charge the Central Bank of China's account with \$3,000,000 which is on deposit with Chase. We had to pay the \$3,000,000 because we wanted to avoid the default, but this could have been avoided if the embassy here in Washington had received definite word from the State Department on December 30, because then Kung would not have cabled directly to the Chase."

HM, Jr. told Ambassador Sze, "I am sorry that you did not call me. However, now that is over." The Ambassador said, "There is another \$3,000,000 coming due to Farm Credit Administration in December, 1936, and there is \$2,000,000 due the R.F.C. the first of June and another \$10,000,000 on December 1, 1936. R.F.C. says as long as we pay the interest they are satisfied. We are in hot water and want to know whether you can help us." HM, Jr. replied, "Let me think it over."

Mr. Morgenthau said to the Ambassador, "I want you to drop a hint. Before I do anything more about buying any silver, I would like to be able to talk directly with Kung

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or Soong. I just want you to hint to them." The Ambassador told Mr. Morgenthau that the State Department is against Soong coming, and HM, Jr. said, "I will take care of that. I will talk to the President. What Soong should do is to come over on the pretense of trying to straighten out the R.F.C. and FCA loans. Then, again, perhaps you had better wait until I talk to the President. If Soong comes, will he be able to talk for Canton or would he have to bring someone with him? The Ambassador said, "The fewer that come, the less explanations are necessary."

Mr. Morgenthau then said, "There is no use talking about anything more until I know face to face what they want and what their situation is."

The Ambassador said, "Can you help me? When I go to the State Department it is such a long, tedious process. I was put in an awful jam."

HM, Jr. then made the following suggestion to Ambassador Sze: I think it would be nicer if this money which the Chinese have on deposit here with the Chase and the National City would be deposited with the Federal Reserve Bank. England and France have this arrangement and I think it will add to the prestige of China if you would do this. In connection with that would come up the recognition of your Central Bank. The Federal Reserve would act for you as your agent. I am not laying any stress on this. It is of no importance to me, but towards your Government and ours it would be better for you."

Ambassador Sze said that if the President gave his approval to Mr. Morgenthau's suggestion that Soong come to the United States, "I suggest you talk to Mr. Hull about it and not let it go through a divisional head," to which HM, Jr. replied, "I will have the President talk to Hull about it."

January 8, 1938

At the 9:30 group meeting this morning, HM, Jr. called up Speaker Byrns and talked to his secretary because Mr. Byrns had not come in. He told the secretary that Congressman Somers is coming in at ten o'clock this morning to see him about Treadway's resolution on gold and that he understood that Speaker Byrns wanted him to stall on it. He asked the Speaker's secretary to get in touch with the Speaker and have him let HM, Jr. know before Somers' arrival what he really wanted HM, Jr. to do with Somers.

HM, Jr. asked for a statement that he could give the newspaper men tomorrow showing that the sale of Baby Bonds had passed the \$200,000,000 mark.

The Secretary also told the group that Father Coughlin came in to see him yesterday and spent about three-quarters of an hour with him. He said that Father Coughlin was very friendly to the Treasury and had told the Secretary that the only thing good in the New Deal is the monetary policy.

Mr. McReynolds brought up the question of the 3,000 people who are on the Internal Revenue payroll and who are collecting processing taxes for the AAA. He said that Internal Revenue had prepared wires to the field to put these employees on a furlough without pay status, but he had asked them to hold up these instructions until he could have a talk with the Comptroller General, which he hopes to do today. He will ask the Comptroller whether ^{the} funds are available for the payment of administrative expenses. HM, Jr. asked McReynolds definitely not to make any decision unless he was consulted and that he wanted to be kept posted from day to day.

Haas said he did not think the report on the tax study should be made available to Shoup because we could not give it to him exclusively and not furnish it to others. HM, Jr. asked Haas to give him a written report stating the reasons why, etc.

Gaston said that Saul Haas called him yesterday from Seattle, Washington, and said that several of the owners of the Scripps paper are being penalized on some income tax matter and asked for some assistance. Mr. Morgenthau told

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Gaston to talk to McReynolds about it. He referred him to McReynolds because there is no Assistant Secretary in charge of Internal Revenue.

After the 9:30 meeting broke up, Bell stayed on and reported that General Hines and Breining arrived at the White House at ten minutes of five and the President had completely forgotten the meeting. He said Breining told him that Hines went in and said to the President, "I don't see Bell. Don't you think we ought to have him?" and the President replied, "No. I have been running him ragged and this conference does not mean anything. All they want is a commitment from me and I am not going to give them anything." Later on, it was reported to Bell, Senator Harrison and Senator Robinson came in. Pat Harrison was peeved about something and is not satisfied with the way things are going. Robinson said that a lot of his supporters were asking what the President's attitude on the Bonus question. The President told him that he was not going to commit himself and that he had to wait until the bill was before him before he would make up his mind.

Bell said there was a little discussion about bonds. Harrison thought the bond would "go" and he would put it across if the Administration wanted it. The President said that the bonds would have to be non-transferable. They could not get the President pinned down very much and that ended the meeting.

According to Bell, the President is getting many of the people on the Hill very sore. HM, Jr. said, "Well, I really do not believe that the President knows in his own mind what he is going to do." Bell then asked whether HM, Jr. thought that the Bonus Bill would be passed over the President's veto and HM, Jr. replied that the President's veto message on the bonus was so strong that he could not vote for the Bonus Bill now. "What possible excuse could the President have for changing?", asked Mr. Morgenthau. "I think I know the President pretty well and the time has not come -- it may never come -- but when the right time does come I will try to do something on the Bonus, but I cannot do anything at this time"

January 9, 1938

Boake Carter, last night, again referred to the Treasury in his broadcast, the subject this time being the recently announced agreement with Mexico on silver purchases. Gaston's recommendation was that since Carter's remarks were merely editorial comment on the facts, he, Gaston, did not see any occasion for paying any attention to it. Excerpt from Carter's broadcast is attached. (See Exhibit I.)

At the press conference today, the newspaper men referred to last night's broadcast and attached is excerpt from the transcript giving the questions and answers about it. (See Exhibit II.)

BOAKE CARTER

1/8/36

Page #7

MORGANTHAU

In the excitement of major events of the last few days, things more obscure, but of importance just the same, have slipped by with little or no notice. Thus we note with interest that Treasury Secretary Morgenthau has another secret. Previously it was a matter of secrets dealing with coast guard changes - which, by the way, have not altogether settled themselves as yet. This time, however, it deals with that question over which he has been most secretive all along - the matter of silver. Recently the silver market in London floundered. Consternation reigned in Mexico and China. It developed that the Treasury had changed its policy of procedure on silver purchases. But though the money world became much put out - and many asked why - the Treasury chief vouchsafed no reply, no answer, no explanations as to the whys and wherefores of the changes. The citizens eventually will have to pay for the silver experiment - but no explanation has been given them as to what it's all about or why. But now, a new development has occurred in silver - the announcement of which was all but lost in the hullabaloo over the Supreme Court's AAA ruling, and the getting under way of the Morgan war financing investigation. The development appears to be that a silver agreement of some sort has been agreed upon between Mexico and the United States. What the agreement is all about - no one knows. And seemingly no one will know - for the Treasury Chief observed that he saw no benefit to reveal publicly what the agreement was all about. And moreover, he revealed that Mexico was not the only one country with which agreements on silver had been made - but likewise the agreements, all about them, and with whom they

BOAKE CARTER

1/8/36 Page #8

are, are not for public consumption or consideration, either - even though, in the long run, the public pays the piper gets the benefit or takes the rap - whichever way circumstances turn out. Thus one wonders what it is about these silver agreements to which the United States is committing itself with other nations, that must be hidden away in the closet? Is the treasury chief afraid that there may be some skeleton in the closet? Why is it that they must be hidden from congress and from the United States at large? It is one of the sad things in the conduct of affairs of nations by statesmen that sometimes commitments are made without the spotlight of public examination. All too often, as history for 500 years has proven, peoples of nations have suddenly wakened to find themselves linked to something they knew nothing about and might never have sanctioned had they been let in on the secrets in the first place.

Q. Did you hear Boake Carter last night, Mr. Secretary?

A. Did I hear him?

Q. Boake Carter said something about the secret treaty.

A. With who?

Q. Mexico.

A. No, I happened to be listening to a man named Roosevelt last night and enjoyed it very much -- I was at the Jackson dinner.

Q. How's the Philco tax case? I don't suppose that had anything to do with it?

A. Well, off the Record, if Mr. Boake Carter would learn from newspaper ethics, I think he might be -- it seems to me that the first requirement of a good reporter as I have learned from you fellows, is to try to check up from the original source, and, if you can't get it, go ahead but at least you can go to the source and find out if the story is right or wrong before printing it but he doesn't seem to think it necessary or important or ethical to check first.

Q. His own idea?

A. His own ethics. That's off the record. I can't worry very much about him. I'll say this that the Columbia Broadcasting System gets very much disturbed at him.

JAN 9 1936

My dear Mr. President:

I have the honor to refer to your letter of December 1, 1935, requesting me to designate someone from this Department to consult with representatives of the Tennessee Valley Authority and the Department of Justice concerning the difference of opinion between the Comptroller General and the Board of Directors of the Tennessee Valley Authority as to the nature of the audit to be performed by the Comptroller General and the extent of his authority over their expenditures, and to report my conclusions to you.

In accordance with your wishes, representatives of this Department conferred with those of the Department of Justice and I am now informed that the Attorney General has advised you that he has given the matter consideration and is prepared to present his views to you in person at your convenience. Under the circumstances, and in the absence of further instructions from you, I shall assume that I may consider the matter closed.

Respectfully,

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

The President,

The White House.

THE WHITE HOUSE
WASHINGTON

Warm Springs, Georgia
December 1, 1935

My dear Mr. Secretary:

You may know that there exists a difference of opinion between the Comptroller General and the Board of Directors of the Tennessee Valley Authority concerning the nature of the audit to be performed by the Comptroller General and the extent of his authority over their expenditures.

The Tennessee Valley Authority was organized by Congress, at my suggestion, with the essential independence and flexibility of action of a private corporation. A freedom of decision in administrative matters is essential to such a corporation. The Comptroller General was given the authority to audit the books of the Corporation and to report to Congress and to me any transactions which he might consider to be contrary to law. This is entirely proper and indeed is welcomed by the Authority itself. The Comptroller General however is seeking to go beyond this and to limit the actions of the Authority by his usual method of adjustment and settlement of accounts.

I wish to discuss this situation with the Authority, but when doing so I would appreciate your opinion and that of the Attorney General with reference to what action, if any, may be proper under the circumstances. I would suggest, therefore, that you designate someone from your Department to consult with representatives of the Tennessee Valley Authority and the Department of Justice and that you report your conclusions to me early in December.

Very sincerely yours,



The Honorable,
The Secretary of the Treasury,
Washington, D. C.

January 9, 1936

This is word for word what Father Coughlin told me when he came in to the office on Tuesday, January 7. Unquestionably Father Coughlin and Senator Thomas are working together.

WALL STREET JOURNAL
1-9-36

Thomas To Offer Bonus Payment Plan Today; Would Use Surplus Gold and Silver Stocks

The use of surplus silver and gold monetary stocks in the country to pay the soldiers' bonus will be proposed by Senator Elmer Thomas (Dem., Okla.) in an amendment to the bonus bill which he will present to the Senate at noon today.

The Senator, who was in New York yesterday, told The Wall Street Journal that his amendment will contain an alternative method of payment by means of the issue of non-interest bearing non-transferable bonds to be deposited with the 12 Federal Reserve Banks.

According to Senator Thomas, roughly \$2,000,000,000 will be required to pay the bonus, for which there is now available the sum of \$250,000,000 in the sinking fund created to retire the adjusted service certificates.

Gold and Silver Reserves

Under his first alternative, the Senator proposes to issue currency against gold and silver reserves which are now held in excess of currency requirements. As compared with a circulation of \$6,000,000,000, the Senator pointed out, the gold and silver stocks amount to \$12,000,000,000.

As a result of the Silver Purchase Program, the United States now has surplus silver stocks of \$700,000,000 against which currency of that

amount could be issued. This, together with the sinking fund, would provide roughly one-half of the amount required. The balance would be obtained by issue of \$1,000,000,000 of currency against a portion of the surplus gold stocks.

Non-Interest Bearing Bonds

If the issue of currency is rejected, Senator Thomas would then rely upon the second feature of his amendment, payment by a bond issue. He would propose the issue of \$2,000,000,000 which would be deposited at the 12 Federal Reserve Banks in proportion to the amount of the bonus to be paid in each Federal Reserve Bank District.

The proposed bonds would bear no interest nor could they be transferred. Against them, the Reserve Banks would give the Treasury a deposit credit. The bonus would be paid by checks drawn against this account.

Bonds would have a life of 20 years. Retirement would be effected through an annual sinking fund of \$100,000,000 for 20 years. By making the bonds non-interest bearing, the amendment would make the plan a non-profit one but to reimburse the Reserve Banks for incidental expenses, a service charge would be allowed which Senator Thomas maintains should be a small fraction of 1%.

January 9, 1936

I told Lochhead at 11:30 that on the silver he bought in London today he was not to buy any Sterling to pay for the silver as I thought Sterling was too high. I believe if we wait until tomorrow we can buy our Sterling cheaper.

* * * * *

Oliphant, Gaston, Coolidge, Haas, Upham, McReynolds and Bell got together in the Secretary's office to discuss the joint resolution making appropriations to enable the Secretary of Agriculture to meet commitments and obligations, including administrative expenses incurred under the provisions of the AAA. A copy of this resolution is attached hereto.

Mr. McReynolds read the letter which he prepared to Comptroller McCarl asking whether administrative expenses might be continued to be paid out of available appropriations since the entire AAA was not declared to be unconstitutional and certain functions of the Act were not affected by the Supreme Court decision. A copy of this letter is attached.

HM, Jr. read the attached draft of a proposed statute from Mastin G. White, Solicitor of the Department of Agriculture, under the provisions of which the agricultural situation in 1936 would be taken care of, pending the adoption of a permanent agricultural plan. Copy of this is also attached.

HO made the suggestion that no new legislation be drafted until a study could be made of a plan for raising revenue which might be made retroactive. The retroactive feature would take care of what the Treasury has received and spent in processing taxes. Mr. Morgenthau said the only thing of immediate urgency is the Internal Revenue payroll.

Mr. Morgenthau asked Mr. Oliphant to be sure, as a matter of courtesy, to show the Attorney General a draft of the legislation that is being drawn.

H.J.RES. _____

JOINT RESOLUTION

Making appropriations to enable the Secretary of Agriculture to meet commitments and obligations, including administrative expenses, incurred under the provisions of the Agricultural Adjustment Act, as amended, and for other purposes.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That there is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, the sum of \$236, to remain available until expended, to enable the Secretary of Agriculture to meet all obligations and commitments (including salaries and administrative expenses) heretofore or hereafter incurred under the provisions of the Agricultural Adjustment Act, as amended, together with funds heretofore allocated to other agencies under the provisions of section 12(c) of the Agricultural Adjustment Act, as amended, and section 601 of the Economy Act, and funds heretofore established by direction of the Secretary of Agriculture, with the approval of the President, under the provisions of section 15(f) of the Agricultural Adjustment Act, as amended. The expenditures authorized by this Joint Resolution shall include, but shall not be limited to, rental and benefit payments, removal of surplus agricultural commodities and the products thereof, expenditures for rent and personal services in the District of Columbia and elsewhere, stenographic-reporting services, supplies and equipment, purchase and exchange of law books, books of reference, directories, periodicals, newspaper and press clippings, traveling expenses, print-

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ing and binding, in addition to allotments under existing law, and such other expenses as may be necessary for the accomplishment of the objectives of this Joint Resolution: Provided, That no part of the sum appropriated or the funds made available by this Joint Resolution shall be used for rental or benefit payments in connection with adjustment contracts entered into on or after January 6, 1936, or for any refunds of amounts collected under the Agricultural Adjustment Act, as amended.

SEC. 2. The Secretary of Agriculture shall transfer to the Treasury Department, and is authorized to transfer to other bureaus and offices within the Department of Agriculture and to other agencies, State and Federal, out of the sum appropriated or the funds made available under this Joint Resolution, such sums as are required to pay salaries and other administrative expenses heretofore or hereafter incurred by such department, bureau and offices of the Department of Agriculture, and other agencies, in carrying out the provisions of the Agricultural Adjustment Act, as amended, or of this Joint Resolution.

SEC. 3. The action of any officer, employee, or agent in determining the amount of and in making any payment under this Joint Resolution shall not be subject to review by any officer of the Government other than the Secretary of Agriculture or the Secretary of the Treasury.

JAN 9 1936

The Honorable

The Comptroller General of the United States.

Sir:

The Supreme Court has recently held in the case of United States v. Butler, that certain provisions of the Agricultural Adjustment Act of May 12, 1933, conflict with the Constitution. This Department is consequently bound to make its action conform to that opinion. Pending your decision in the matter, the Department has discontinued making payments of salaries and administrative expenses incurred in carrying out the Agricultural Adjustment Act. The question has arisen whether the appropriation 3X017 "Salaries and Expenses, Agricultural Adjustment Administration", and other funds heretofore available, may now be used for such purposes, and your opinion upon this question is respectfully requested.

The Department is aware of your decision (A-61873, 14 Comp. Gen. 846), with respect to the payment of salaries of members and employees of the Railroad Retirement Board, and administration expenses in liquidating the affairs of the Board, after the decision of the Supreme Court, in the case of The Alton Railroad v. The Railroad Retirement Board, decided May 6, 1935. It is believed, however, that your decision on that situation may be readily distinguished from the situation growing out of the Supreme Court case of United States v. Butler. In your decision it was pointed out that the Supreme Court in the Railroad Retirement Act case had affirmed the decree of the Supreme Court of the District of Columbia, which had held the Railroad Retirement Act unconstitutional in its entirety. The following language was quoted from the decree so affirmed:

"It is further considered, adjudged, and decreed that the Railroad Retirement Act and each and every provision thereof, is void and of no effect."

It was concluded then that the Railroad Retirement Board and its employees had no lawful existence as such, and that there was no authority for payment from the fund there in question of any salaries of the members and employees of the Board, or any administrative expenses in terminating the

affairs of the Board.

The Supreme Court in the case of United States v. Butler, however, limited its consideration to the question of rental or benefit payments and the processing taxes raised to make such payments. The Court did not consider such provisions as those relating to marketing agreements, licenses, orders, the removal of surplus agricultural commodities, the encouraging of the exportation of agricultural commodities and products, or the provisions relating to the Philippine Islands and Puerto Rico. The Agricultural Adjustment Act contains the usual separability clause and it is our opinion that the application of this clause requires a conclusion that these provisions are separable from those held invalid by the Supreme Court. That Congress was aware of the possibility of the invalidity of the taxes imposed by the Act and assumed that other provisions would still be applicable is evident from the provisions of section 21(d) which make express provision in that event.

There is, therefore, a sound basis for holding that the Agricultural Adjustment Administration, established by the Agricultural Adjustment Act, and its employees, have a lawful existence as such, unlike the Railroad Retirement Board and its members and employees, and that the Agricultural Adjustment Administration has authority to carry on functions which are not affected by the above-mentioned decision of the Supreme Court. The same reasoning is equally applicable in the case of employees of other departments engaged in administering provisions of the Act. For example, there are now pending in the Bureau of Internal Revenue of this Department many claims for refunds under section 21(d) of the Act, as amended.

A somewhat comparable situation was presented by that considered in your decision rendered June 8, 1935 (A-82441, 14 Comp. Gen. 878) in connection with the availability of funds appropriated by the Emergency Appropriation Act, fiscal year 1935, approved June 19, 1934, for administering and enforcing the provisions of section 9(c) of the National Industrial Recovery Act. This appropriation was available for the administrative expense of the Petroleum Administrative Board, the Petroleum Labor Policy Board, and the Oil Enforcement Section, Division of Investigations, which were established under section 2(a) of Title I of the National Industrial Recovery Act, to administer and enforce section 9(c) of said Title and Act, and the Code of Fair Competition for the Petroleum Industry, and subsequently aided in carrying out the provisions of the Connally Oil Act of February 22, 1935. While the Supreme Court, by its decision of January 7, 1935, and its decision of May 27, 1935, held unconstitutional section 9(c), and the Code of Fair Competition for the Petroleum Industry, nevertheless your decision indicates that the appropriation for administrative expenses of the above-mentioned agencies was still available for

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that purpose, even after the decisions of the Supreme Court had been rendered. It must be assumed that the reasons for this result were that these agencies continued in existence, despite the fact that the Supreme Court had declared invalid some of the provisions which these units were established to enforce. The same situation exists with respect to the Agricultural Adjustment Administration. Although some of the functions performed by that Administration have been declared unconstitutional, nevertheless other functions remain to be carried on by that agency which are unaffected by the decision in the Batler case, and it must likewise be deemed that appropriations available for administrative expenses under the Agricultural Adjustment Act remain available after the decision in that case.

Payments have likewise been temporarily discontinued from the fund 37030.198 "Miscellaneous Contributed Funds, Department of Agriculture (Special Tax-Exemption Certificate Pool)." This fund resulted from the sale of surplus cotton tax-exemption certificates surrendered to a Special Pool organized under Section 58 of the 1935 Regulations prescribed under the Cotton Control Act of April 21, 1934. This Special Pool is based on trust agreements entered into between the producer surrendering the certificates and the Manager of the Pool, and they provide that the Manager shall endeavor to sell to other producers the poundage represented by the certificates surrendered, shall collect the proceeds derived from the sale of such certificates, and shall deposit such proceeds in the Treasury to the credit of those producers participating in the surrender of the certificates. It is further agreed in the trust agreement that following the deduction of administrative expenses, producers participating in the Special Pool will share proportionately in the total net proceeds derived from the sale of such surplus certificates. It is thus apparent that the amounts in the fund under consideration constitute a trust fund and are not to be considered in the same manner as rental and benefit payments under the Agricultural Adjustment Act. Your opinion is respectfully requested whether checks may properly be issued against the fund in question in satisfaction of all trust agreements.

It is respectfully requested that prompt consideration be given to the inquiries referred to you and your prompt decision in the matter will be greatly appreciated.

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

H.J.RES. _____

JOINT RESOLUTION

Making appropriations to enable the Secretary of Agriculture to meet commitments and obligations, including administrative expenses, incurred under the provisions of the Agricultural Adjustment Act, as amended, and for other purposes.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That there is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, the sum of \$ _____, to remain available until expended, to enable the Secretary of Agriculture to meet all obligations and commitments (including salaries and administrative expenses) heretofore or hereafter incurred under the provisions of the Agricultural Adjustment Act, as amended, together with funds heretofore allocated to other agencies under the provisions of section 12(e) of the Agricultural Adjustment Act, as amended, and section 601 of the Economy Act, and funds heretofore established by direction of the Secretary of Agriculture, with the approval of the President, under the provisions of section 15(f) of the Agricultural Adjustment Act, as amended, The expenditures authorized by this Joint Resolution shall include, but shall not be limited to, rental and benefit payments, removal of surplus agricultural commodities and the products thereof, expenditures for rent and personal services in the District of Columbia and elsewhere, stenographic-reporting services, supplies and equipment, purchase and exchange of law books, books of reference, directories, periodicals, newspaper and press clippings, traveling expenses, print-

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ing and binding, in addition to allotments under existing law, and such other expenses as may be necessary for the accomplishment of the objectives of this Joint Resolution: Provided, That no part of the sum appropriated or the funds made available by this Joint Resolution shall be used for rental or benefit payments in connection with adjustment contracts entered into on or after January 6, 1936, or for any refunds of amounts collected under the Agricultural Adjustment Act, as amended.

SEC. 2. The Secretary of Agriculture shall transfer to the Treasury Department, and is authorized to transfer to other bureaus and offices within the Department of Agriculture and to other agencies, State and Federal, out of the sum appropriated or the funds made available under this Joint Resolution, such sums as are required to pay salaries and other administrative expenses heretofore or hereafter incurred by such department, bureau and offices of the Department of Agriculture, and other agencies, in carrying out the provisions of the Agricultural Adjustment Act, as amended, or of this Joint Resolution.

SEC. 3. The action of any officer, employee, or agent in determining the amount of and in making any payment under this Joint Resolution shall not be subject to review by any officer of the Government other than the Secretary of Agriculture or the Secretary of the Treasury.

An Act

For the benefit of agriculture, and for other purposes.

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

That there is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of _____ dollars to enable the Secretary of Agriculture to carry out the provisions of this act, said sum to be available until expended.

Section 2. The money authorized to be appropriated by this act shall be available to the Secretary of Agriculture for the purpose of making grants to farmers who produce in the calendar year 1936 basic agricultural commodities for market. The grants to producers shall be in such amounts as the Secretary of Agriculture deems to be fair and reasonable and such as will tend to establish the average

net income per farmer in the same ratio to the average net income per person of the entire population that prevailed in the pre-war period, August 1909-July 1914, as determined by the Secretary of Agriculture from the available statistics of the United States Department of Agriculture and the United States Department of Commerce. The grant to each producer:

- (1) shall be upon that percentage of the amount of the basic agricultural commodities, or any of them, produced in 1936 by such farmer for market which equals the percentage of the total production of such commodity or commodities in 1936 that the Secretary of Agriculture estimates will be required for consumption in the United States; or
- (2) shall be upon the basis of the percentage of the cultivated land controlled by such producer that is planted in 1936 to permanent pasture grasses, legumes or other soil-building crops,

or that is devoted in 1936 to such other purposes as the Secretary of Agriculture may designate.

- Section 3. (a) Any grant made by the Secretary of Agriculture pursuant to the provisions of section 2 shall be conditioned upon the action of the producer to whom such grant is made: (1) in adjusting the acreage or the production for market of the basic agricultural commodity or commodities produced by him to the extent that may be determined by the Secretary of Agriculture, such adjustment to be above or below the acreage planted or the amount produced for market by the producer or upon the land during the base period or periods for such commodity or commodities; or
- (2) in devoting in 1936, in addition to the acreage already devoted to these purposes, such percentage of his cultivated land to permanent pasture grasses,

legumes or other soil-building crops, or other purposes, as may be designated by the Secretary of Agriculture; or

(3) in adjusting his farming operations in 1936 in accordance with the provisions of (1) and (2).

(b) The base period of each basic agricultural commodity is defined to be a period of years during which a representative number of acres was planted to such commodity, or a representative amount of such commodity was produced for market, as the case may be. With respect to each basic agricultural commodity, the Secretary of Agriculture may determine and announce a single base period for the United States, or he may determine separate base periods for the several States.

Section 4. Any producer desiring to obtain a grant pursuant to the provisions of this statute may make application therefor to the

Secretary of Agriculture during such period as the Secretary of Agriculture shall prescribe but not later than _____. If at the end of the production period of any basic agricultural commodity or commodities the Secretary of Agriculture determines that any producer making application therefor has fulfilled the conditions attached to the grant, the Secretary of Agriculture shall thereupon pay to such producer the amount of the grant.

Section 5. (a) In carrying out the provisions of this act, the Secretary of Agriculture is authorized to make expenditures for all necessary administrative expenses, which shall include, but shall not be limited to, expenditures for personal services and rent in the District of Columbia and elsewhere; purchase and exchange of law books, books of reference, directories, periodicals, newspapers, and press clippings; contract stenographic reporting services; printing and paper

in addition to allotments under any other law; purchase, operation and maintenance of motor-propelled passenger carrying vehicles. The Secretary of Agriculture is authorized to appoint and fix the compensation of economists, lawyers, agricultural experts, and other experts without regard to the provisions of the civil service laws or the Classification Act of 1923, as amended, but no salary in excess of \$10,000 per annum shall be paid to any such officer, employee, or expert. In carrying out the provisions of this act, the Secretary of Agriculture is authorized to utilize the services of the present employees of the Agricultural Adjustment Administration without regard to the civil service laws or regulations.

- (b) Funds made available for the administrative expenses authorized under this section shall

be available for transfer to other bureaus and offices of the Department of Agriculture and to such agencies of the Federal or State Governments as the Secretary of Agriculture may designate to cooperate with or assist in the administration of this act.

- (c) The action of the Secretary of Agriculture or of any agent of the Secretary of Agriculture in providing for, determining, or modifying the amount of, or making, any payment provided for under this act, or in determining or in modifying any conditions or requirements prerequisite to the making of any such payment, shall not be subject to review by any officer of the Government other than the Secretary of Agriculture.
- (d) The provisions of Section 3709 of the Revised Statutes (U.S.C., Title 41, Sec. 5) shall not

apply to any purchase made or service procured
in carrying out the provisions of this act where
the aggregate amount involved is \$300 or less.

Section 6. The Secretary of Agriculture is authorized to make such
rules and regulations as may be necessary in order to carry out the
powers vested in him by the provisions of this act.

Section 7. The provisions of this act shall be applicable to
the United States and its possessions, except the Virgin Islands,
American Samoa, the Canal Zone and the Island of Guam.

Section 8. No person shall, while acting in any official
capacity in the administration of this act, speculate directly or in-
directly in any agricultural commodity or product thereof to which this
act applies, or in any contracts relating thereto, or in the stock or
membership interests of any association or corporation engaged in
handling, processing or disposing of any such commodity or product.
Any person violating this section shall, upon conviction thereof, be
fined not more than \$10,000 or imprisoned not more than two years, or
both.

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Section 9. For the purposes of this act, the term "basic agricultural commodity" means, wheat, rye, flax, barley, cotton, field corn, grain sorghums, hogs, cattle, rice, potatoes, tobacco, or peanuts.

Section 10. This act may be cited as "The Agricultural Benefit Act of 1936".

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Wednesday, January 15, 1936.

Press Service
No. 6-70

To enable the Treasury Department to administer remaining functions within its jurisdiction under the Agricultural Adjustment Act, the Comptroller General today approved a warrant transferring to the Secretary of the Treasury funds from the appropriation of \$100,000,000 for administrative expenses of the Agricultural Adjustment Administration made to the Secretary of Agriculture by Section 12 of the Agricultural Adjustment Act.

The transfer of funds will permit the immediate payment of current salaries to the employees of the Bureau of Internal Revenue who have heretofore been engaged in collecting processing taxes.

In view of the precedent created by the Comptroller General's action, the Treasury Department is also releasing current payroll checks to the employees of the Agricultural Adjustment Administration.

January 9, 1936

Bell and Coolidge came in, before Mr. Bell and the Secretary went over to see the President, for an exchange of ideas on probable methods of paying the bonus.

Bell reported that he had been told that Byrns had a conference with the Legionnaire leaders and that they agreed to take bonds. He also said that, last night, Pat Harrison asked Major Breining to get in touch with the Treasury and draw up a bill giving the soldiers bonds. That's what Breining told Bell last night.

Bell said that in all the talks with the President, the latter had stressed non-transferrable bonds. He does not want a negotiable security. Bell went on to say that he believes the President has only heard the Legion side of the question and not ours.

Mr. Morgenthau said he thinks that the Baby Bond idea is good. He said, "The President is also talking about giving the veterans a bond which starts at par and has printed on the face of it a table showing how much it increases each year. That bond would not have coupons, but it would have the same provision as the Baby Bond and can be cashed only at the Treasury."

Then Bell said, "You would have to go out and raise the money." HM, Jr. said, "I know that from the President's standpoint you cannot sell him the idea of a coupon bond unless there is a provision that these fellows can get par for it any time from six months to a year. With that as a basis, you people are talking about a nine-year bond at not less than 3½ percent. Any time during the first six months to a year they can get 100 cents on the dollar."

HM, Jr. also told Coolidge and Bell that "The President, I know, has made two suggestions; that is, to have two forms. In sending the application to the boys, ask, on the one hand, whether they want a check, or whether they want a bond." He said, "I think we ought to arrange it so that the original holder of the bond can get par at any time."

* * * *

Bell and I called on the President. I told him that last night Senator Harrison, via the Veterans' Administration, had asked the Treasury to assist in drawing a bill, in the

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Treasury, which would include a method of financing the bonus through a bond issue. This is what Senator Harrison wants. Last night I refused to do this as I said we were too busy on AAA.

When I told this to the President his comment was, "Why ask me about it? I have nothing to do with the bonus bill."

We then described to the President the kind of bond which we thought would be best from the Treasury's standpoint -- a 9-year coupon bond which the Treasury would pay at par and through the life of the bond to the original holder. The President did not like this because, he said, it would get into the hands of the bankers if the bonds sold above par and would be known as "Bankers' Bonus." He said, "Father Coughlin would accuse me of that."

I then said, "Well, if you do not want the veterans to be able to sell it to the bank, then I am in favor of giving them a non-coupon bond which would show on the face of the bond accumulated interest each year up to the time the bond becomes due. The only difference between this bond and the Baby Bond is that the Baby Bond is a discount bond and the bond that I am suggesting starts at par and accumulates interest each year."

Bell did not like this at all, but the President did and that is the way the matter was left. He also told HM, Jr. that the Treasury should go ahead and let our technical people cooperate with the people on the Hill, but have it distinctly understood that we were simply giving them the technical assistance that they needed and in no way were we committing the Treasury or the Administration to anything.

✓
JAN 10 1936

Through the Bureau of the Budget
Through the Attorney General

My dear Mr. President:

There is transmitted herewith for your signature, if you approve, a proposed Proclamation extending for one additional year, from January 30, 1936, the two-year period within which the operations of the Stabilization Fund may be carried on, and certain powers conferred by Section 43 of the so-called Thomas Amendment may be exercised. The principal importance of the latter section is that it includes the power of the President to devalue the dollar.

The authority to extend the operation of these provisions for the further period mentioned in the Proclamation, is specifically granted in each case by the legislation itself (Gold Reserve Act, Section 10; Act of May 12, 1933, Title III, Section 43, as amended by Gold Reserve Act, Section 12).

Respectfully,

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

CVO:BJ 1/9/36

January 11, 1936

Secretary Hull called me at home this morning. He told me that after thinking it over, that he is afraid to have T. V. Soong come to this country. This is because he is such a well-known anti-Japanese. This may be the cause of a serious flare-up; that the Japanese resent the United States or England taking either a financial or commercial interest in China and that he, Hull, would rather postpone our doing anything at this time. However, he said, if I felt that this is a matter of major importance, he does not object to our suggesting that T. V. Soong come. He wanted me to repeat his objections to the President and if the President still feels that he wants Soong to come, he, Hull, will not object.

This, of course, is typical State Department philosophy -- "don't do anything that might offend anyone!" Hull has also put himself on record that if this mission fails, I will be the goat. However, I consider it so important as a part of our silver program that I am willing to take the risk involved. My policy in the Treasury is "Nothing ventured, nothing gained."

January 13, 1938

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Senator Harrison telephoned and asked Mr. Morgenthau to appear before the Senate Finance Committee tomorrow, January 14, at 10 o'clock in connection with the Bonus Bill. He said the meeting would be an Executive session.

Mr. Morgenthau then called Bell and Coolidge and had them come in. Bell says that the passage of this Bill will have a bad effect on the bond market.

In discussing with Bell and Coolidge what he would say at the Executive session, HM, Jr. thought he might say to the Senators, "If you pass the Bonus Bill without raising an equal amount of taxes to pay it, then the people will lose faith in the President's budget. The people are taking it for granted that you are going to raise the money for the bonus by taxes." Coolidge agreed with HM, Jr.

HM, Jr. also will say to the Senators, "You tell me what you are going to do with relief and what you are going to do with AAA and I will then be able to tell you what I think of the bonus."

In the course of the discussion with Coolidge and Bell, Mr. Morgenthau said he felt they would surely ask him how the paying of the bonus would affect our financing; that is, how it would affect the bond market. Coolidge replied that people generally are expecting it.

HM, Jr. called the President at 4:30 and told him that Bell had said that he believes, and General Hines agrees with him, that if anybody wanted to kill the bill, that the Committee would kill it. He also told the President that he was trying to get Pat Harrison on the telephone and after he had talked to him he would call the President at seven o'clock in the evening. The President told HM, Jr., but asked him not to repeat it to Bell, that in the last couple of years General Hines in his prophecies on what Congress would do or would not do on the bonus has usually been wrong and he would not take too seriously the fact that General Hines says that you can kill the bill in the Senate Finance Committee.

Monday
January 13, 1936.

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Senator

Harrison: Yes, sir, how are you, sir?

HM,Jr: Well, I'm still alive -

H: Henry, I had a meeting this afternoon - we've been trying to work around this - this thing that you know -

HM,Jr: Yes

H: - this bonus stuff. They're going to pass it anyhow -

HM,Jr: Yes

H: And so we're trying to get it in the best shape possible.

HM,Jr: Yes

H: This bill we've got the House is going to accept. Now, I've tried to get through this afternoon without any hearing. I thought it would be a good idea for somebody in the Treasury to sit here. And Bell was here -

HM,Jr: Yes

H: And of course they'd like a committee, don't you understand?

HM,Jr: Yes

H: and all that. But he handled himself very well -

HM,Jr: Good

H: And - I had Hines, and of course he expresses no opinions about those things - just gives the facts. Now the Committee, though - Bailey made a motion - they wanted to get your views on this thing with reference to how it would affect the bonding market and all that stuff. And they want you down here at ten o'clock in the morning.

HM,Jr: Yes

H: So you'd better talk to Bell to get his reaction because he was in there when everything had happened.

HM,Jr: He's been here for the last half hour.

H: Oh, he's been with you?

HM,Jr: Yes

H: Well, you know, I can't tell you anything then.

HM,Jr: Well, but I've got the idea, it's an awfully hard thing to answer.

H: Why of course it's a hard thing to answer -

HM,Jr: I mean -

H: It all depends on how many of these fellows cash in the bonds.

HM,Jr: Sure

H: I know one thing, these heads of these ex-service fellows -

HM,Jr: Yes

H: believe that they're so going to express themselves that why they're for this non-negotiable bond is because they think that it'll encourage these fellows to hold them.

HM,Jr: Yes

H: And the fact they're that fifty dollar denomination they'll spend one and save the others, and so forth.

HM,Jr: Yes

H: And so on. And they think that really these fellows won't cash them in like they would if they were going then

HM,Jr: Yes

H: But that's all problematical - all guess work.

HM,Jr: Well, I'll do the best I can - after all, I -

H: I know -

HM,Jr: I can't do much because if they're going to try to press me to find out how the Administration feels I just got to play -

H: You just tell them that you have no ideas - that the Administration has no opinion to express.

HM,Jr: That's right.

H: You see?

HM,Jr: That's all -

H: I've told them that all ready.

HM,Jr: Yes - Now, let me ask you something, it's Executive session, isn't it?

H: Yes

HM,Jr: Well, that's something.

H: Yes

HM,Jr: Well, I'll come up and do the best I can, Senator.

H: All right, and I just - that's just about the situation.
- at ten o'clock.

HM,Jr: I'll be there.

H: All right.

HM,Jr: Thank you.

January 13, 1938

HM, Jr. issued instructions today that hereafter all calls from the Hill are to be referred to Upham, unless the Congressman or Senator asks for someone in particular at the Treasury.

Chief Moran wants to give retirement pay, amounting to approximately \$2,000 a year, instead of the present \$1,200, to Secret Service operators who have served 30 years in the Government, 20 years of which must have been in enforcement work. McReynolds thinks the proposal is fair enough.

The Chief has asked if he could go up on the Hill and lobby for this legislation. HM, Jr., called Chief Moran to his office and told him that in order to keep our record on the Hill consistent, he does not want the Chief to contact the Hill personally; that he has no objection to his speaking to the President about it, and if the President O. K.'s the request for such legislation, the Treasury would draw up the bill and put it through in the regular routine. The Secretary also told the Chief that we have a section in the Treasury, under Mr. Oliphant and Mr. Hester, who represent us on the Hill and that we cannot let individuals do their own lobbying.

Chief Moran called the Secretary's attention to the fact that this bill was introduced last year in the Senate by Mr. Bulow, and HM, Jr. said he did not know about it.

Monday
January 13, 1935.

HM,Jr: Yes

J. K.

Ottley: Yes, sir, this is J. K. Ottley.

HM,Jr: How are you? Mr. Ottley, I'm calling up about your man, R. Clyde Williams -

O: Yes

HM,Jr: I wonder if it would be agreeable to you to let him come up to Washington to see me - I'd like to talk to him about the possibility of his getting a leave of absence from your bank to come with the Treasury, if that would be agreeable to you.

O: Well - would you mind - would you mind just talking to me a little about what you've got in your mind?

HM,Jr: Well -

O: It don't commit you to anything - in any manner shape or form, but - I mean, I just like to - in other words it might facilitate what you took - what you've got in mind.

HM,Jr: All right, I'll tell you in the strictest of confidence -

O: Yes

HM,Jr: If I may have your word -

O: Yes, sir

HM,Jr: All right, I mean, Mr. Coolidge is resigning on the first of February -

O: Yes

HM,Jr: And I'm looking for an Under Secretary and Clyde Williams has been very highly recommended to me as a man who knows banking from a professional standpoint and it is purely on his merits that I want him. At least I'd like to talk to him, I'd like to meet him and that's what I have in mind.

O: All right, now let me ask you one - could I ask you one question?

HM,Jr: You can ask me three -

O: Well - what is - how much - how much money would that pay?

HM,Jr: It pays ten thousand.

O: Well, suppose he made more money than that - ?

HM,Jr: Well -

O: And I don't know whether he'd - and - well, now - could - would you - I'm giving you, as far as I am concerned, I mean, I'm giving you my word -

HM,Jr: Yes

O: Now, would it be worth while, I mean - would it be in line if I talked with him?

HM,Jr: Yes, I'd like you to talk with him.

O: Yes

HM,Jr: And you can tell him that, but I'd appreciate it if you'd -

O: No - I mean yes, I mean, that's correct.

HM,Jr: Just keep it to the two of you.

O: Yes

HM,Jr: Because nobody knows that Mr. Coolidge is resigning.

O: Yes - Well, suppose - suppose I do this then, so far as I'm concerned, if he wants to get on the train and - I mean if he wanted to come up there and talk to you, why as far as I'm concerned, of course I'm quite willing for him to -

HM,Jr: Yes

O: I mean I'm just - think that much of the Government to be willing to extend that curtesy.

HM,Jr: I see.

O: - if he wants to come. What I thought was that it would get you somewhere, that is, he - he is the kind of man that if he was working for you he wouldn't do anything for me until he had talked to you and as long as he is working for me he ain't going to do anything until he talks to me.

HM,Jr: Well, that's - well, I thought as his superior I ought to call you up/anyway.

O: Yes, that's right. ^{first} Well, I mean, I think that - I'll be very glad to -

HM,Jr: I mean, that's the way I work, I mean I call up a man's superior first -

O: Yes, in other words you wouldn't hire somebody out of the back door.

HM,Jr: No

O: Yes, I see that.

HM,Jr: I don't do business - and I wouldn't want him to come unless he had the good will - your good will.

O: Yes, well, he'll have it whether he stays or whether he goes.

HM,Jr: And - and if you could get a leave of absence -

O: For about how long?

HM,Jr: Well, I'd say a minimum of one year.

O: Oh, oh -

HM,Jr: Well, I can't go beyond that.

O: Yes

HM,Jr: I mean -

O: Yes, I - well, what I mean is - listen, you don't have to go beyond that, I thought maybe - (Laughter) I mean that's longer than I want now.

HM,Jr: Oh, well, a year would be the shortest, from now until the first of January.

O: Yes

HM,Jr: Because - we've got difficult times ahead of us and it'll - it'll take him a couple of months to get the hang of things.

O: Yes

HM,Jr: And if he's coming I'd want him, say to have a leave of absence for a year - for this year, let's say.

O: Yes, well now, when you mean a leave of absence, I mean, you really mean that, do you? I mean -

HM,Jr: Yes

- O: I mean, the idea that I have in discussing it - I'll be perfectly frank with you - why, I want him - and - want him and we've got a lot of use for him and think a lot of him.
- HM,JR: Well, Mr. Ottley, you don't know me very well, but I think I've got a reputation for honorable dealings.
- O: Yes
- HM,Jr: Now, I'm looking at Williams just as though I was going to the President of a University and say, 'Now, I want to borrow a head of a department from you -'
- O: Yes
- HM,Jr: ' - just the way I have from a number of Universities, will you give this man a year's leave of absence?'
- O: Yes
- HM,Jr: And the President of the University says, 'Yes, you can have him for a year.'
- O: Yes
- HM,Jr: And the man at the end of the year goes back to the University.
- O: I see.
- HM,Jr: Now, I've done that in a number of cases and I feel that this man Williams, from what I hear about him, has got a professional standing.
- O: Well, he has.
- HM,Jr: And I want him for his professional knowledge of finance and banking.
- O: Yes
- HM,Jr: And if I say to you that I want him for a year and you say, 'Now, please don't come to me in December and beg me to make it another year' - why I won't do it, that's all.
- O: Yes
- HM,Jr: See? Whatever you and I agree, so far as I'm concerned, my word is my bond.

O: All right, that's good enough. I'll talk with him and call you back.

HM,Jr: O. K.

O: All right.

HM,Jr: Thank you.

O: Thank you.

Monday
January 13, 1936.

HM,Jr: Hello - hello -
John

Ottley: Hello

HM,Jr: Morgenthau speaking -

O: Yes, - this is John Ottley, Atlanta -

HM,Jr: Yes, Mr. Ottley -

O: Since I talked to you this morning I've had a talk with that gentleman -

HM,Jr: Yes

O: And just put the situation up to him -

HM,Jr: Yes

O: - just flat. And without making any statement on my part to endeavor to influence him one way or the other -

HM,Jr: Yes

O: - he said that he was not interested -

HM,Jr: He was not interested?

O: That he was not interested and the second place was that if he was interested he couldn't afford it.

HM,Jr: I see. Well -

O: Now then, from that time on I went ahead and I didn't know - he didn't mean to be abrupt or didn't - and not - didn't mean to be uncomplimentary or unappreciative of your suggestion even to talk to him about it.

HM,Jr: Yes

O: And - and fond of him as I am I appreciate very much your - the compliment you paid him even to want to talk to him about so important a position.

HM,Jr: Yes

O: But he's a young man with a wife and family - couple of children. He's got his home, he's got a good job, he's

-2-

got a permanent job and he is making a lot more money than you could afford to - I mean than you mentioned that you could afford to pay him -

HM,Jr: Yes

O: And - he stands very high in our organization -

HM,Jr: Yes

O: And everybody likes him -

HM,Jr: Yes

O: And I - I mean, if he was a man of means or something like that why that would be something else.

HM,Jr: Yes

O: But he - he's just said that he can't afford to do it.

HM,Jr: Well -

O: He says the only basis on which he would do it is that I as his boss would just ask him to go do it.

HM,Jr: Yes

O: And I couldn't - I couldn't conscientiously do that.

HM,Jr: No - well, I'm sorry. Everything - I've never met him but everything I've heard about him was aces high.

O: Well, he's - I mean - whatever you heard about him that's good is true -

HM,Jr: Right -

O: But, as I say, that he's - I mean, he has a - he has an important future right where he is.

HM,Jr: Fine. Well I appreciate the spirit in which you have approached this and I'm sorry he can't do it, but it's such an important job that I - I don't want to try to sell it to anybody, see?

O: Yes - I understand, it's just a question of just a yes or no.

HM,Jr: That's right.

O: I mean it comes down to it. And of course he's flattered and I'm flattered that you wanted him.

HM,Jr: Well -

O: But my thought about it is that you don't believe in any foolishness -

HM,Jr: No

O: And what you want to know is - if the man who is interested -

HM,Jr: That's right.

O: - or willing to even to talk about it - I mean, when a man - I think the only way a man can be if he says he's willing to talk about it -

HM,Jr: Yes

O: - if he's honest he's got to have an open mind.

HM,Jr: That's right.

O: And - this fellow has already, I mean he's already decided it.

HM,Jr: Yes, well, there's no hard feeling and I appreciate it and the next time you're in Washington come in and see me, won't you?

O: I'll be very glad to, sir.

HM,Jr: Thank you.

O: Very glad to and I'm just sorry that we can't do what you even think you might want us to do.

HM,Jr: Well, I understand.

O: Yes

HM,Jr: Thank you very much.

O: All right, thank you, sir.

HM,Jr: Goodbye

O: Goodbye.

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9/185
 H. R. ~~6195~~ (A Bill to Insure the Collection of the Revenue on Intoxicating Liquor, Etc.)

January 13, 1936

Letter from State Department to Secretary Morgenthau reporting call at State Department of Mr. Wrong who expressed objection to Section 403.

* March 11, 1936
March 18

Mr. Graves' memorandum to the Secretary, Present status of Legislation Affecting Imports of Canadian Whiskey.

March 19 and 21

Publicity in Canadian Press

March 20

Mr. Oliphant's memorandum to Mrs. Klotz reporting to Secretary present status of legislation.

March 21

Mr. Oliphant's memorandum to Mrs. Klotz reporting developments in connection with pending legislation.

March 21

Mr. White's memorandum to Mr. Taylor, Principal Features of the Canadian Trade Agreement.

March 21

Mr. Oliphant's memorandum, Narration of Steps taken by the Treasury to insure that the Canadian Trade Agreement will not interfere with the prosecution of any liquor cases and the legislative program incidental thereto. (Note: this memo revised - see April 7)

March 23

The President's telegram to Under-secretary Phillips.

March 26

Mr. Hickerson's memorandum in regard to Mr. Wrong's representations to the State Department concerning desirability of conferences with the Treasury Department.

* March 11

Mr. Graves' synopsis of Canadian Distillery Cases and Liquor Control in the Treasury.

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March 28

Letter to Secretary of State concerning conferences with Canadian distillers.

March 30 - 31

Conferences between State and Treasury officials and representatives of the Canadian distillers.

March 31

Mr. Oliphant's memorandum revised statement of Narration of Steps taken by the Treasury to insure that the Canadian Trade Agreement will not interfere with the prosecution of any liquor cases and the legislative program incidental thereto.

March 31

Memorandum of Mr. Wrong concerning discussion between the Treasury Department and representatives of the Canadian distillers.

April 2

Treasury's letter to the Secretary of State concerning conferences with representatives of Canadian distillers.

April 2

Telegram to the President from the Secretary of State.

April 3

Telegram from the President to the Secretary of State.

April 3

Letter from Secretary Hull to Mr. Taylor transmitting copies of telegrams exchanged by the President and the Secretary of State.

April 6

Mr. Graves' memorandum, "Claims against the Canadian Distillers".

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April 7

Mr. Graves' memorandum on conference held in the office of the Secretary of State, 11 o'clock, Tuesday, April 7.

April 7

Mr. Oliphant's memorandum (revised), "Narration of Steps Taken by the Treasury to Insure that the Canadian Trade Agreement will not Interfere with the Prosecution of any Liquor Cases and the Legislative Program Incidental Thereto."

April 9

Mr. Graves' memorandum on the conference held in the Secretary's office today on the Canadian liquor situation.

April 10

Mr. Graves' memorandum on conference between Secretary Morgenthau and Mr. Graves at Mr. Morgenthau's home, Thursday, April 9, at 6 o'clock.

April 10

Mr. Graves' memorandum on the conference held in the office of the Secretary of State, Friday, April 10, at 10:30 o'clock.

April 10

Mr. Graves' memorandum, entitled "Basis for Acceptance by the Treasury Department and the Department of Justice of the Proposals Transmitted by Secretary Hull at the conference with Secretary Morgenthau, Tuesday, April 7".

April 15

Memorandum of Under-secretary Phillips' conversation with Mr. Wrong on April 15, concerning acceptance of the Canadian companies of the proposals submitted by the State Department on April 10.

April 20

Statement made to each of the distillers at the opening of the conferences beginning today.

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April 24

Mr. Graves' memorandum to the Secretary on the conferences with the Canadian distillers during the week of April 20.

May 1

Mr. Graves' memorandum to the Secretary on the conferences with the Canadian distillers, Thursday, April 30.

May 4

Mr. Graves' memorandum to the Secretary on the conferences with the Canadian distillers, Monday, May 4.

May 6

Mr. Graves' memorandum to the Secretary on the conferences with the Canadian distillers, Wednesday, May 6.

May 12

Conference in Secretary's office with Mr. Graves and Mr. Taylor, at which Secretary reported President's instructions on amount of settlement with Canadian distillers.

May 13

Offers of the four Canadian distillers for settlement of the Government's claim against them, submitted by Mr. Wrong.

May 13

Secretary's letter to Senator Harrison, Chairman, Senate Finance Committee, advising of settlement of cases and withdrawing request for inclusion of Section 402 in H. R. 9185.

May 13

Similar letter to Senator King.

74TH CONGRESS
2D SESSION

H. R. 9185

IN THE HOUSE OF REPRESENTATIVES

MAY 20, 1936

Ordered to be printed with the amendments of the Senate numbered

AN ACT

To insure the collection of the revenue on intoxicating liquor, to provide for the more efficient and economical administration and enforcement of the laws relating to the taxation of intoxicating liquor, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

TITLE I

4 SECTION 1. This Act may be cited as the "Liquor
5 Tax Administration Act".

6 (1) SEC. 2. Every bottle, box, package, barrel, keg, cask,
7 or other receptacle containing intoxicating liquor which does
8 not have on it a tax stamp, import stamp, strip stamp,
9 label, brand, stencil, or other marking required by any law
10 of the United States now or hereafter in force in regard to

1 the manufacture, taxation, or transportation of or traffic in
 2 intoxicating liquor, or by any regulation issued under such
 3 law, or which has on it any false or falsely made, fraudulent,
 4 or fictitious tax stamp, import stamp, strip stamp, label,
 5 brand, stencil, or other mark made in similitude of that
 6 required by such law or regulation, or which is not accom-
 7 panied by manifests, bills of lading, certificates, permits, or
 8 other documents required by such law or regulation, shall,
 9 with its contents, be seized and forfeited.

10 SEC. (2) 2. (a) Whoever, when violating any law
 11 of the United States, or of any Territory or possession of the
 12 United States, or of the District of Columbia, in regard to
 13 the manufacture, taxation, or transportation of or traffic in
 14 (3) *intoxicating liquor, distilled spirits, wines, or fermented*
 15 *malt liquors*, or when aiding in any such violation, has in
 16 his possession or in his control any device capable of causing
 17 emission of smoke, gas, or fumes, and which may be used
 18 for the purpose of hindering, delaying, or preventing pur-
 19 suit or capture, any explosive, or any firearm (as defined
 20 in the National Firearms (4) *Act Act*), except a machine
 21 gun, or a shotgun or rifle having a barrel of less than eighteen
 22 inches in (5) *length* length, shall be fined not more than
 23 \$5,000 or be imprisoned for not more than ten years, or
 24 both, and all persons engaged in any such violation or in

1 aiding in any such violation shall be held to be in possession
 2 or control of such device, firearm, or explosive.

3 (b) Whoever, when violating any such law, has in his
 4 possession or in his control a machine gun, or any shotgun
 5 or rifle having a barrel of less than eighteen inches in length,
 6 (6) *in violation of the provisions of the National Firearms*
 7 *Act*, shall be punished by imprisonment for not more than
 8 twenty years; and all persons engaged in any such violation
 9 or in aiding in any such violation shall be held to be in
 10 possession and control of such machine gun, shotgun, or
 11 rifle.

12 (c) Every such firearm or device for emitting gas,
 13 smoke, or fumes, and every such explosive, machine gun,
 14 shotgun, or rifle, in the possession or control of any person
 15 when violating any such law, shall be seized and shall be
 16 forfeited and disposed of in the manner provided by section
 17 7 of the National Firearms Act.

18 SEC. (7) 4 3. Section 1 of Act entitled "An Act to pro-
 19 vide punishment for killing or assaulting Federal officers",
 20 approved May 18, 1934, (8) *as amended*, is amended by
 21 striking out the words "any officer of the (9) *customs or of*
 22 *the internal revenue Customs Service or of the Internal*
 23 *Revenue Service*", and inserting in lieu thereof the words
 24 "any officer, employee, agent, or other person in the service
 25 of the customs or of the internal revenue".

1 cask or package has been weighed, proofed, and marked as
 2 above required, the storekeeper-gauger shall stencil on the
 3 Government head of the cask or package the word "In-
 4 spected", followed by his name and title, and the spirits shall
 5 be immediately removed into the distillery warehouse.

6 *SECTION 201. Section 3287 of the Revised Statutes,*
 7 *as amended (U. S. C., 1934 ed., title 26, sec. 1231), is*
 8 *amended to read as follows:*

9 "SEC. 3287. (a) Except as provided in section 602 of
 10 the Revenue Act of 1918, as amended, all distilled spirits
 11 shall be drawn from receiving cisterns into casks or packages
 12 and thereupon shall be gauged, proved, and marked by a
 13 storekeeper-gauger, and immediately removed into an In-
 14 ternal Revenue Bonded Warehouse. The Commissioner of
 15 Internal Revenue, with the approval of the Secretary of the
 16 Treasury, is hereby empowered to prescribe all necessary
 17 regulations relating to the drawing off, gauging, and pack-
 18 ing of distilled spirits; the marking, branding, numbering,
 19 and stamping of such packages; and the transfer and trans-
 20 portation to, and the storage of such spirits in, Internal
 21 Revenue Bonded Warehouses.

22 "~~(13)(e)~~ (b) Upon the application of the distiller
 23 and under such regulations as the Commissioner of Internal
 24 Revenue, with the approval of the Secretary of the Treasury,
 25 may prescribe, distilled spirits may be drawn into wooden

1 packages, each containing two or more metallic cans, which
 2 cans shall each have a capacity of not less than five gallons,
 3 wine measure. Such packages shall be filled and used only
 4 for exportation from the United States. And there shall
 5 be charged for each of said packages or cases for the expense
 6 of providing and affixing stamps, 5 cents.

7 ~~(14)(d)~~ Alcohol or high-proof spirits withdrawn free of
 8 tax for the use of the United States, as authorized by law,
 9 may be drawn off or transferred by pipes directly from
 10 storage tanks of any industrial-alcohol plant to closed metal
 11 storage tanks situated in the industrial-alcohol bonded ware-
 12 house and transferred from such storage tanks to tanks or
 13 tank cars for shipment, upon the execution of such bonds
 14 and under such regulations as the Secretary of the Treasury
 15 may prescribe.

16 "~~(15)(e)~~ (c) The ~~(16)~~Secretary of the Treasury Commis-
 17 sioner of Internal Revenue, with the approval of the Secre-
 18 tary of the Treasury, may, by regulations, prescribe the
 19 standards of fill of casks or packages of distilled spirits at each
 20 distillery.

21 "~~(17)(f)~~ (d) The ~~(18)~~Secretary of the Treasury
 22 Commissioner of Internal Revenue, with the approval of the
 23 Secretary of the Treasury, may, by regulations, from time
 24 to time require a distiller, at his expense and under the imme-
 25 diate personal supervision of a storekeeper-gauger, to do such

1 marking and branding and such mechanical labor pertaining
2 to gauging required under this section as the (19) Secretary
3 Commissioner deems proper and determines may be done
4 without danger to the revenue."

5 (20) *Sec. 202. Section 3295 of the Revised Statutes, as*
6 *amended (26 U. S. C., 374; U. S. C., Sapp. VII, title 26,*
7 *sec. 1236), is further amended to read as follows:*

8 "Sec. 3295. (a) Whenever an order is received from
9 the supervisor of the district for the removal from any dis-
10 tillery warehouse of any cask or package of distilled spirits
11 on which the tax has been paid, the storekeeper-gauger, by
12 whom the same is gauged and inspected, shall, before such
13 cask or package has left the warehouse, place upon the Gov-
14 ernment head thereof, in such manner as to cover no portion
15 of any brand or mark prescribed by law already placed
16 thereon, a stamp, on which shall be engraved the number
17 of proof gallons contained in such cask or package on which
18 the tax has been paid, and which shall state the serial num-
19 ber of the cask or package, the name of the person by whom
20 the tax was paid, and the person to whom and the place
21 where it is to be delivered.

22 "(b) Said stamp shall be signed by the collector
23 of the district, and the storekeeper-gauger, and shall be as
24 follows:

1 Tax-paid stamp, No. _____

2 Received _____, 19____, from

3 _____, tax on _____ gallons proof

4 spirit, cask no. _____, _____ warehouse

5 at _____ for delivery to _____, at

6 _____

7 Collector -- District, State of _____

8 Attest:

9 _____

10 United States storekeeper-gauger.

11 "(c) At the time of affixing the tax-paid stamp the
12 storekeeper-gauger shall cut or burn upon the Government
13 head of each cask or package the date of payment of the tax,
14 the number of proof gallons, and the number of the stamp,
15 which cutting, marking, or branding shall be erased when
16 such cask or package is emptied.

17 *SEC. 202. Section 3295 of the Revised Statutes, as*
18 *amended (U. S. C., 1934 ed., title 26, sec. 1236), is further*
19 *amended to read as follows:*

20 "SEC. 3295. (a) Whenever an application is received
21 for the removal from any Internal Revenue Bonded Ware-
22 house of any cask or package of distilled spirits, the store-
23 keeper-gauger shall gauge and inspect the same, and shall,
24 before such cask or package has left the warehouse, place

1 upon such package such marks, brands, and stamps as the
2 Commissioner of Internal Revenue, with the approval of the
3 Secretary of the Treasury, shall by regulations prescribe.

4 "~~(21)(d)~~ (b) The ~~(22)~~Secretary of the Treasury
5 Commissioner of Internal Revenue, with the approval of the
6 Secretary of the Treasury, may, by regulations, from time to
7 time, require any distiller, at his expense and under the
8 immediate personal supervision of a storekeeper-gauger, to
9 do such marking and branding and such mechanical labor
10 pertaining to gauging required under this section as the
11 ~~(23)~~Secretary Commissioner deems proper and determines
12 may be done without danger to the revenue."

13 SEC. 203. Section 3290 of the Revised Statutes
14 ~~(24)~~(U. S. C., Supp. VII, title 26, sec. 1811 (a)) (U. S.
15 C., 1934 ed., title 26, sec. 1811 (a)) is amended to read
16 as follows:

17 "SEC. 3290. Whenever any storekeeper-gauger em-
18 ploys any owner, agent, or superintendent of any distillery
19 or ~~(25)~~distillery warehouse Internal Revenue Bonded Ware-
20 house, or any person in the service of such owner, agent,
21 or superintendent, or any rectifier or wholesale liquor dealer,
22 or any person in the service of such rectifier or wholesale
23 liquor dealer, to use his brands or to discharge any of the
24 duties imposed upon him by law, he shall, for each offense
25 so committed, be subject to a fine of not more than \$1,000.

1 This section shall not apply in any case in which the use
2 of the storekeeper-gauger's brand or the discharge of his
3 duties by another has been directed by the ~~(26)~~Secretary of
4 the Treasury Commissioner of Internal Revenue, with the
5 approval of the Secretary of the Treasury, under authority
6 of law."

7 TITLE III

8 SECTION 301. (a) Section 3262 of the Revised Stat-
9 utes, as amended ~~(27)~~~~(26)~~ U. S. C., sec. 286; U. S. C.,
10 Supp. VII, title 26, secs. 1166 (b) and 1353) (U. S. C.,
11 1934 ed., title 26, secs. 1166 (b) and 1353), is amended
12 to read as follows:

13 "SEC. 3262. (a) No bond of a distiller shall be ap-
14 proved unless—

15 "(1) The distiller is the owner in fee, unencumbered
16 by any mortgage, judgment, or other lien, of the lot or tract
17 of land on which the distillery is situated; or

18 "(2) The distiller files with the officer designated for
19 the purpose by the Commissioner of Internal Revenue, in
20 connection with his notice, the written consent of the owner
21 of the fee, and of any mortgagee, judgment-creditor, or other
22 person having a lien thereon, duly acknowledged, that the
23 premises may be used for the purpose of distilling spirits,
24 subject to the provisions of law, and expressly stipulating that
25 the lien of the United States for taxes and penalties shall have

1 priority of such mortgage, judgment, or other encumbrance,
 2 and that in the case of the forfeiture of the distillery premises,
 3 or any part thereof, the title to the same shall vest in the
 4 United States, discharged from such mortgage, judgment,
 5 or other encumbrance; or, if consent as required under this
 6 paragraph cannot be obtained,

7 “(3) The distiller, with the approval of the Com-
 8 missioner, files with the officer designated by the Commis-
 9 sioner a bond, approved by the Commissioner, in the penal
 10 sum equal to the appraised value of the lot or tract of land
 11 on which the distillery is situated, the distillery, the buildings,
 12 and the distilling apparatus. Such value shall be deter-
 13 mined, and such bond shall be executed, in such form and
 14 with such sureties, and filed with the officer designated by
 15 the Commissioner of Internal Revenue, under such regula-
 16 tions as the Secretary of the Treasury shall prescribe.

17 “(b) In any case where the owner of a distillery or
 18 distilling apparatus, erected prior to July 20, 1868, has
 19 only an estate for a term of years or other estate less than
 20 fee-simple in the lot or tract of land on which the distillery
 21 is situated, the evidence of title to which shall have been duly
 22 recorded prior to that date; or in like case, where the lease
 23 or other evidence of title is held but was not required by
 24 the laws of the State to be recorded in order to be valid

1 at the time of its execution; or in any case of such prior
 2 erection where the title was then, and has continued to be,
 3 in litigation; or in any case of such prior erection where
 4 such owner is possessed of the fee, but encumbered with a
 5 mortgage executed and duly recorded prior to July 20,
 6 1868, and not due, or in any case of such prior erection
 7 where the fee is held by a femme-covert, minor, person of
 8 unsound mind, or other person incapable of giving consent,
 9 as required in subsection (a), the value of such lot or tract
 10 of land, together with the building and distilling apparatus,
 11 shall be appraised in the manner to be prescribed by the
 12 Commissioner; and the officer designated by the Commis-
 13 sioner may, at the discretion of the Commissioner, be
 14 authorized to accept, in lieu of the said written consent, the
 15 bond of such distiller, in such form as the Commissioner
 16 may prescribe, with not less than two personal sureties or one
 17 corporate surety, conditioned that in case the distillery, dis-
 18 tilling apparatus, or any part thereof, shall by final judg-
 19 ment be forfeited for the violation of any of the provisions
 20 of law, the obligors shall pay the amount stated in said bond:
 21 Said sureties shall be residents of the collection district or
 22 county, or of an adjoining county in the same State in which
 23 the distillery is situated, and owners of unencumbered real
 24 estate in said district or county, or adjoining county, equal

1 to such appraised value, and the penal sum of said bond
2 shall be equal to the appraised value of said lot or tract of
3 land together with the buildings and distilling apparatus.

4 " (c) The officer designated by the Commissioner may
5 at any time, at the discretion of the Commissioner, accept
6 such bond as is authorized to be given by the distiller in lieu
7 of the written consent of the owner of the fee in the case of a
8 distillery erected prior to July 20, 1868, notwithstanding
9 such distillery has since then been increased by the addition
10 of land or buildings adjacent or contiguous thereto, not owned
11 by the distiller himself in fee; such bond to be for and in
12 respect of such addition only, if the distillery be one which
13 the distiller owns in fee or in respect to which he has pro-
14 cured the written consent of the owner of the fee or other
15 encumbrance, otherwise to be for and in respect of the
16 entire distillery as increased by such addition.

17 " (d) In case of any distillery sold at judicial or other
18 sale in favor of the United States, a bond may be taken at
19 the discretion of the Commissioner of Internal Revenue, in
20 lieu of the written consent required by this section, and the
21 person giving such bond may be allowed to operate such dis-
22 tillery during the existence of the right of redemption from
23 such sale, on complying with all the other provisions of law.

24 " (e) No lien shall attach to any lot or tract of land,
25 distillery, building, or distilling apparatus, under the provi-

1 sions of section 3251 of the Revised Statutes, as amended,
2 by reason of distilling done during any period included within
3 the term of any bond taken under the provisions of paragraph
4 (3) of subsection (a) of this section."

5 SEC. 302. Section 3264 of the Revised Statutes, as
6 amended (28) (26 U. S. C., sec. 289; U. S. C., Supp. VII,
7 title 26, sec. 4168) (U. S. C., 1934 ed., title 26, sec. 1168),
8 is further amended by adding at the end thereof the following
9 new paragraph:

10 " The Secretary of the Treasury in the case of any dis-
11 tillery may, under regulations, waive such of the require-
12 ments of this section as he determines may be waived with-
13 out danger to the revenue. Whenever the Secretary of
14 the Treasury, by authority of this paragraph, waives any or
15 all of the requirements of this section, he may, by regula-
16 tion, relieve the distiller from such requirements of sections
17 3285, 3309, 3310, and 3311 of the Revised Statutes, as
18 amended, and of section 6 of the Act of March 1, 1879, as
19 amended (29) (26 U. S. C., 324) (U. S. C., 1934 ed., title
20 26, sec. 1198), and of such other provisions of law relating or
21 incidental to survey requirements, as the Secretary deter-
22 mines may be waived without danger to the revenue."

23 SEC. 303. Section 3260 of the Revised Statutes, as
24 amended (30) (26 U. S. C., sec. 284; U. S. C., Supp. VII,
25 title 26, sec. 4165) (U. S. C., 1934 ed., title 26, sec. 1165),

1 is further amended by adding at the end thereof the follow-
2 ing new paragraph:

3 "Whenever, under authority of law, the Secretary
4 of the Treasury shall relieve a distiller from the survey
5 requirements of section 3264 of the Revised Statutes, as
6 amended (31)(26 U. S. C., sec. 280; U. S. C., Supp. VII,
7 title 26, sec. 1168) (U. S. C., 1934 ed., title 26, sec. 1168),
8 he may likewise by regulation fix the penal sum of the
9 distiller's bond, but in no case shall the amount of the mini-
10 mum bond be less than \$5,000 nor the amount of the max-
11 imum bond greater than \$100,000."

12 SEC. 304. Section 3267 of the Revised Statutes (32)(26
13 U. S. C., sec. 292; U. S. C., Supp. VII, title 26, sec. 1171)
14 (U. S. C., 1934 ed., title 26, sec. 1171), is amended by
15 adding a new paragraph at the end thereof, to read as
16 follows:

17 "Whenever, under authority of law, the Secretary
18 of the Treasury shall relieve a distiller from the survey
19 requirements, he may, by regulation, require the distiller to
20 provide such receiving cisterns, tanks, or such other equip-
21 ment as the Secretary shall deem proper in order to protect
22 the revenue."

23 SEC. 305. Section 67 of the Act of August 27, 1894
24 (28 Stat. 568), (33)(26 U. S. C., sec. 287; U. S. C., Supp.

1 VII, title 26, sec. 1168 (c)) (U. S. C., 1934 ed., title 26,
2 sec. 1166 (c)), is amended to read as follows:

3 "SEC. 67. (a) No individual, firm, partnership, cor-
4 poration, or association, intending to commence or to con-
5 tinue the business of a distiller, rectifier, brewer, or
6 winemaker, shall commence or continue the business of a
7 distiller, rectifier, brewer, or winemaker until all bonds
8 in respect of such a business, required by any provision
9 of law, have been approved by the Commissioner of Internal
10 Revenue or such other officer of the Bureau of Internal
11 Revenue as the Commissioner, with the approval of the
12 Secretary of the Treasury, may designate.

13 "(b) The Commissioner or the designated officer may
14 disapprove any such bond or bonds if the individual, firm,
15 partnership, corporation, or association giving the same, or
16 owning, controlling, or actively participating in the manage-
17 ment of the business of the individual or firm, partnership,
18 corporation, or association giving the same, shall have been
19 previously convicted, in a court of competent jurisdiction, of
20 (1) any fraudulent noncompliance with any provision of
21 any law of the United States if such provision related to
22 internal-revenue or customs taxation of (34)intoxicating
23 liquor distilled spirits, wines, or fermented malt liquors, or if
24 such an offense shall have been compromised with the

1 individual, firm, partnership, corporation, or association
 2 upon payment of penalties or otherwise, or (2) any felony
 3 under a law of any State, Territory, or the District of
 4 Columbia, or the United States, prohibiting the manufac-
 5 ture, sale, importation, or transportation of (35)distilled
 6 spirits, wine, fermented malt liquor, or other intoxicating
 7 liquor.

8 " (c) In case the disapproval is by any officer other
 9 than the Commissioner, the individual, firm, partnership,
 10 corporation, or association giving the bond may appeal from
 11 such disapproval to the Commissioner.

12 " (d) The disapproval of the Commissioner in any
 13 matter under this section shall be final."

14 SEC. 306: (36)(a) Section 1 of the Act entitled "An
 15 Act to allow the bottling of distilled spirits in bond", approved
 16 March 3, 1897, as amended (U. S. C., 1934 ed., title 26,
 17 sec. 1276), is further amended to read as follows:

18 "That whenever any distilled spirits deposited in the
 19 Internal Revenue Bonded Warehouse have been duly en-
 20 tered for withdrawal, before or after tax-payment, or for ex-
 21 port in bond, and have been duly gauged and the required
 22 marks, brands, and taxpaid stamps (if required) or export
 23 stamps, as the case may be, have been affixed to the pack-
 24 age or packages containing the same, the distiller or owner
 25 of said distilled spirits, if he has declared his purpose so to

1 do in the entry for withdrawal, which entry for bottling
 2 purposes may be made by the owner as well as the distiller,
 3 may remove such spirits to a separate portion of said ware-
 4 house which shall be set apart and used exclusively for that
 5 purpose, and there, under the supervision of a United States
 6 storekeeper-gauger in charge of such warehouse, may im-
 7 mediately draw off such spirits, bottle, pack, and case the
 8 same. For convenience in such process any number of pack-
 9 ages of spirits of the same kind, differing only in proof, but
 10 produced at the same distillery by the same distiller, may
 11 be mingled together in a cistern provided for that purpose,
 12 but nothing herein shall authorize or permit any mingling of
 13 different products, or of the same products of different distil-
 14 ling seasons, or the addition or subtraction of any substance
 15 or material or the application of any method or process to
 16 alter or change in any way the original condition or charac-
 17 ter of the product except as herein authorized; nor shall there
 18 be at the same time in the bottling room of any Internal
 19 Revenue Bonded Warehouse any spirits entered for with-
 20 drawal upon payment of the tax and any spirits entered for
 21 export.

22 "Every bottle when filled shall have affixed thereto and
 23 passing over the mouth of the same such suitable adhesive
 24 engraved strip stamp as may be prescribed, as hereinafter
 25 provided, and shall be packed into cases to contain six

1 bottles or multiples thereof, and in the aggregate not less
 2 than two nor more than five gallons in each case, which, if
 3 unpaid, shall be immediately removed from the warehouse
 4 premises. Each of such cases shall have affixed thereto a
 5 stamp denoting the number of gallons therein contained,
 6 such stamp to be affixed to the case before its removal from
 7 the warehouse, and such stamps shall have a cash value of
 8 ten cents each, and shall be charged at that rate to the col-
 9 lectors to whom issued, and shall be paid for at that rate by
 10 the distiller or owner using the same.

11 "And there shall be plainly burned, embossed, or
 12 printed on the side of each case, to be known as the Govern-
 13 ment side, the proof of the spirits, the registered distillery
 14 number, the State and supervisory district in which the
 15 distillery is located, the real name of the actual bona fide
 16 distiller or of the individual, firm, partnership, corpora-
 17 tion or association in whose name the spirits were produced
 18 and warehoused, the year and distilling season, whether
 19 spring or fall, of original inspection or entry into bond, and
 20 the date of bottling, and the same wording shall be placed
 21 upon the adhesive engraved strip stamp over the mouth of
 22 the bottle. It being understood that the spring season shall
 23 include the months from January to July, and the fall season
 24 the months from July to January.

1 "And no trade-marks shall be put upon any bottle
 2 unless the real name of the actual bona fide distiller, or the
 3 name of the individual, firm, partnership, corporation, or
 4 association in whose name the spirits were produced and
 5 warehoused, shall also be placed conspicuously on said
 6 bottle."

7 (37)(b) Section 2 of the Act entitled "An Act to allow
 8 the bottling of distilled spirits in bond", approved March
 9 3, 1897, as amended (38)(26 U. S. C., sec. 412;
 10 U. S. C. Supp. VII, title 26, sec. 4277) (U. S. C., 1934
 11 ed., title 26, sec. 1277), is further amended by striking out
 12 the last clause following the words "Secretary of the Treas-
 13 ury", and inserting in lieu thereof the following: "but no
 14 spirits (except gin for export) shall be bottled in bond until
 15 they have remained in bond in wooden containers for at least
 16 four years from the date of original gauge as to fruit brandy,
 17 or original entry as to all other spirits(39): Provided, That
 18 nothing in this Act shall authorize the labeling of spirits
 19 in bottles contrary to the provisions of regulations issued pur-
 20 suant to the Federal Alcohol Administration Act, or any
 21 amendment thereof."

22 (40)Sec. 307. (a) Section 3203 of the Revised Statutes,
 23 as amended; section 4 of the Act of May 28, 1880 (21
 24 Stat. 145); section 49 of the Act of August 27, 1894

1 (28 Stat. 562; 26 U. S. C., sec. 374), as to the bonded
 2 period for spirits; and section 50 of the Act approved
 3 August 27, 1894 (28 Stat. 564), as amended (26 U. S. C.,
 4 sec. 407; U. S. C., Supp., VII, title 26, sec. 1275), as to loss
 5 allowance for spirits, are hereby declared to be the law on
 6 and after December 5, 1933. This section shall not in-
 7 validate any allowance for loss with respect to spirits with-
 8 drawn after December 5, 1933, and prior to the thirtieth
 9 day after the date of the enactment of this Act.

10 (b) Distilled spirits eight years of age, or older, which
 11 were in bonded warehouses on December 5, 1933, may re-
 12 main therein after such date and, when withdrawn at any
 13 time on or after the thirtieth day after the date of the enact-
 14 ment of this Act, may be granted an allowance (which shall
 15 be in addition to the allowance for loss otherwise allowable)
 16 for loss at the rate of one proof-gallon as to casks or packages
 17 of a capacity of not less than forty wine-gallons, and one-half
 18 proof-gallon as to casks or packages of a capacity of less than
 19 forty wine-gallons and not less than twenty wine-gallons, for
 20 each period of six months or fraction thereof that the spirits
 21 remain in bond between December 5, 1933, and the thirtieth
 22 day after the date of the enactment of this Act.

23 SEC. 307. (a) All distilled spirits heretofore or here-
 24 after entered for deposit in a bonded warehouse shall be
 25 withdrawn therefrom within eight years from the date of

1 original entry therein, except as provided in subsection (c)
 2 of this section.

3 (b) Any distilled spirits heretofore or hereafter de-
 4 posited in any bonded warehouse may, at the time of with-
 5 drawal of the spirits from such warehouse, upon the filing
 6 of an application for the regauge of such spirits, giving a
 7 description of the package containing the spirits, be regauged
 8 by a storekeeper-gauger who shall place upon each such
 9 package such marks and brands as the Commissioner of
 10 Internal Revenue, with the approval of the Secretary of
 11 the Treasury, shall by regulations prescribe. If upon such
 12 regauging it shall appear that there has been a loss by
 13 leakage or evaporation of distilled spirits from any cask or
 14 package, without the fault or negligence of the distiller or
 15 warehouseman, taxes shall be collected only on the quantity
 16 of distilled spirits contained in such cask or package at the
 17 time of such withdrawal. The allowance which shall be
 18 made for such loss of spirits shall not exceed—

19 1 proof-gallon for 2 months or part thereof;

20 $1\frac{1}{2}$ gallons for more than 2 months and not more than
 21 4 months;

22 2 gallons for more than 4 months and not more than
 23 6 months;

24 $2\frac{1}{2}$ gallons for more than 6 months and not more than
 25 8 months;

- 1 3 gallons for more than 8 months and not more than
- 2 10 months;
- 3 $3\frac{1}{2}$ gallons for more than 10 months and not more than
- 4 12 months;
- 5 4 gallons for more than 12 months and not more than
- 6 15 months;
- 7 $4\frac{1}{2}$ gallons for more than 15 months and not more than
- 8 18 months;
- 9 5 gallons for more than 18 months and not more than
- 10 21 months;
- 11 $5\frac{1}{2}$ gallons for more than 21 months and not more than
- 12 24 months;
- 13 6 gallons for more than 24 months and not more than
- 14 27 months;
- 15 $6\frac{1}{2}$ gallons for more than 27 months and not more than
- 16 30 months;
- 17 7 gallons for more than 30 months and not more than
- 18 33 months;
- 19 $7\frac{1}{2}$ gallons for more than 33 months and not more than
- 20 36 months;
- 21 8 gallons for more than 36 months and not more than
- 22 40 months;
- 23 $8\frac{1}{2}$ gallons for more than 40 months and not more than
- 24 44 months;

- 1 9 gallons for more than 44 months and not more than
- 2 48 months;
- 3 $9\frac{1}{2}$ gallons for more than 48 months and not more than
- 4 52 months;
- 5 10 gallons for more than 52 months and not more than
- 6 56 months;
- 7 $10\frac{1}{2}$ gallons for more than 56 months and not more
- 8 than 60 months;
- 9 11 gallons for more than 60 months and not more
- 10 than 64 months;
- 11 $11\frac{1}{2}$ gallons for more than 64 months and not more
- 12 than 68 months;
- 13 12 gallons for more than 68 months and not more than
- 14 72 months;
- 15 $12\frac{1}{2}$ gallons for more than 72 months and not more
- 16 than 76 months;
- 17 13 gallons for more than 76 months and not more than
- 18 80 months;
- 19 $13\frac{1}{2}$ gallons for more than 80 months from the date
- 20 of original gauge as to fruit brandy, or original entry as
- 21 to all other spirits; and no further allowances shall be made
- 22 for loss by leakage or evaporation.
- 23 The foregoing allowance for loss shall apply only to
- 24 casks or packages of a capacity of forty or more wine-

1 gallons, and the allowance for loss on casks or packages of
 2 less capacity than forty gallons shall not exceed one-half the
 3 amount allowed on said forty-gallon cask or package; but
 4 no allowance shall be made on casks or packages of less
 5 capacity than twenty gallons. The proof of such distilled
 6 spirits shall not in any case be computed at the time of with-
 7 drawal at less than 100 per centum.

8 (c) Distilled spirits which on the effective date of this
 9 section are eight years of age, or older, and which are in
 10 bonded warehouses, may remain therein after such date; but
 11 no allowance for loss by leakage or evaporation shall be
 12 made in the case of such spirits with respect to any period
 13 after such date.

14 (d) This section shall take effect thirty days after the
 15 date of the enactment of this Act.

16 (41)SEC. 308. Section 602 of the Revenue Act of 1918,
 17 approved February 24, 1919, is hereby amended to read
 18 as follows:

19 "SEC. 602. (a) At registered distilleries packages
 20 may be filled with spirits reduced to not less than one
 21 hundred proof from receiving cisterns and tax paid without
 22 being entered into bonded warehouse. Such spirits may be
 23 also transferred from receiving cisterns at such distilleries,
 24 by means of pipe lines, direct to storage tanks in the bonded
 25 warehouse and may be warehoused in such storage tanks.

1 Such spirits may be also transferred in tanks or tank cars to
 2 general bonded warehouses for storage therein, either in
 3 storage tanks in such warehouses or in the tanks in which
 4 they were transferred. Such spirits may also be transferred
 5 from receiving cisterns or warehouse storage tanks to barrels,
 6 drums, tanks, tank cars, or other approved containers, and
 7 may be transported in such containers to rectifying houses,
 8 for exportation, or for other lawful purposes.

9 "(b) The Commissioner of Internal Revenue, with the
 10 approval of the Secretary of the Treasury, is hereby em-
 11 powered to prescribe all necessary regulations relating to
 12 the drawing off, transferring, gauging, storing, and trans-
 13 portation of such spirits; the records to be kept and returns
 14 to be made; the size and kind of packages; the tanks or
 15 tank cars to be used; the marking, branding, numbering,
 16 and stamping of such packages and tanks; the kind of
 17 stamps, if any, to be used; the time and manner of paying
 18 the tax; and the kind of bond and the penal sum thereof.

19 "(c) The tax prescribed by law must be paid before
 20 such spirits are removed from the distillery premises, or
 21 from general bonded warehouse in the case of spirits trans-
 22 ferred thereto, except as otherwise provided by law.

23 "(d) Under such regulations as the Commissioner
 24 with the approval of the Secretary of the Treasury may
 25 prescribe, distilled spirits may hereafter be drawn from

1 receiving cisterns and deposited in distillery warehouses
2 without having affixed to the packages containing the same
3 distillery warehouse stamps. Such packages, when so de-
4 posited in warehouse, may be withdrawn therefrom on the
5 original gauge where the same have remained in such ware-
6 houses for a period not exceeding thirty days from the date
7 of deposit."

8 *SEC. 308.* The first paragraph of section 602 of the
9 Revenue Act of 1918, approved February 24, 1919, is
10 amended to read as follows:

11 "SEC. 602. Subject to the provisions of existing law,
12 spirits produced at registered distilleries and reduced in the
13 receiving cisterns in such distilleries to not more than one
14 hundred and fifty-nine degrees of proof and not less than one
15 hundred degrees of proof, may be transferred, by means of
16 pipe lines, direct to storage tanks in the Internal Revenue
17 Bonded Warehouse located on the bonded premises where
18 produced and be warehoused in such storage tanks, or they
19 may be drawn into approved containers and transferred to
20 any Internal Revenue Bonded Warehouse for storage therein,
21 or they may be taxpaid in such approved containers in such
22 cistern rooms, without being entered into an Internal Revenue
23 Bonded Warehouse. Such spirits may be drawn into ap-
24 proved containers from storage tanks in Internal Revenue
25 Bonded Warehouse located on the bonded premises of the

1 distillery either for storage in bond or tax payment. Such
2 spirits, upon tax payment, may be transported in approved
3 containers for use for beverage purposes only. The Com-
4 missioner of Internal Revenue, with the approval of the Sec-
5 retary of the Treasury, is hereby empowered to prescribe
6 all necessary regulations relating to the drawing off, trans-
7 ferring, gauging, storing, and transportation of such spirits,
8 the records to be kept and returns to be made; the size and
9 kind of containers to be used; the marking, branding, num-
10 bering, and stamping of such containers; the kind of stamps,
11 if any, to be used; and the kind of bond and the penal sum
12 thereof."

13 (42)SEC. 308. Section 3203 of the Revised Statutes, as
14 amended (26 U. S. C., sec. 371; U. S. C., Supp. VII, title
15 26, sec. 1232 (a) and (b)), is further amended by amend-
16 ing the paragraph thereof immediately following the form
17 "Entry for Deposit in Distillery Warehouse" to read as
18 follows:

19 "And the entry shall specify the kind of spirits; the
20 whole number of packages, the marks and serial numbers
21 thereon; the number of gauge or wine-gallons, proof-
22 gallons, and taxable gallons, and the amount of tax on the
23 spirit contained in them; all of which shall be verified by
24 the oath of the distiller or owner of the same attached to
25 the entry. One of said entries shall be retained in the

1 office of the supervisor of the district, one sent to the store-
 2 keeper-gauger in charge of the warehouse, to be retained
 3 and filed in the warehouse, and one sent with a duplicate
 4 of the bond to the Commissioner of Internal Revenue, to
 5 be filed in his office. The distiller shall, at the time of
 6 making the entry for deposit of spirits in the warehouse,
 7 under such regulations as the Secretary of the Treasury shall
 8 prescribe, give a monthly or annual warehousing bond, in
 9 duplicate, in a penal sum of not less than 50 per centum
 10 of the tax on the distilled spirits on deposit in the ware-
 11 house at any one time, or such higher sum as the Secretary
 12 of the Treasury may, by regulations, prescribe, conditioned
 13 that the principal named in said bond shall pay the tax on
 14 the spirits as specified in the entry, or cause the same to be
 15 paid, before removal from said distillery warehouse, and
 16 within eight years from the date of said entry."

17 *Sec. 309. Section 3293 of the Revised Statutes, as*
 18 *amended (U. S. C., 1934 ed., title 26, sec. 1232), is amended*
 19 *to read as follows:*

20 "*SEC. 3293. (a) The distillers of all spirits removed*
 21 *to an Internal Revenue Bonded Warehouse shall enter the*
 22 *same for deposit in such warehouse, under such regulations*
 23 *as the Commissioner of Internal Revenue may prescribe.*
 24 *Said entry shall be in such form as the Commissioner shall*
 25 *prescribe.*

1 "*(b) The tax on all distilled spirits hereafter entered*
 2 *for deposit in Internal Revenue Bonded Warehouses shall*
 3 *be due and payable before and at the time the same are with-*
 4 *drawn therefrom and within eight years from the date of the*
 5 *original entry for deposit therein; and warehousing bonds*
 6 *hereafter taken under the provisions of the internal revenue*
 7 *laws shall be conditioned for the payment of the tax on the*
 8 *spirits as specified in the entry before withdrawal from the*
 9 *Internal Revenue Bonded Warehouse, and within eight*
 10 *years from the date of said entry. The Commissioner shall*
 11 *prescribe the form and penal sums of bonds covering distilled*
 12 *spirits in Internal Revenue Bonded Warehouses and in*
 13 *transit to and between such warehouses: Provided, That*
 14 *the penal sums of such bonds covering distilled spirits shall*
 15 *not exceed in the aggregate \$200,000 for each such ware-*
 16 *house.*

17 "*(c) A new bond shall be required in case of the death,*
 18 *insolvency, or removal of the surety or sureties, and may*
 19 *be required in any other contingency affecting its validity*
 20 *or impairing its efficiency, at the discretion of the Commis-*
 21 *sioner of Internal Revenue. And in case the warehouseman*
 22 *fails or refuses to give the bond required, or to renew the*
 23 *same, or neglects to immediately withdraw the spirits and*
 24 *pay the tax thereon, or if he neglects to withdraw any bonded*
 25 *spirits and pay the tax thereon before the expiration of the*

1 time limited in the bond, the collector shall proceed to collect
 2 the tax by distraint, issuing his warrant of distraint for the
 3 amount of tax found to be due, as ascertained by him from
 4 the report of the storekeeper-gauger if no bond was given,
 5 or from the terms of the bond if a bond was given. But this
 6 provision shall not exclude any other remedy or proceeding
 7 provided by law.

8 “(d) If it shall appear at any time that there has been
 9 a loss of distilled spirits from any cask or other package
 10 deposited in an Internal Revenue Bonded Warehouse,
 11 other than the loss provided for in section 3221 of the
 12 Revised Statutes, as amended, which, in the opinion of the
 13 Commissioner of Internal Revenue, is excessive, he may
 14 instruct the District Supervisor of the district in which the
 15 loss has occurred to require the withdrawal from ware-
 16 house of such distilled spirits, and direct the Collector of
 17 Internal Revenue to collect the tax accrued upon the original
 18 quantity of distilled spirits entered into the warehouse in
 19 such cask or package, notwithstanding that the time speci-
 20 fied in any bond given for the withdrawal of the spirits
 21 entered into warehouse in such cask or package has not
 22 expired. If the said tax is not paid on demand, the col-
 23 lector shall report the amount due upon his next monthly
 24 list, and it shall be assessed and collected as other taxes are
 25 assessed and collected.”

1 (43)SEC. 310. Section 3302 of the Revised Statutes (26
 2 U. S. C., sec. 365; U. S. C., Supp. VII, title 26, sec. 1229)
 3 is amended to read as follows:

4 “SEC. 3302. (a) The storekeeper-gauger assigned to
 5 any distillery warehouse shall, in addition to all other duties
 6 required to be performed by him, keep in a book to be
 7 provided for that purpose, and in the manner prescribed
 8 by the Commissioner of Internal Revenue, a daily account
 9 of all the meal and vegetable productions or other sub-
 10 stances brought into said distillery, or on said premises, to
 11 be used for the purpose of producing spirits, from whom
 12 purchased, and when delivered at said distillery; of the mate-
 13 rials put into the mash tub or otherwise used for the pro-
 14 duction of spirits; of the time when any fermenting tub is
 15 emptied of ripe mash or beer, recording the same by the
 16 number painted on said tub; and of all spirits drawn off
 17 from the receiving cistern, and the time when the same
 18 were drawn off.

19 “(b) Whenever, under authority of law, the Secretary
 20 of the Treasury shall relieve a distiller from the survey
 21 requirements, he may likewise relieve the storekeeper-gauger
 22 assigned to the distillery of such distiller from the require-
 23 ments of this section as to recording of the time when any
 24 fermenting tub is emptied of ripe mash or beer.”

1 *Sec. 310. Section 3302 of the Revised Statutes*
 2 *(U. S. C., 1934 ed., title 26, sec. 1229) is amended to read*
 3 *as follows:*

4 *"Sec. 3302. The storkeeper-gauger assigned to any*
 5 *distillery shall, in addition to all other duties required to be*
 6 *performed by him, keep records of the receipt and use of*
 7 *substances brought into said distillery, or on said premises,*
 8 *to be used for the purpose of producing spirits, and of all*
 9 *spirits drawn off from the receiving cistern, and the time*
 10 *when the same were drawn off, in such form as the Com-*
 11 *missioner of Internal Revenue, with the approval of the*
 12 *Secretary of the Treasury, shall, by regulations, prescribe."*
 13 *(44)Sec. 311. Section 3308 of the Revised Statutes (49*
 14 *U. S. C., sec. 314; U. S. C., Supp. VII, title 26, sec. 1402*
 15 *(b)) is amended to read as follows:*
 16 *"Sec. 3308. (a) Every person who makes or distills*
 17 *spirits, or owns any still, boiler, or other vessel used for*
 18 *the purpose of distilling spirits, or who has such still,*
 19 *boiler, or other vessel so used under his superintendence,*
 20 *either as agent or owner, or who uses any such still,*
 21 *boiler, or other vessel, shall from day to day make, or*
 22 *cause to be made, in a book or books, to be kept by*
 23 *him in such form as the Commissioner of Internal Revenue*
 24 *may prescribe, a true and exact entry of the kind of*
 25 *materials, and the quantity in pounds, bushels, or gallons*

1 *purchased by him for the production of spirits, from whom*
 2 *said water purchased, and by what conveyance delivered at*
 3 *said distillery, and the amount paid therefor. And in an-*
 4 *other book he shall make like entry of the quantity of grain*
 5 *or other material used for the production of spirits, the time*
 6 *of day when any yeast or other composition is put into any*
 7 *mash or beer for the purpose of exciting fermentation, the*
 8 *quantity of mash in each tub, designating same by the number*
 9 *of the tub, the number of days mashes, that is to say, the num-*
 10 *ber of inches between the top of each tub and the surface of*
 11 *the mash or beer therein at the time of yeasting; the gravity*
 12 *and temperature of the beer at the time of yeasting; and on*
 13 *every day thereafter the quantity, gravity, and temperature*
 14 *at the hour of 12 meridians; also, of the time when any*
 15 *fermenting tub is emptied of ripe mash or beer, the number*
 16 *of gallons of spirits distilled, the number of gallons placed in*
 17 *the warehouse, and the proof thereof, the number of gallons*
 18 *sold or removed, with the proof thereof, and the names, place*
 19 *of business, and residence of the person to whom sold.*
 20 *"(b) Whenever, under authority of law, the Secretary*
 21 *of the Treasury shall relieve a distiller from the survey*
 22 *requirements, he may likewise, by regulations, relieve such*
 23 *distiller from such of the requirements of this section relating*
 24 *as are incidental to the survey as the Secretary determines may*
 25 *be waived without danger to the revenue."*

1 *SEC. 311. Section 3303 of the Revised Statutes*
 2 *(U. S. C., 1934 ed., title 26, sec. 1192 (a)) is amended*
 3 *to read as follows:*

4 *"SEC. 3303. Every person who makes or distills spir-*
 5 *its, or owns any still, boiler, or other vessel used for the*
 6 *purpose of distilling spirits, or who has such still, boiler, or*
 7 *other vessel so used under his superintendence, either as*
 8 *agent or owner, or who uses any such still, boiler, or other*
 9 *vessel, shall keep a record, in the form and manner prescribed*
 10 *by the Commissioner of Internal Revenue, of the receipt on*
 11 *the distillery premises, and the use thereon, of materials*
 12 *intended for use in the distillation of spirits, and of the num-*
 13 *ber of gallons of spirits distilled, the number of gallons placed*
 14 *in the warehouse, and the proof thereof, the number of gallons*
 15 *sold or removed, with the proof thereof, and the name, place*
 16 *of business, and residence of the person to whom sold."*

17 *SEC. 312. Section 3331 of the Revised Statutes (45)(26*
 18 *U. S. C., sec. 325; U. S. C., Supp., VII, title 26, sec. 1203)*
 19 *(U. S. C., 1934 ed., title 26, sec. 1203) is hereby amended*
 20 *to read as follows:*

21 *"Sec. 3331. Any distillery or distilling apparatus*
 22 *seized for any violation of law may, in the discretion of the*
 23 *court, be released before final judgment to a receiver ap-*
 24 *pointed by the court to operate such distillery or apparatus.*
 25 *Such receiver shall give bond, which shall be approved in*

1 *open court, with two or more competent personal sureties, or*
 2 *one approved corporate surety, for the full appraised value*
 3 *of all the property seized, to be ascertained by three compe-*
 4 *tent appraisers designated and appointed by the court.*
 5 *Funds obtained from such operation shall be impounded*
 6 *as the court shall direct pending such final judgment."*

7 *SEC. 313. (46)The following sections of law are*
 8 *amended as set out hereafter: (a) Section 3332 of the Re-*
 9 *vised Statutes, as amended (U. S. C., 1934 ed., title 26, sec.*
 10 *1330 (a) and (b)), is further amended by adding a new*
 11 *paragraph at the end thereof reading as follows:*

12 *"The provisions of this section requiring the accounting*
 13 *of hogsheads, barrels, and fractional parts of barrels at the*
 14 *next higher quantity shall not apply where the contents of*
 15 *such hogsheads, barrels, or fractional parts of barrels are*
 16 *within the limits of tolerance established by the Commissioner*
 17 *of Internal Revenue by regulations which he is hereby*
 18 *authorized to prescribe with the approval of the Secretary*
 19 *of the Treasury; and no assessment shall be made and no*
 20 *tax shall be collected for any excess in any case where the*
 21 *contents of the hogsheads, barrels, or fractional parts of*
 22 *barrels heretofore or hereafter used are within the limits of*
 23 *the tolerance so prescribed."*

24 *(47)(a) (b) Section 3342 of the Revised Statutes, as*
 25 *amended (48)(26 U. S. C., 511; U. S. C., Supp., VII,*

1 title 26, sec. 1332 (a) and (b) and 1337 (b)) (U. S. C.,
2 1934 ed., title 26, sec. 1332 (a) and (b) and 1337 (b)),
3 is amended to read as follows:

4 "SEC. 3342. (a) Every brewer shall obtain, from the
5 collector of the district in which his brewery or brewery-
6 warehouse is situated, and not otherwise unless such collector
7 shall fail to furnish the same upon application to him, the
8 proper stamps.

9 "(b) Every brewer shall affix, upon the spigot-hole in
10 the head of every hogshead, barrel, or keg in which any fer-
11 mented liquor is contained, when sold or removed from such
12 brewery or warehouse (except in case of removal under per-
13 mit, as hereinafter provided), a stamp denoting the amount
14 of the tax required upon such fermented liquor, which stamp
15 shall be destroyed by driving through the same the faucet
16 through which the liquor is to be withdrawn, or an air-faucet
17 of equal size, at the time the hogshead, barrel, or keg is
18 tapped, in case it is tapped through the other spigot-hole
19 (of which there shall be but two, one in the head and one
20 in the side), and shall also, at the time of affixing such
21 stamp, cancel the same by writing or imprinting thereon
22 the name of the person, firm, or corporation by whom such
23 liquor was made, or the initial letters thereof, and the date
24 when canceled: *Provided, however,* That the Commissioner

1 of Internal Revenue may, in his discretion, authorize the use
2 of such other tapping devices or faucets as will permit the
3 affixing and destruction of stamps in a manner consistent
4 with the protection of the revenue.

5 "(c) Every brewer who refuses or neglects to affix and
6 cancel, in the manner provided under this section, the stamps
7 required by law, or who affixes a false or fraudulent stamp,
8 or knowingly permits the same to be done, shall pay a
9 penalty of \$100 for each hogshead, barrel, or keg on which
10 such omission or fraud occurs, and be imprisoned not more
11 than one year."

12 ~~(49)(b)~~ (c) Section 3345 of the Revised Statutes
13 ~~(50)~~(26 U. S. C., sec. 514; U. S. C., Supp. VII, title 26,
14 sec. 1332 (a)) (U. S. C., 1934 ed., title 26, sec. 1332 (a))
15 is amended by striking out the phrase "in one vessel" where
16 it appears after the phrase "or not less than six barrels".

17 ~~(51)(e)~~ (d) Section 3348 of the Revised Statutes
18 ~~(52)~~(26 U. S. C., sec. 519; U. S. C., Supp. VII, title 26,
19 sec. 1334 (e)) (U. S. C., 1934 ed., title 26, sec. 1334
20 (e)) is amended by striking out "kegs, or other vessels"
21 where it appears therein and inserting in lieu thereof "or
22 kegs".

23 ~~(53)(4)~~ (c) Section 3349 of the Revised Statutes
24 ~~(54)~~(26 U. S. C., sec. 520; U. S. C., Supp. VII, title 26,

1 ~~sec. 1334 (f)~~ (*U. S. C., 1934 ed., title 26, sec. 1334 (f)*)
 2 is amended by striking out "keg, or other vessel" where
 3 it appears therein and inserting in lieu thereof "or keg".
 4 **(55)(f)** *Notwithstanding any other provision of law,*
 5 *the Commissioner of Internal Revenue is authorized, to the ex-*
 6 *tent that in his judgment the same can be done without danger*
 7 *to the revenue, to issue regulations, subject to the approval of*
 8 *the Secretary of the Treasury, under which any brewer may*
 9 *remove or transport, or cause to be removed or transported, in*
 10 *bulk, in any closed tank, tank car, hogshead, or other con-*
 11 *tainer or containers, any finished fermented malt liquor of*
 12 *his own manufacture, on which the tax has been fully paid,*
 13 *and in quantities of not less than fifty barrels at any one time,*
 14 *from his brewery or other place of manufacture to another*
 15 *brewery or to a depot, warehouse, racking room, or bottling*
 16 *house used exclusively for bottling, racking, storage, or sale,*
 17 *but to no other place, and such fermented liquor so trans-*
 18 *ported may be there stored, carbonated, and bottled, or drawn*
 19 *into hogsheads, barrels, or fractional parts of barrels for sale.*
 20 *Such regulations shall provide the method of tax payment*
 21 *on such fermented malt liquor, and shall provide for any*
 22 *transit or other permits which the Commissioner of Internal*
 23 *Revenue may consider necessary for the proper protection*
 24 *of the revenue.*

1 SEC. 314. (a) The last sentence of section 3242 of the
 2 Revised Statutes ~~(56)~~~~(26 U. S. C., sec. 1014 U. S. C.,~~
 3 ~~Supp. VII, title 26, sec. 1397 (b) (1))~~ (*U. S. C., 1934 ed.,*
 4 *title 26, sec. 1397 (b)*) is hereby repealed.

5 (b) The first sentence of section 3281 of the Revised
 6 Statutes ~~(57)~~~~(26 U. S. C., secs. 1092, 306; U. S. C., Supp.~~
 7 ~~VII, title 26, secs. 1184, 1397 (a) (1))~~ (*U. S. C., 1934*
 8 *ed., title 26, secs. 1184 and 1397 (a) (1)*), as amended, is
 9 further amended to read as follows:

10 "Any person who shall carry on the business of a
 11 brewer, rectifier, wholesale liquor dealer, retail liquor dealer,
 12 wholesale dealer in malt liquors, retail dealer in malt liquors,
 13 or manufacturer of stills, and willfully fails to pay the
 14 special tax as required by law, or who shall carry on the
 15 business of a distiller without having given bond as required
 16 by law, or who shall engage in or carry on the business
 17 of a distiller with intent to defraud the United States of
 18 the tax on the spirits distilled by him, or any part thereof,
 19 shall, for every such offense, be fined not less than \$100
 20 nor more than \$5,000 and be imprisoned for not less than
 21 thirty days nor more than two years."

22 SEC. 315. Section 3335 of the Revised Statutes
 23 ~~(58)~~~~(26 U. S. C., sec. 602; U. S. C., Supp. VII, sec. 1334~~
 24 ~~(a))~~ (*U. S. C., 1934 ed., title 26, sec. 1334 (a)*) is
 25 amended to read as follows:

1 "SEC. 3335. Every brewer shall, before commencing or
 2 continuing business, file with the officer designated for that
 3 purpose by the Commissioner of Internal Revenue a notice
 4 in writing and in the form prescribed by the Commissioner,
 5 with the approval of the Secretary of the Treasury. Such
 6 notice shall set forth (a) the name and residence of the
 7 brewer, and the names and residences of all such persons
 8 interested or to be interested in the business, directly or
 9 indirectly, as the Commissioner shall prescribe, (b) the
 10 precise place where the business is to be carried on, including
 11 a description of the premises on which the brewery is sit-
 12 uated, the title of the brewer to the premises, and the name
 13 of the owner thereof, and (c) such additional particulars
 14 as the Commissioner shall prescribe as necessary for the
 15 protection of the revenue."

16 SEC. 316. Section 3336 of the Revised Statutes, as
 17 amended (59)(26 U. S. C., sec. 503; U. S. C., Supp. VII,
 18 title 26, sec. 4334 (b)) (U. S. C., 1934 ed., title 26, sec.
 19 1334 (b)), is further amended to read as follows:

20 "SEC. 3336. Every brewer, on filing notice as pro-
 21 vided by law of his intention to commence or continue busi-
 22 ness, shall execute a bond to the United States in such penal
 23 sum, in proportion to the production capacity of the plant, as
 24 the Secretary of the Treasury shall by regulations prescribe,
 25 but in no event shall such sum be less than \$1,000 (60):

1 *Provided, That if under such regulations bond in a penal*
 2 *sum in excess of \$100,000 is required, no surety or col-*
 3 *lateral security shall be required for any such excess amount,*
 4 *but the brewer shall give an additional bond to cover such*
 5 *excess, which additional bond may be given without surety*
 6 *or collateral security. The bond shall be conditioned*
 7 *that the brewer shall pay, or cause to be paid, as herein*
 8 *provided, the tax required by law on all beer, lager beer,*
 9 *ale, porter, and other fermented liquors made by or for*
 10 *him, before the same is sold or removed for consumption or*
 11 *sale, except as hereinafter provided; and that he shall keep,*
 12 *or cause to be kept, in the manner required by law, a book*
 13 *which shall be open to inspection by the proper officers, as*
 14 *by law required; and that he shall in all respects faithfully*
 15 *comply, without fraud or evasion, with all requirements of*
 16 *law relating to the manufacture and sale of any malt liquors*
 17 *aforsaid. (61)Once in every four years, and whenever*
 18 *Whenever required so to do by the Secretary of the Treasury,*
 19 *or such officer as may be designated by the Secretary of the*
 20 *Treasury, the brewer shall execute a new bond in the penal*
 21 *sum fixed in this section or prescribed in pursuance of this*
 22 *section, and conditioned as above provided, which bond shall*
 23 *be in lieu of any former bond or bonds of such brewer in*
 24 *respect to all liabilities accruing after its approval."*

1 SEC. 317. Section 3340 of the Revised Statutes, as
 2 amended (62)(U. S. C., title 26, sec. 500; H. S. C., Supp.
 3 VII, title 26, sec. 1337 (a) (1), (2)) (U. S. C., 1934 ed.,
 4 title 26, sec. 1337 (a)), is amended to read as follows:

5 "SEC. 3340. (a) Every owner, agent, or superin-
 6 tendent of any brewery, vessels, or utensils used in making
 7 fermented liquors, who evades or attempts to evade the pay-
 8 ment of the tax thereon, or fraudulently neglects or refuses
 9 to make true and exact entry and report of the same in the
 10 manner required by law, or to do, or cause to be done, any of
 11 the things by law required to be done by him, or who inten-
 12 tionally makes false entry in said book or in said statement,
 13 or knowingly allows or procures the same to be done, shall—

14 " (1) forfeit, for every such offense, all the liquors
 15 made by him or for him, and all the vessels, utensils,
 16 and apparatus used in making the same, and

17 " (2) be liable to a penalty of not less than \$500
 18 nor more than \$1,000, to be recovered with costs of
 19 suit, and shall be deemed guilty of a misdemeanor, and
 20 be imprisoned for a term not exceeding one year.

21 " (b) Every brewer who neglects to keep books or re-
 22 fuses to furnish the account and duplicate thereof as provided
 23 by law, or refuses to permit the proper officer to examine
 24 the books in the manner provided, shall, for every such
 25 refusal or neglect, forfeit and pay the sum of \$300.

1 " (c) For flagrant and willful removal of taxable malt
 2 liquors for consumption or sale, without payment of tax
 3 thereon, all the right, title, and interest of each person, who
 4 has knowingly suffered or permitted such removal or has
 5 connived at the same, in the lands and buildings constitut-
 6 ing the brewery premises (63)and bottling house shall be
 7 forfeited by a proceeding in rem in the District Court of the
 8 United States having jurisdiction thereof.

9 (64)"(d) The brewery premises shall consist of the land
 10 and buildings described in the brewer's notice and shall be
 11 used solely for the purposes of manufacturing beer, lager
 12 beer, ale, porter, and similar fermented malt liquors, cereal
 13 beverages containing less than one-half of 1 per centum of
 14 alcohol by volume, vitamins, and ice; of drying spent grain
 15 from the brewery; and recovering carbon dioxide and yeast.
 16 The brewery bottling house shall be used solely for the
 17 purposes of bottling beer, lager beer, ale, porter, and similar
 18 fermented malt liquors, and cereal beverages containing less
 19 than one-half of 1 per centum of alcohol by volume. Not-
 20 withstanding the foregoing provisions, where any such
 21 brewery premises or brewery bottling house is, on the date
 22 of the enactment of the Liquor Tax Administration Act,
 23 being used by any brewer for purposes other than those
 24 herein described, or the brewery bottling house is, on such
 25 date, being used for the bottling of soft drinks, the use of

1 the brewery and bottling house premises for such purposes
 2 may be continued by such brewer. The brewery bottling
 3 house of any brewery shall not be used for the bottling of the
 4 product of any other brewery. Any brewer who uses his
 5 brewery or bottling house contrary to the provisions of this
 6 subsection shall be fined not more than \$50 with respect to
 7 each day upon which any such use occurs."

8 "(d) The brewery premises shall consist of the land and
 9 buildings described as such in the brewer's notice and shall
 10 be used solely for the purposes of manufacturing beer, lager
 11 beer, ale, porter, and similar fermented malt liquors, cereal
 12 beverages containing less than one-half of 1 per centum of
 13 alcohol by volume, vitamins, ice, malt, malt syrup; of drying
 14 spent grain and recovering and processing carbon dioxide
 15 and yeast; of storing bottles, packages, and supplies necessary
 16 or incidental to all such manufacture; and, under regulations
 17 issued by the Commissioner of Internal Revenue, for the pur-
 18 pose of manufacturing such other commodities or byproducts
 19 as he may find to be incidental to the manufacture of any
 20 such fermented malt liquors. The brewery bottling house
 21 shall be used solely for the purposes of bottling beer, lager
 22 beer, ale, porter, and similar fermented malt liquors; for
 23 bottling cereal beverages containing less than one-half of 1 per
 24 centum of alcohol by volume; and for manufacturing, car-
 25 bonating, and bottling soft drinks. The brewery bottling

1 house of any brewery shall not be used for the bottling of the
 2 product of any other brewery, except under regulations pre-
 3 scribed by the Commissioner of Internal Revenue. Any
 4 brewer who uses his brewery or bottling house contrary to the
 5 provisions of this subsection shall be fined not more than \$50
 6 with respect to each day upon which any such use occurs."

7 SEC. 318. The Secretary of the Treasury may, by
 8 regulations, authorize the amelioration of wine by the wine-
 9 maker and the fortification of wine, without supervision by
 10 any officer of the United States, whenever he determines
 11 that such authorization may be made without danger to the
 12 revenue.

13 SEC. 319. (65)(a) Section 605 of the Revenue Act of
 14 1918 (66)(26 U. S. C., sec. 254; U. S. C., Supp. VII, title
 15 26, sec. 1151), as amended (U. S. C., 1934 ed., title 26, sec.
 16 1151), is amended by inserting, preceding the penalty para-
 17 graph the following new paragraph:

18 "The premises of a rectifier shall be as described in his
 19 notice and, whether they consist of an entire building or of
 20 rooms in a building, shall have means of ingress from and
 21 egress into a public street or yard, or into a public hall or
 22 elevator shaft leading into a public street or yard, and shall
 23 be used exclusively for the business of rectification and the
 24 bottling of liquors rectified by him thereon, and the bottling
 25 of wines and spirits without rectification. Notwithstanding

1 the foregoing provisions, where any such premises are, on
 2 the date of the enactment of the Liquor Tax Administration
 3 Act, being used for purposes other than those herein de-
 4 scribed, such use may be continued for not more than sixty
 5 days after such date. Any rectifier who uses his rectifying
 6 premises contrary to the provisions of this paragraph shall
 7 be fined not more than \$50 with respect to each day upon
 8 which any such use occurs, but shall not, on account of such
 9 use, be subject to the penalties otherwise prescribed in this
 10 section."

11 (67)(b) Section 505 of the Revenue Act of 1918, as
 12 amended, is amended by adding at the end thereof two new
 13 paragraphs reading as follows:

14 "The filtering, clarifying, or purifying of wines shall
 15 not be deemed to be rectification within the meaning of para-
 16 graph 'Third' of section 3244 of the Revised Statutes
 17 (U. S. C., 1934 ed., title 26, sec. 1398 (f)). The Com-
 18 missioner of Internal Revenue, with the approval of the
 19 Secretary of the Treasury, shall prescribe such regulations
 20 under this section as he deems necessary.

21 "The manufacture of vermouth with fortified sweet
 22 wine on bonded winery premises shall not be deemed to be
 23 rectification within the meaning of paragraph 'Third' of
 24 section 3244 of the Revised Statutes, if distilled spirits are

1 not added to the fortified sweet wine used in the manufacture
 2 thereof or to such vermouth during or after its manufac-
 3 ture. Such vermouth may be manufactured on bonded
 4 winery premises, but only in a separate department thereof
 5 having no interior communication with any other depart-
 6 ment or part of such premises, under such supervision and
 7 in accordance with such regulations as the Commissioner
 8 of Internal Revenue, with the approval of the Secretary
 9 of the Treasury, shall prescribe."

10 (68)(c) So much of section 611 of the Revenue Act of
 11 1918, as amended (relating to the tax on still wines)
 12 (U. S. C., 1934 ed., title 26, sec. 1300 (a) (1)), as reads:

13 "On wines containing not more than 14 per centum of
 14 absolute alcohol, 10 cents per wine gallon, the per centum
 15 of alcohol under this section to be reckoned by volume and
 16 not by weight;"

17 is amended to read as follows:

18 "On wines containing not more than 14 per centum
 19 of absolute alcohol, 5 cents per wine gallon, the per centum
 20 of alcohol under this section to be reckoned by volume and
 21 not by weight;"

22 "On wines containing more than 14 per centum and
 23 not exceeding 21 per centum of absolute alcohol, 10 cents
 24 per wine gallon;

1 "On wines containing more than 21 per centum and
2 not exceeding 24 per centum of absolute alcohol, 20 cents
3 per wine-gallon.

4 "Section 613 of the Revenue Act of 1918, as amended
5 (U. S. C., Supp. VII, title 26, sec. 1300 (a) (2)), is
6 amended in part to read as follows:

7 "SEC. 613. (a) Upon the following articles which are
8 produced in or imported into the United States, after the
9 date of the enactment of this amendatory section, or which
10 on the day after such date are on any winery premises or
11 other bonded premises or in transit thereto or at any custom-
12 house, there shall be levied, collected, and paid, in lieu of
13 the internal-revenue taxes now imposed thereon by law, taxes
14 at rates as follows, when sold, or removed for consumption
15 or sale:

16 "On each bottle or other container of champagne or
17 sparkling wine, $2\frac{1}{2}$ cents on each one-half pint or fraction
18 thereof.

19 "On each bottle or other container of artificially car-
20 bonated wine, $1\frac{1}{2}$ cents on each one-half pint or fraction
21 thereof.

22 "On each bottle or other container of liqueurs, cor-
23 dial, or similar compounds, by whatever name sold or
24 offered for sale, containing sweet wine fortified with grape
25 brandy or containing citrus-fruit wine fortified with citrus-

1 fruit brandy, $2\frac{1}{2}$ cents on each one-half pint or fraction
2 thereof."

3 (69)(d) So much of section 613 of the Revenue Act of
4 1918, as amended (U. S. C., 1934 ed., title 26, sec. 1300
5 (a) (2)), as reads:

6 "Any of the foregoing articles containing more than
7 24 per centum of absolute alcohol by volume shall be classed
8 as distilled spirits and shall be taxed accordingly."
9 is amended to read as follows:

10 "Any of the foregoing articles containing more than 24
11 per centum of absolute alcohol by volume (except vermouth,
12 liqueurs, cordials, and similar compounds made in rectifying
13 plants and containing tax-paid sweet wine, citrus-fruit wine,
14 peach wine, cherry wine, berry wine, apricot wine, or apple
15 wine fortified, respectively, with grape brandy, citrus-fruit
16 brandy, peach brandy, cherry brandy, berry brandy, apricot
17 brandy, or apple brandy) shall be classed as distilled spirits
18 and shall be taxed accordingly.

19 "The Commissioner of Internal Revenue, subject to
20 regulations prescribed by the Secretary of the Treasury, is
21 authorized to remit, refund, and pay back all distilled spirits
22 tax on such liqueurs, cordials, and similar compounds paid
23 by rectifiers or assessed prior to the date of the enactment
24 of the Liquor Tax Administration Act."

1 SEC. 320. Section 609 of the Revenue Act of 1918
 2 (26 U. S. C., sec. 515) is amended by striking out the words
 3 "industrial distillery of either class established under the
 4 Act entitled 'An Act to reduce tariff duties and to provide
 5 a revenue for the Government, and for other purposes',
 6 approved October 3, 1913", and substituting therefor the
 7 words "industrial alcohol plant".

8 SEC. 321. Each retail liquor dealer shall provide at
 9 his own expense, and keep in his place of business, a record
 10 in book form, or shall keep all invoices of, and bills for,
 11 all ~~(70)~~intoxicating liquors distilled spirits, wines, and fer-
 12 mented malt liquors received, the quantity thereof, and
 13 from whom and the date when received. Such records,
 14 invoices, and bills shall be open to inspection during the
 15 usual business hours of the retailer by Government officers
 16 upon identification and request. Such records, invoices,
 17 and bills shall be kept for a period of two years after the
 18 time of the transactions to which they relate. For each
 19 willful violation of the provisions hereof the retailer shall
 20 be subject to a fine of \$25.

21 SEC. 322. Section 3237 of the Revised Statutes, as
 22 amended ~~(71)~~(26 U. S. C., sec. 1386; U. S. C., Supp. VII,
 23 title 26, sec. 1402 (b) and sec. 1403 (b)) (U. S. C., 1934
 24 ed., title 26, secs. 1402 (b) and 1403), is amended to read
 25 as follows:

1 "SEC. 3237. (a) All special taxes shall become due on
 2 the 1st day of July in each year, or on commencing any
 3 trade or business on which such tax is imposed. In the
 4 former case the tax shall be reckoned for one year, and
 5 in the latter case it shall be reckoned proportionately, from
 6 the 1st day of the month in which the liability to a special
 7 tax commenced, to and including the 30th day of June
 8 following.

9 "(b) It shall be the duty of the special taxpayers
 10 to render their returns with remittances to the collector
 11 at such times within the calendar month in which the special
 12 tax liability commenced as shall enable him to receive such
 13 returns, duly signed and verified, together with the remit-
 14 tances, not later than the last day of the month, except in
 15 cases of sickness or absence, as provided for in section 3176
 16 of the Revised Statutes, as amended."

17 SEC. 323. Paragraph "Fourth" of section 3244 of
 18 the Revised Statutes, as amended ~~(72)~~(26 U. S. C., sec. 2064;
 19 U. S. C., Supp. VII, title 26, secs. 1394 (b) (1) and
 20 (2), 1394 (c) (1), and 1398 (b) and (a)) (U. S. C.,
 21 1934 ed., title 26, sec. 1394 (a) and (b) (1), and sec. 1398
 22 (a) and (b)), is amended to read as follows:

23 "Fourth. (a) Retail dealers in liquors shall pay a spe-
 24 cial tax of \$25. Every person who sells, or offers for sale,
 25 foreign or domestic distilled spirits, wines, or malt liquors,

1 otherwise than as hereinafter provided, in less quantities than
 2 five wine-gallons to the same person at the same time, shall
 3 be regarded as a retail dealer in liquors (73): *Provided, That*
 4 *the Commissioner of Internal Revenue may, by regulations,*
 5 *with the approval of the Secretary of the Treasury, pro-*
 6 *vide for the issuance of a stamp denoting payment of such*
 7 *special tax as a 'retail dealer in wines' or a 'retail*
 8 *dealer in wines and malt liquors' if, as the case may*
 9 *be, wines only, or wines and malt liquors only, are sold*
 10 *by a retail dealer in liquors: And provided further,*
 11 *That the tax required to be paid by this paragraph shall,*
 12 *in case of a retail drug store or pharmacy making sales of*
 13 *liquors through a duly licensed pharmacist, be designated*
 14 *as a 'medicinal spirits stamp tax': And provided further,*
 15 *That any retail dealer in liquors or retail dealer in malt*
 16 *liquors whose business is such as to require him to travel*
 17 *from place to place in different States of the United States*
 18 *may, under regulations prescribed by the Commissioner of*
 19 *Internal Revenue, with the approval of the Secretary of the*
 20 *Treasury, procure a special-tax stamp 'At Large' covering*
 21 *his activities throughout the United States with the payment*
 22 *of but one special tax as a retail dealer in liquors or as a*
 23 *retail dealer in malt liquors, as the case may be.*

24 " (b) Wholesale dealers in liquors shall pay a special
 25 tax of \$100. Every person who sells, or offers for sale,

1 foreign or domestic distilled spirits, wines, or malt
 2 liquors, otherwise than as hereinafter provided, in quan-
 3 tities of five wine-gallons or more to the same person at
 4 the same time, shall be regarded as a wholesale dealer
 5 in liquors (74): *Provided, That the Commissioner of In-*
 6 *ternal Revenue may, by regulations, with the approval of the*
 7 *Secretary of the Treasury, provide for the issuance of a*
 8 *stamp denoting payment of such special tax as a 'wholesale*
 9 *dealer in wines' or a 'wholesale dealer in wines and malt*
 10 *liquors' if, as the case may be, wines only, or wines and malt*
 11 *liquors only, are sold by a wholesale dealer in liquors.*
 12 A qualified wholesale dealer in liquors may not sell distilled
 13 spirits, wines, or malt liquors in quantities of less than
 14 five wine-gallons without incurring liability (75) to special
 15 tax as a retail dealer in liquors. A qualified retail dealer
 16 in liquors may not sell such liquors in quantities of
 17 five wine-gallons or more to the same person at the same
 18 time without incurring liability to special tax as a wholesale
 19 dealer in liquors. But no distiller who has given the
 20 required bond and who sells only distilled spirits of his own
 21 production at the place of manufacture, or at the place of
 22 storage in bond, in the original packages to which the tax-
 23 paid stamps are affixed, shall be required to pay the special
 24 tax of a wholesale dealer in (76) liquor on account
 25 of such sales.

1 “(c) No retail dealer in liquors shall be held to be a
2 wholesale dealer in liquors solely by reason of sales of five
3 wine-gallons or more to the same person at the same time
4 if such sales are for immediate consumption on the premises
5 where sold.

6 “(d) No wholesale or retail dealer in liquors who has
7 paid the special tax as such a dealer shall again be required
8 to pay special tax as such dealer on account of sales of beer,
9 lager beer, ale, porter, or other similar fermented malt liquor
10 to wholesale or retail dealers in liquors or wholesale or retail
11 dealers in malt liquors consummated at the purchaser's place
12 of business covered by the stamp issued to him to denote the
13 payment of the special tax imposed upon such dealers (77),
14 or on account of the sale of such malt liquor when consum-
15 mated at the purchaser's residence in consequence of an oral
16 or written standing order to call at such residence.”

17 SEC. 324. Paragraph “Fifth” of section 3244 of the
18 Revised Statutes, as amended (78)(26 U. S. C., sec. 205 and
19 sec. 222; U. S. C., Supp. VII, title 26, secs. 1304 (e) (1)
20 and (2), 1304 (f) (1) and (2), 1306 (a), (b), and (c),
21 and 1308 (e) and (f)) (U. S. C., 1934 ed., title 26, secs.
22 1394 (d), 1394 (e) (1) and (2), 1396, and 1398 (d)
23 and (e)), is amended to read as follows:

24 “Fifth. (a) Retail dealers in malt liquors shall pay a
25 special tax of \$20. Every person who sells, or offers for

1 sale, malt liquors in less quantities than five gallons to the
2 same person at the same time, and does not deal in distilled
3 spirits or wines, shall be regarded as a retail dealer in malt
4 liquors.

5 “(b) Wholesale dealers in malt liquors shall pay a
6 special tax of \$50. Every person who sells, or offers for
7 sale, malt liquors in quantities of five gallons or more, to the
8 same person at the same time, and who does not deal
9 in distilled spirits or wines at wholesale, shall be regarded
10 as a wholesale dealer in malt liquors. A qualified whole-
11 sale dealer in malt liquors may not sell such liquors in
12 quantities of less than five gallons without incurring liability
13 (79) to special tax as a retail dealer in malt liquors. A
14 qualified retail dealer in malt liquors may not sell such
15 liquors in quantities of five gallons or more to the same
16 person at the same time without incurring liability to special
17 tax (80) applicable to the as a wholesale dealer in malt
18 liquors: *Provided*, That no brewer shall be obliged to pay
19 special tax as a dealer by reason of selling in the original
20 stamped hogsheads, barrels, or kegs, whether at the place
21 of manufacture or elsewhere, malt liquors manufactured by
22 him or purchased and procured by him in his own hogs-
23 heads, barrels, or kegs, under the provisions of section 3340
24 of the Revised Statutes, as amended, but the quantity of
25 malt liquors so purchased shall be included in calculating

1 the liability to brewers' special tax of both the brewer who
2 manufactures and sells the same and the brewer who pur-
3 chases the same.

4 " (c) No collection of special tax as a retail dealer in
5 malt liquors shall be made from brewers for selling malt
6 liquors of their own manufacture in the original stamped
7 eighth-barrel packages.

8 " (d) No special tax shall be held to accrue on a sale
9 of distilled spirits, wines, or malt liquors made by a person
10 who is not otherwise a dealer in liquors, where such spirits,
11 wines, or liquors have been received by the person so selling
12 as security for or in payment of a debt, or as executor,
13 administrator, or other fiduciary, or have been levied on by
14 any officer, under order or process of any court or magistrate,
15 and where such spirits are sold by such person in one parcel
16 only, or at public auction in parcels not less than twenty
17 wine-gallons, nor shall such tax be held to accrue on a
18 sale made by a retiring partner, or the representatives of a
19 deceased partner to the incoming, remaining, or surviving
20 partner or partners of a firm. Nor shall the special tax of
21 a wholesale dealer in liquors or wholesale dealer in malt
22 liquors be held to apply to a retail dealer in liquors or a
23 retail dealer in malt liquors, because of such retail dealer
24 selling out his entire stock of liquors in one parcel, or in
25 parcels embracing not less than his entire stock of distilled

1 spirits, of wines, or of malt liquors. Section 3319 of the
2 Revised Statutes shall not be held to prohibit a rectifier or
3 liquor dealer from purchasing, in quantities greater than
4 twenty wine-gallons, the distilled spirits sold in one parcel
5 as aforesaid.

6 " (e) No retail dealer in malt liquors shall be held to
7 be a wholesale dealer in malt liquors solely by reason of
8 sales of five gallons or more to the same person at the same
9 time if such sales are for immediate consumption on the
10 premises where sold.

11 " (f) No wholesale or retail dealer in malt liquors who
12 has paid the special tax as such a dealer shall again be re-
13 quired to pay special tax as such dealer on account of sales
14 of beer, lager beer, ale, porter, or other similar fermented
15 malt liquor to wholesale or retail dealers in liquors or whole-
16 sale or retail dealers in malt liquors consummated at the pur-
17 chaser's place of business covered by the stamp issued to
18 him to denote the payment of the special tax imposed upon
19 such ~~(81) dealers.~~ ^{dealers,} or on account of the sale of such
20 malt liquor when consummated at the purchaser's residence
21 in consequence of an oral or written standing order to call
22 at such residence.

23 ⁽⁸²⁾ (g) Notwithstanding the foregoing provisions of this
24 section, each person selling fermented malt liquor to the
25 members, guests, or patrons of bona fide fairs, reunions,

1 picnics, carnivals, or other similar outings, for a period
 2 of not more than thirty days once in each fiscal year, and
 3 not otherwise engaged in business as a dealer in malt liquors,
 4 shall pay, before such sales are made and in lieu of the
 5 special tax imposed by subdivision (a) of this paragraph,
 6 a special tax of \$2 as a retail dealer in malt liquors."

7 SEC. 325. Section 3450 of the Revised Statutes
 8 (83) (26 U. S. C., sec. 4181, 4182; U. S. C., Supp., VII,
 9 title 26, sec. 1441) (U. S. C., 1934 ed., title 26, sec. 1441)
 10 is hereby reenacted and amended by striking out "fine
 11 or penalty of not more than \$500" appearing at the end
 12 of the second sentence thereof, and inserting in lieu thereof
 13 the words "fine of not more than \$5,000 or be imprisoned
 14 for not more than three years, or both".

15 SEC. 326. Section 203 of the Liquor Taxing Act of
 16 1934 is amended by adding a new paragraph at the end
 17 thereof, as follows:

18 (84) "The Secretary of the Treasury may, under such
 19 regulations as may be prescribed by him, redeem any stamps
 20 issued under this Act. There is hereby authorized to be
 21 appropriated annually, out of any money in the Treasury
 22 not otherwise appropriated, such sums as may be necessary
 23 to carry out this provision."

24 "The Commissioner of Internal Revenue, under regu-
 25 lations approved by the Secretary of the Treasury, may

1 issue new stamps in exchange for any unused stamps issued
 2 under this Act that have been spoiled by fire or water; or
 3 rendered useless by erroneous overprinting or cutting; or
 4 may refund the value of any unused stamps for which the
 5 lawful owner has no use due to the discontinuance or trans-
 6 fer of his business: Provided, That stamps may be ex-
 7 changed, or the value thereof refunded, only in quantities
 8 of the value of \$5 or more: And provided further, That no
 9 claim for the exchange of such stamps or refund therefor
 10 shall be allowed unless presented within one year after the
 11 date on which such stamps were purchased, or, in the case
 12 of any such stamps so spoiled or rendered useless or for
 13 which the lawful owner had no use due to the discontinuance
 14 or transfer of his business prior to the date of the enactment
 15 of the Liquor Tax Administration Act, within one year after
 16 such date. There are hereby authorized to be appropriated
 17 annually, out of any money in the Treasury not otherwise
 18 appropriated, such sums as may be necessary to carry out
 19 the provisions of this paragraph."

20 SEC. 327. (a) The Commissioner of Internal Reve-
 21 nue shall make refund, or in lieu thereof, if he so elects,
 22 allow credit to a brewer in the amount of tax paid by such
 23 brewer on any beer, lager beer, ale, porter, or other similar
 24 fermented malt liquor manufactured by such brewer which
 25 (85) has become unsalable between March

1 22, 1933, and the date of the enactment of this Act, by reason
 2 of its condition, upon the filing of a claim therefor by the
 3 brewer and proof by him to the satisfaction of the Commis-
 4 sioner that such beer, lager beer, ale, porter, or other simi-
 5 lar fermented malt liquor (1) was fully tax-paid, (2) was
 6 lawfully removed from his brewery to his bottling house
 7 on or after March 22, 1933, (86) and prior to the date of the
 8 enactment of this Act, (3) never was removed from such
 9 bottling house, (87) except in the process of destruction or for
 10 return to the brewery, (4) had become unsalable without
 11 fraud, connivance, or collusion on his part, and (5) was
 12 destroyed by him in such bottling house in the presence of
 13 a representative of the Bureau of Internal Revenue (88), or
 14 was returned from such bottling house to the brewery in
 15 which made for use therein as brewing material. No such
 16 claim shall be allowed unless filed within ninety days after
 17 the date of the enactment of this Act.

18 (89)(h) No such claim shall be allowed unless filed within
 19 ninety days after such destruction or, in the case of any
 20 beer, lager beer, ale, porter, or other similar fermented malt
 21 liquor so destroyed before the date of the enactment of this
 22 Act, within ninety days after such date.

23 (b) The Commissioner of Internal Revenue is authorized
 24 and directed to make a survey for the purpose of determining

1 whether, consistently with the protection of the revenue, re-
 2 funds or credits for taxes may be made or allowed with respect
 3 to brewery bottling house, brewery and other losses of beer,
 4 lager beer, ale, porter, or other similar fermented malt liquor
 5 which has been fully tax-paid. If the Commissioner of In-
 6 ternal Revenue shall find, after such a survey, that such re-
 7 funds or credits may be made or allowed consistently with the
 8 protection of the revenue, he shall issue regulations, subject
 9 to the approval of the Secretary of the Treasury, under which
 10 such refunds or credits may be made or allowed with respect
 11 to such losses of beer, lager beer, ale, porter, or other similar
 12 fermented malt liquor as the Commissioner finds are not ex-
 13 cessive or unreasonable, upon the filing of a claim therefor by
 14 the brewer and proof by him to the satisfaction of the Commis-
 15 sioner of Internal Revenue (1) that such beer, lager beer,
 16 ale, porter, or other similar fermented malt liquor was fully
 17 tax-paid; (2) that the loss occurred in the brewery bottling
 18 house or brewery or elsewhere as the Commissioner may de-
 19 termine by regulations, subject to the approval of the Secre-
 20 tary of the Treasury; (3) that such loss was due to imperfect
 21 filling or capping, spoilage, leakage, breakage, or wastage;
 22 (4) that such loss was not due to carelessness, negligence,
 23 fraud, connivance, or collusion on the part of the brewer; and
 24 (5) that such loss was not excessive or unreasonable. No

1 claim under this subsection shall be allowed unless filed within
2 sixty days after the last day of the month in which such loss
3 occurred.

4 (c) The Commissioner is authorized to issue to the
5 brewer to whom a credit is allowed pursuant to this section
6 stamps in an amount equal to such credit, for use by him in
7 the payment of the tax upon beer, lager beer, ale, porter, or
8 other similar fermented malt liquor manufactured by him.

9 (d) The Commissioner of Internal Revenue, with the
10 approval of the Secretary of the Treasury, is authorized
11 to make such rules and regulations as may be necessary to
12 carry out the provisions of this section.

13 SEC. 328. Section 3246 of the Revised Statutes, as
14 amended (90)~~(96~~ U. S. C. 225; Supp. VII, title 26, sec.
15 1394 (h), (i), and (j)) (U. S. C., 1934 ed., title 26,
16 sec. 1394 (g), (h), and (i)), is amended to read as follows:

17 "SEC. 3246. (a) Nothing in this chapter shall be con-
18 strued to impose a special tax upon winemakers (91)who have
19 qualified as such under the internal-revenue laws and regu-
20 lations, and who sell wines of their own production where
21 the same are made or at the general business office of such
22 winemaker: Provided, That no winemaker shall have more
23 than one place of business for the sale of such wine that shall
24 be exempt from the special tax.

1 " (b) No special tax shall be imposed upon apothec-
2 aries as to wines or spirituous liquors which they use ex-
3 clusively in the preparation or making up of medicines unfit
4 for use for beverage purposes.

5 " (c) No special tax shall be imposed upon manufac-
6 turing chemists or flavoring-extract manufacturers for re-
7 covering tax-paid alcohol or spirituous liquors from dregs
8 or marc of percolation, or extraction, if such recovered
9 alcohol or spirituous liquors be again used in the manufacture
10 of medicines or flavoring extracts of the kind in the produc-
11 tion of which originally used."

12 SEC. 329. (92)(a) Section 3 of Title III of the National
13 Prohibition Act, as amended (U. S. C., 1934 ed., title 27,
14 sec. 73; U. S. C., 1934 ed., supp. I, title 27, sec. 73),
15 is amended by adding at the end thereof the following new
16 sentence: "Permanent tanks and other structures located
17 on the industrial alcohol plant premises and approved by
18 the Commissioner, shall be deemed to be warehouses within
19 the meaning of this section."

20 (93)(b) The third paragraph of section (94)eleven of ~~the~~
21 11 of Title III of the National Prohibition Act, as amended
22 and supplemented, is amended by inserting after the word
23 "sanatorium" a comma and the following: "or for the use
24 of any clinic operated for charity and not for profit, including

1 use in the compounding of bona fide medicines for treatment
2 outside of such clinics of patients thereof, but not for sale".

3 (95)(c) Title III of the National Prohibition Act, as
4 amended, and all provisions of the internal revenue laws
5 relating to the enforcement thereof, are hereby extended
6 to and made applicable to Puerto Rico and the Virgin
7 Islands, from and after August 27, 1935. The respective
8 Insular Governments shall advance to the Treasury of the
9 United States such funds as may be required from time
10 to time by the Secretary of the Treasury for the purpose
11 of defraying all expenses incurred by the Treasury Depart-
12 ment in connection with the enforcement in Puerto Rico
13 and the Virgin Islands of the said Title III and regulations
14 promulgated thereunder. The funds so advanced shall be
15 deposited in a separate trust fund in the Treasury of the
16 United States and shall be available to the Treasury
17 Department for the purposes of this subsection.

18 (96)SEC. 330. Section 610 of the Revenue Act of
19 1918, as amended (26 U. S. C. 444; Supp. VII, title 26,
20 sec. 4310), is amended to read as follows:

21 "SEC. 610. (a) Natural wine within the meaning of
22 this Act shall be deemed to be the product made from the
23 normal alcoholic fermentation of the juice of sound, ripe
24 grapes, without addition or abstraction, except such as may
25 occur in the usual cellar treatment of clarifying and aging.

1 "(b) The product made from the juice of sound, ripe
2 grapes by complete fermentation of the must under proper
3 cellar treatment and corrected by the addition (under the
4 supervision of a storekeeper-gauger, unless such supervision
5 is dispensed with by the Commissioner of Internal Revenue,
6 under the provisions of section 318 of the Liquor Tax
7 Administration Act) of a solution of water and pure cane,
8 beet, or dextrose sugar (containing, respectively, not less
9 than 85 per centum of actual sugar, calculated on a dry
10 basis) to the must or to the wine, to correct natural de-
11 ficiencies, when such addition shall not increase the volume
12 of the resultant product more than 35 per centum, and the
13 resultant product does not contain less than five parts per
14 thousand of acid before fermentation and not more than
15 13 per centum of alcohol after complete fermentation, shall
16 be deemed to be wine within the meaning of this Act, and
17 may be labeled, transported, and sold as 'wine', qualified
18 by the name of the locality where produced, and may be
19 further qualified by the name of its own particular type or
20 variety.

21 "(c) Wine as defined in this section may be sweetened
22 with cane sugar or beet sugar or pure condensed grape must
23 and fortified under the provisions of this Act, and wines so
24 sweetened or fortified shall be considered sweet wine within
25 the meaning of this Act.

1 “(d) The provisions of the internal-revenue laws ap-
 2 plicable to natural wine shall apply in the same manner
 3 and to the same extent to citrus-fruit wines which are the
 4 product of normal alcoholic fermentation of the juice of
 5 sound ripe citrus fruit (except lemons and limes) with or
 6 without the addition of dry cane, beet, or dextrose sugar
 7 (containing, respectively, not less than 95 per centum of
 8 actual sugar, calculated on a dry basis) for the purpose of
 9 perfecting the product according to standards, but without
 10 the addition or abstraction of other substances, except as
 11 may occur in the usual cellar treatment of clarifying or
 12 aging.”

13 *SEC. 330. (a) The last paragraph of section 610*
 14 *of the Revenue Act of 1918, as amended (U. S. C., 1934*
 15 *ed., supp. I, title 26, sec. 1310 (d)), is amended to read*
 16 *as follows:*

17 *“The provisions of the internal-revenue laws applicable*
 18 *to natural wine shall apply in the same manner and to the*
 19 *same extent to citrus-fruit wines, peach wines, cherry wines,*
 20 *berry wines, apricot wines, and apple wines which are the*
 21 *products, respectively, of normal alcoholic fermentation of the*
 22 *juice of sound ripe (1) citrus-fruit (except lemons and*
 23 *limes), (2) peaches, (3) cherries, (4) berries, (5) apricots,*
 24 *or (6) apples, with or without the addition of dry cane,*
 25 *beet, or dextrose sugar (containing, respectively, not less than*

1 *95 per centum of actual sugar, calculated on a dry basis)*
 2 *for the purpose of perfecting the product according to stand-*
 3 *ards, but without the addition or abstraction of other sub-*
 4 *stances, except as may occur in the usual cellar treatment of*
 5 *clarifying or aging.”*

6 *(h) So much of section 613 of the Revenue Act of*
 7 *1918, as amended (U. S. C., 1934 ed., supp. I, title 26,*
 8 *sec. 1300 (a) (2)), as reads as follows:*

9 *“On each bottle or other container of liqueurs, cordials,*
 10 *or similar compounds, by whatever name sold or offered for*
 11 *sale, containing sweet wine fortified with grape brandy, or*
 12 *containing citrus-fruit wine fortified with citrus-fruit brandy,*
 13 *2½ cents on each one-half pint or fraction thereof;”*

14 *is amended to read as follows:*

15 *“On each bottle or other container of liqueurs, cordials,*
 16 *or similar compounds, by whatever name sold or offered*
 17 *for sale, containing sweet wine, citrus-fruit wine, peach wine,*
 18 *cherry wine, berry wine, apricot wine, or apple wine, fortified,*
 19 *respectively, with grape brandy, citrus-fruit brandy, peach*
 20 *brandy, cherry brandy, berry brandy, apricot brandy, or*
 21 *apple brandy, 2½ cents on each one-half pint or fraction*
 22 *thereof;”*

23 *SEC. 331. Section 612 of the Revenue Act of 1918,*
 24 *as amended (97) (26 U. S. C. 442; U. S. C., Supp. VII,*

1 title 26, sec. 1301) (*U. S. C., 1934 ed., supp. 1, title 26,*
 2 *sec. 1301*), is amended to read as follows:

3 "Sec. 612. (a) Under such regulations and official
 4 supervision and upon the giving of such (98) notices, entries,
 5 bonds, and other security notices and entries as the Commis-
 6 sioner, with the approval of the Secretary, may prescribe,
 7 any producer of wines defined under the provisions of this title
 8 may withdraw from any fruit distillery or (99) special bonded
 9 warehouse *Internal Revenue Bonded Warehouse* grape
 10 brandy, or wine spirits, for the fortification of such wines on
 11 the premises where actually made (100), and any producer
 12 of citrus-fruit wines may similarly withdraw citrus-fruit
 13 brandy for the fortification of citrus-fruit wines on the
 14 premises where actually made, and any producer of citrus-
 15 fruit wines, peach wines, cherry wines, berry wines, apricot
 16 wines, or apple wines may similarly withdraw citrus-fruit
 17 brandy, peach brandy, cherry brandy, berry brandy,
 18 apricot brandy, or apple brandy for the fortification, re-
 19 spectively, of citrus-fruit wines, peach wines, cherry wines,
 20 berry wines, apricot wines, or apple wines, on the premises
 21 where actually made: *Provided, That* after the date of
 22 the enactment of the Liquor Tax Administration Act there
 23 shall be levied and assessed against the producer of such
 24 wines or citrus-fruit wines (101), peach wines, cherry wines,
 25 berry wines, apricot wines, or apple wines (in lieu of the in-

1 ternal-revenue tax now imposed thereon by law) a tax of
 2 (102) 10 15 cents per proof-gallon of grape brandy, citrus-
 3 fruit brandy, (103) peach brandy, cherry brandy, berry
 4 brandy, apricot brandy, apple brandy, or wine spirits, when-
 5 ever withdrawn and so used by him after such date in the
 6 fortification of such wines or citrus-fruit wines (104) or peach
 7 wines, cherry wines, berry wines, apricot wines, or apple
 8 wines during the preceding month, which assessment shall
 9 be paid by him within (105) twelve eighteen months from
 10 the date of notice thereof (106): *Provided, That every pro-*
 11 *ducer of wine who withdraws such brandy, citrus-fruit*
 12 *brandy, peach brandy, cherry brandy, berry brandy, apricot*
 13 *brandy, apple brandy, or wine spirits shall give bond to fully*
 14 *cover at all times prior to payment of the assessment the*
 15 *amount of tax due on such brandy, citrus-fruit brandy, peach*
 16 *brandy, cherry brandy, berry brandy, apricot brandy, apple*
 17 *brandy, or wine spirits, which bond shall be in such form as*
 18 *the Commissioner of Internal Revenue, with the approval*
 19 *of the Secretary of the Treasury, shall, by regulations,*
 20 *prescribe. When such wines are (107) destroyed or sold*
 21 *or removed for the manufacture of vinegar, or the produc-*
 22 *tion of dealcoholized wines containing less than one-half of*
 23 *1 per centum of alcohol by volume, the tax under this*
 24 *section on such grape brandy, citrus-fruit brandy,*
 25 (108) peach brandy, cherry brandy, berry brandy, apricot

1 *brandy, apple brandy, or wine spirits shall, under such*
 2 *regulations as the Secretary may prescribe, be abated or*
 3 *refunded.*

4 " (b) Nothing contained in this section shall be
 5 construed as exempting any wines, citrus-fruit wines,
 6 (109) *peach wines, cherry wines, berry wines, apricot wines,*
 7 *apple wines, cordials, liqueurs, or similar compounds from*
 8 *the payment of any tax provided for in this title.*

9 " (c) Any such wines, or citrus-fruit wines (110), or
 10 *peach wines, cherry wines, berry wines, apricot wines, apple*
 11 *wines, may, under such regulations as the Secretary may*
 12 *prescribe, be sold or removed tax free for the manufacture*
 13 *of vinegar, or for the production of dealcoholized wines con-*
 14 *taining less than one-half of 1 per centum of alcohol by*
 15 *volume.*

16 " (d) The taxes imposed by this section shall not apply
 17 to dealcoholized wines containing less than one-half of 1 per
 18 centum of alcohol by volume."

19 (111) " (e) *That under rules and regulations to be prescribed*
 20 *by the Secretary, there shall be abated or refunded to the*
 21 *extent such exceeded the fortifying tax herein provided all*
 22 *such taxes paid upon grape brandy or wine spirits used in*
 23 *the fortification of wine held by the producer thereof upon the*
 24 *day this Act takes effect and intended for sale or for use in the*
 25 *manufacture or production of any article intended for sale."*

1 (112) ~~Snc. 332.~~ Section 42 of the Act approved October 4,
 2 1890 (26 U. S. C. 445; U. S. C., Supp. VII, title 26,
 3 sec. 1302(a)) as amended, is amended to read as follows:
 4 "Snc. 42. (a) Any producer of pure sweet wines may
 5 use in the preparation of such sweet wines, under such regu-
 6 lations and after the filing of such notices and bonds, together
 7 with the keeping of such records and the rendition of such
 8 reports as to materials and products as the Commissioner of
 9 Internal Revenue, with the approval of the Secretary of the
 10 Treasury, may prescribe, wine spirits produced by any duly
 11 authorized distiller, and the Commissioner of Internal Reve-
 12 nue in determining the liability of any distiller of wine
 13 spirits to assessment under section 3300 of the Revised
 14 Statutes, is authorized to allow such distiller credit in his
 15 computation for the wine spirits withdrawn to be used in
 16 fortifying sweet wines under this Act.

17 " (b) The provisions of this section and section 43
 18 shall apply to the use of citrus-fruit brandy in the prepara-
 19 tion of fortified citrus-fruit wines in the same manner and
 20 to the same extent as such provisions apply to the use of
 21 wine spirits in the fortification of sweet wines, except that no
 22 brandy (other than a citrus-fruit brandy) may be used in
 23 the fortification of citrus-fruit wine and a citrus-fruit brandy
 24 prepared from one kind of citrus fruit may not be used for
 25 the fortification of a citrus-fruit wine prepared from another

1 kind of citrus fruit or for the fortification of a wine prepared
2 from any fruit other than citrus fruit."

3 *Sec. 332. Section 42 of the Act entitled "An Act to*
4 *reduce the revenue and equalize duties on imports, and for*
5 *other purposes", approved October 1, 1890, as amended*
6 *(U. S. C., 1934 ed., supp. I, title 26, sec. 1302), is amended*
7 *by inserting at the end thereof the following new paragraph:*

8 "The provisions of this section and section 43 shall
9 apply to the use of peach brandy, cherry brandy, berry
10 brandy, apricot brandy, and apple brandy, in the prepara-
11 tion, respectively, of fortified peach wines, cherry wines,
12 berry wines, apricot wines, and apple wines, in the same
13 manner and to the same extent as such provisions apply to
14 the use of wine spirits in the fortification of sweet wines;
15 except that (1) no brandy other than peach brandy may
16 be used in the fortification of peach wine and peach brandy
17 may not be used for the fortification of any wine other than
18 peach wine, (2) no brandy other than cherry brandy may
19 be used in the fortification of cherry wine and cherry brandy
20 may not be used for the fortification of any wine other than
21 cherry wine, (3) no brandy other than berry brandy may
22 be used in the fortification of berry wine and a berry brandy
23 prepared from one kind of berry may not be used for the
24 fortification of a berry wine prepared from another kind
25 of berry or for the fortification of any wine other than berry

1 wine, (4) no brandy other than apricot brandy may be
2 used in the fortification of apricot wine and apricot brandy
3 may not be used for the fortification of any wine other than
4 apricot wine, and (5) no brandy other than apple brandy
5 may be used in the fortification of apple wine and apple
6 brandy may not be used for the fortification of any wine
7 other than apple wine."

8 (113) *Sec. 333. Section 3255 of the Revised Statutes, as*
9 *amended (26 U. S. C., 207; Supp. VII, title 26, sec. 1176),*
10 *is amended to read as follows:*

11 "Sec. 3255. (a) The Commissioner of Internal Reve-
12 nue, with the approval of the Secretary of the Treasury, may
13 exempt distillers of brandy made exclusively from apples,
14 peaches, grapes, pears, pineapples, apricots, berries, plums,
15 pawpaws, persimmons, prunes, figs, cherries, dates, or citrus
16 fruits (except lemons and limes) from any provision of the
17 internal-revenue laws relating to the manufacture of spirits,
18 except as to the tax thereon when in his judgment it may
19 seem expedient to do so:

20 "(b) Where, in the manufacture of wine, or citrus-
21 fruit wine, artificial sweetening has been used, the wine,
22 or the fruit pomace residuum thereof, or the citrus-fruit
23 wine may be used in the distillation of brandy, or citrus-
24 fruit brandy, as the case may be, and such use shall not
25 prevent the Commissioner of Internal Revenue, with the

1 approval of the Secretary of the Treasury, from exempting
2 such distiller from any provision of the internal-revenue
3 laws relating to the manufacture of spirits, except as to the
4 tax thereon, when in his judgment it may seem expedient
5 to do so.

6 “(c) The distillers mentioned in this section may add
7 to not less than five hundred gallons (or ten barrels) of
8 grape cheese not more than five hundred gallons of a sugar
9 solution made from cane, beet, starch, or corn sugar, 95
10 per centum pure, such solution to have a saccharine strength
11 of not to exceed 40 per centum, and may ferment the result-
12 ant mixture on a winery or distillery premises, and such
13 fermented product shall be regarded as distilling material.”

14 *SEC. 333. The first proviso of section 3255 of the*
15 *Revised Statutes, as amended (U. S. C., 1934 ed., supp. I,*
16 *title 26, sec. 1176), is amended by inserting after “citrus-*
17 *fruit wine”, wherever it appears, the words “, peach wine,*
18 *cherry wine, berry wine, apricot wine, or apple wine”;*
19 *and by inserting after “citrus-fruit brandy” the words*
20 *“, peach brandy, cherry brandy, berry brandy, apricot*
21 *brandy, or apple brandy”.*

22 *SEC. 334. Section 618 (b) of the Revenue Act of*
23 *1918 (114)(U. S. C., Supp. VII, sec. 1304) (U. S. C.,*
24 *1934 ed., title 26, sec. 1304) is amended to read as follows:*

1 “(b) Under regulations prescribed by the Commissioner
2 with the approval of the Secretary, it shall be lawful to
3 produce (115)grape wines and citrus-fruit wines *grape wines,*
4 *citrus-fruit wines, peach wines, cherry wines, berry wines,*
5 *apricot wines, and apple wines* on bonded winery prem-
6 ises by the usual method, and to transport and use the
7 same, and like wines heretofore produced and now stored on
8 bonded winery premises, as distilling material in any fruit-
9 brandy distillery or industrial-alcohol plant (116).—The al-
10 cohol removed from such liquid, if evaporated, and not con-
11 densed and saved, shall not be subject to tax; if saved, it shall
12 be subject to the same law as other alcoholic liquors. Credit
13 shall be allowed on the tax due on any alcohol or brandy so
14 saved to the amount of any tax paid upon distilled spirits
15 or brandy used in the fortification of the liquor from which
16 the same is saved.”

17 *SEC. 335. Section 620 of the Revenue Act of 1918*
18 *(117)(U. S. C., Supp. VII, sec. 1300) (U. S. C., 1934 ed.,*
19 *title 26, sec. 1309) is amended by striking out the fol-*
20 *lowing: “or whoever rectifies, mixes, or compounds*
21 *with distilled spirits any domestic wines, other than in the*
22 *manufacture of liqueurs, cordials, or similar compounds.”.*

23 *SEC. 336. The tax imposed by section 601 (c) (3) of*
24 *the Revenue Act of 1932, as amended (relating to the*

1 tax on grape concentrate, and so forth), shall not apply to
2 any sale or importation after the date of the enactment of
3 this Act.

4 SEC. 337. The third proviso of section 1798 of the
5 Tariff Act of 1930 is amended to read as follows: "*Pro-*
6 *vided further*, That up to but not exceeding \$100 in value
7 (including distilled spirits, wines, and malt liquors aggre-
8 gating not more than one wine-gallon) of articles acquired
9 abroad by such residents of the United States for personal
10 or household use or as souvenirs or curios, but not bought
11 on commission or intended for sale, shall be admitted free
12 of duty."

13 (118)SEC. 338. Section 616 of the Revenue Act of 1918
14 (*U. S. C., 1934 ed., title 26, sec. 1306*) is amended by strik-
15 ing out "*and shall, prior to sale or removal for consump-*
16 *tion, affix to each cask or vessel containing such wine such*
17 *marks, labels, or stamps as the Commissioner, with the*
18 *approval of the Secretary, may from time to time prescribe*",
19 and inserting in lieu thereof "*and shall, prior to sale or*
20 *removal for consumption, affix to each cask, barrel, bottle, or*
21 *other immediate container, and to each case or other shipping*
22 *container, of such wine, such marks, labels, or stamps as the*
23 *Commissioner, with the approval of the Secretary, may from*
24 *time to time prescribe as to each*".

TITLE IV

1 SECTION 401. (a) Section 3354 of the Revised Stat-
2 utes, as amended (119)(26 U. S. C., see: 525; U. S. C.,
3 Supp. VII, title 26, see: 1336) (*U. S. C., 1934 ed., title 26,*
4 *sec. 1336*), is amended by striking out "keg, or other vessel"
5 and inserting in lieu thereof "or keg".

6 (b) Such section 3354 of the Revised Statutes, as
7 amended, is further amended by striking out the first sen-
8 tence of the second proviso thereof and inserting in lieu
9 thereof the following: "*Provided further*, That the tax im-
10 posed by law on fermented liquor shall be paid on all fer-
11 mented liquor removed from a brewery to a bottling house
12 by means of a pipe or conduit, at the time of such removal,
13 by the cancelation and defacement, by the officer designated
14 by the Commissioner of Internal Revenue, in the presence
15 of the brewer, of the number of stamps denoting the tax on
16 the fermented liquor thus removed, or in such other manner
17 as may be prescribed by regulations issued by the Commis-
18 sioner of Internal Revenue with the approval of the Secre-
19 tary of the Treasury (120), which regulations shall not en-
20 tail additional expense to the taxpayer."

21 (c) The Commissioner of Internal Revenue is hereby
22 authorized, with the approval of the Secretary of the Treas-
23 ury, to make all rules and regulations necessary to carry
24 out the provisions of this section.
25

1 (121) *Sec. 402. (a)* All spirits, spirituous liquors, wines,
 2 and fermented liquors forfeited, summarily or by order of
 3 court, under any law of the United States, shall be delivered
 4 to the Secretary of the Treasury to be disposed of as therein
 5 after provided.

6 (b) The Secretary of the Treasury shall dispose of
 7 all spirits, spirituous liquors, wines, and fermented liquors
 8 which have been delivered to him pursuant to subsection
 9 (a)—

10 (1) By delivery to such Government agencies
 11 as, in his opinion, have a need for such spirits, spiritua-
 12 lous liquors, wines, or fermented liquors for medicinal,
 13 scientific, or mechanical purposes; or

14 (2) By gift to such elementary institutions as,
 15 in his opinion, have a need for such spirits, spiritua-
 16 lous liquors, wines, or fermented liquors for medicinal
 17 purposes; or

18 (3) By sale. Notwithstanding any other provi-
 19 sion of law all such spirits, spirituous liquors, wines, or
 20 fermented liquors so sold shall be sold subject to the
 21 payment of internal-revenue taxes and duties due
 22 thereon; or

23 (4) By destruction.

24 (c) No spirits, spirituous liquors, wines, or fermented
 25 liquors which have been seized under any law of the United

1 States may be disposed of in any manner whatsoever except
 2 after forfeiture and as provided in this section.

3 (d) The Secretary of the Treasury is authorized to
 4 make all rules and regulations necessary to carry out the
 5 provisions of this section.

6 *Sec. 403. Notwithstanding the provisions of section*
 7 *3182 of the Revised Statutes, or any other law relating to*
 8 *the assessment of taxes, the Commissioner of Internal Reve-*
 9 *nue may, in his discretion, omit the making of assessments*
 10 *and the authorizing of suits for recovery of taxes on distilled*
 11 *spirits, wine, or fermented liquors, or special occupational*
 12 *taxes required to be paid by persons manufacturing or*
 13 *dealing in distilled spirits, wine, or fermented liquor, when-*
 14 *ever after investigation it appears that such taxes, if assessed,*
 15 *would not be collectible in full or in any substantial amount;*
 16 *but in each case of such omission to assess or to authorize*
 17 *suit, a report setting forth the facts as to the uncollectibility*
 18 *of the tax must be filed in the office of the Commissioner of*
 19 *Internal Revenue.*

20 (122) *Sec. 404. (a)* Whenever the Secretary of the Treasury
 21 finds that there has been insinuated, or that process has been
 22 issued for the initiation of, any proceeding by the United
 23 States, based upon a claim arising under the customs or
 24 internal-revenue laws in connection with an alleged importa-
 25 tion or bringing into the United States of distilled spirit-

1 wines, or fermented malt liquors, against any person, whether
 2 or not a resident of the United States; and that such person
 3 has, or at the date of the enactment of this Act had, a sub-
 4 stantial interest, direct or indirect, in any plant, establish-
 5 ment, or business outside of the United States for the pro-
 6 duction, manufacture, rectification, selling, or marketing of
 7 distilled spirits, wines, or fermented malt liquors, the Secre-
 8 tary shall publish such information as will, in his judgment,
 9 sufficiently identify such person and such plant, establish-
 10 ment, or business, and after such publication no distilled
 11 spirits, wines, or fermented malt liquors produced, manu-
 12 factured, rectified, sold, or marketed by such person, or in
 13 which he has any interest, or produced, manufactured, recti-
 14 fied, sold, or marketed in or by any such plant, establishment,
 15 or business, shall be imported or brought into the United
 16 States unless and until such person submits to the jurisdic-
 17 tion of the court of the United States in which such pro-
 18 ceeding has been instituted; or out of which such process
 19 has been issued; and, to secure payment of the claim, fur-
 20 nishes to the Secretary of the Treasury such security as he
 21 may require, but not in excess of double the amount of the
 22 claim, or complies with such other reasonable terms as he
 23 may impose.

24 (b) If any person fraudulently or knowingly imports
 25 or brings into the United States any distilled spirits, wines,

1 or fermented malt liquors contrary to the provisions of this
 2 section, or any rule or regulation made hereunder, he shall
 3 be liable to a penalty in an amount equal to the value of such
 4 distilled spirits, wines, or fermented malt liquors which shall,
 5 in addition thereto, be subject to seizure and forfeiture. Any
 6 penalty or forfeiture incurred under this section may be sued
 7 for, prosecuted, and recovered, and shall be treated for all
 8 purposes, as a penalty or forfeiture incurred under the cus-
 9 toms laws and the imposition of any such penalty or for-
 10 feiture shall not be deemed to exclude the imposition of
 11 penalties or forfeitures incurred under any other provision
 12 of law.

13 (c) The Secretary of the Treasury is authorized to
 14 make such rules and regulations as may be necessary to
 15 carry out the provisions of this section.

16 *SEC. 403. Section 239 of the Criminal Code (U. S. C.,*
 17 *1934 ed., title 18, sec. 389) is amended to read as follows:*

18 "SEC. 239. Any railroad company, express company, or
 19 other common carrier, or any other person who, in connection
 20 with the transportation of any spirituous liquor, or vinous,
 21 malted, or other fermented liquor, or any compound contain-
 22 ing any spirituous liquor, or vinous, malted, or other fer-
 23 mented liquor, fit for use for beverage purposes, from one
 24 State, Territory, or District of the United States, or place
 25 noncontiguous to but subject to the jurisdiction thereof, into

1 any other State, Territory, or District of the United States,
 2 or place noncontiguous to but subject to the jurisdiction
 3 thereof, which prohibits the delivery or sale therein of such
 4 liquor, or from any foreign country into any such State,
 5 Territory, or District of the United States, or place non-
 6 contiguous to but subject to the jurisdiction thereof, shall
 7 collect the purchase price or any part thereof, before, on, or
 8 after delivery, from the consignee, or from any other person,
 9 or shall in any manner act as the agent of the buyer or seller
 10 of any such liquor, for the purpose of buying or selling or
 11 completing the sale thereof, saving only in the actual trans-
 12 portation and delivery of the same, shall be fined not more
 13 than \$5,000 or imprisoned not more than one year, or both."

14 (123)SEC. 404. Section 313 (d) of the Tariff Act of 1930
 15 (U. S. C., 1934 ed., title 19, sec. 1313 (d)) is amended by
 16 adding thereto the following:

17 "Upon the exportation of bottled distilled spirits and
 18 wines manufactured or produced in the United States on
 19 which an internal-revenue tax has been paid, there shall be
 20 allowed, under regulations to be prescribed by the Commis-
 21 sioner of Internal Revenue, with the approval of the Secre-
 22 tary of the Treasury, a drawback equal in amount to the
 23 tax found to have been paid on such bottled distilled spirits
 24 and wines: Provided, That such distilled spirits and wines
 25 have been bottled especially for export, under regulations pre-

1 scribed by the Commissioner of Internal Revenue, with the
 2 approval of the Secretary of the Treasury."

3 (124)SEC. 405. Section 313 (i) (3) of the Tariff Act of
 4 1930 (U. S. C., 1934 ed., title 19, sec. 1313 (i)) is
 5 amended by striking therefrom the word "alcohol" and in-
 6 serting in lieu thereof the words "distilled spirits and wines".

7 (125)SEC. 406. Section 311 of the Tariff Act of 1930
 8 (U. S. C., 1934 ed., title 19, sec. 1311) is amended by
 9 adding a paragraph at the end thereof, reading as follows:

10 "Distilled spirits and wines which are rectified in
 11 bonded manufacturing warehouses, class six, and distilled
 12 spirits which are reduced in proof and bottled in such
 13 warehouses, shall be deemed to have been manufactured
 14 within the meaning of this section, and may be withdrawn
 15 as hereinbefore provided, and likewise for shipment in bond
 16 to Puerto Rico, subject to the provisions of this section, and
 17 under such regulations as the Secretary of the Treasury
 18 may prescribe, there to be withdrawn for consumption or
 19 be rewarehoused and subsequently withdrawn for consump-
 20 tion: Provided, That upon withdrawal in Puerto Rico for
 21 consumption, the duties imposed by the customs laws of the
 22 United States shall be collected on all imported merchandise
 23 (in its condition as imported) and imported containers used
 24 in the manufacture and putting up of such spirits and wines
 25 in such warehouses: Provided further, That no internal-

1 revenue tax shall be imposed on distilled spirits and wines
2 rectified in class six warehouses if such distilled spirits and
3 wines are exported or shipped in accordance with the pro-
4 visions of this section, and that no person rectifying distilled
5 spirits or wines in such warehouses shall be subject by
6 reason of such rectification to the payment of special tax as a
7 rectifier."

8 (126)SEC. 407. Section 51 of the Act of August 27, 1894,
9 as amended (U. S. C., 1934 ed., title 26, sec. 1265; U. S. C.,
10 1934 ed., supp. I, title 26, sec. 1265), is amended to read
11 as follows:

12 "SEC. 51. The Commissioner of Internal Revenue shall
13 be, and is hereby, authorized, in his discretion, and upon the
14 execution of such bonds as he may prescribe, to establish
15 warehouses, to be known and designated as Internal Revenue
16 Bonded Warehouses, to be used exclusively for the storage
17 of distilled spirits other than alcohol, each of which ware-
18 houses shall be in charge of a storekeeper-gauger to be ap-
19 pointed, assigned, transferred, and paid in the same manner
20 as such officers for distillery warehouses have been appointed,
21 assigned, transferred, and paid prior to the date of enactment
22 of the Liquor Tax Administration Act. Every such ware-
23 house shall be under the control of the District Supervisor
24 of the Alcohol Tax Unit district in which such warehouse is
25 located, and shall be in the joint custody of the storekeeper-

1 gauger and proprietor thereof, and kept securely locked, and
2 shall at no time be unlocked or opened or remain open
3 except in the presence of such storekeeper-gauger or other
4 person who may be designated to act for him. No dwelling
5 house shall be used for such a warehouse, and no door, win-
6 dow, or other opening shall be made or permitted in the walls
7 of such warehouse leading into a distillery. Such ware-
8 houses shall be under such further regulations as the Com-
9 missioner of Internal Revenue, with the approval of the
10 Secretary of the Treasury, may prescribe."

11 (127)SEC. 408. (a) Section 3271 of the Revised Statutes
12 (U. S. C., 1934 ed., title 26, sec. 1225) is repealed: Pro-
13 vided, however, That the repeal of said section shall
14 not relieve any distiller of liability for any taxes or
15 penalties arising out of the use of, or storage of distilled
16 spirits in, a distillery warehouse authorized, approved or
17 maintained under such section 3271 of the Revised Statutes.

18 (b) All distillery, general, and special bonded ware-
19 houses heretofore established according to law and on the
20 date of the enactment of this Act actually being lawfully
21 used for the storage of distilled spirits (other than alcohol)
22 on which the tax has not been paid shall be designated as
23 Internal Revenue Bonded Warehouses, and, upon the filing
24 of such new bonds, or the consents of sureties on such existing
25 bonds, covering spirits in such distillery, general, or special

1 bonded warehouses, as the Commissioner shall consider
2 adequate to insure the payment of taxes due to the United
3 States, may be used under such rules and regulations as the
4 Commissioner of Internal Revenue, with the approval of
5 the Secretary of the Treasury, shall prescribe, for the stor-
6 age of distilled spirits (other than alcohol) heretofore or
7 hereafter produced.

8 (128) SEC. 409. The distinction between distillery bonded
9 warehouses, general bonded warehouses, and special bonded
10 warehouses is hereby removed, and any warehouse for the
11 storage of distilled spirits (other than alcohol), prior to tax-
12 payment, shall be operated as an Internal Revenue Bonded
13 Warehouse. The establishment, construction, maintenance,
14 and supervision of Internal Revenue Bonded Warehouses
15 shall be under such regulations as the Commissioner of
16 Internal Revenue, with the approval of the Secretary of the
17 Treasury, shall prescribe.

18 (129) SEC. 410. Internal Revenue Bonded Warehouses es-
19 tablished under authority of law shall be exempt from the pro-
20 visions of those sections of law which, prior to the date of
21 enactment of this Act have made distinctions between distillery
22 bonded warehouses, general bonded warehouses, and special
23 bonded warehouses, as to (1) kind of spirits to be stored
24 therein; (2) ownership or production of distilled spirits to

1 be stored therein; (3) ownership or proprietorship of such
2 warehouses; (4) location and construction of such bonded
3 warehouses; (5) entry of distilled spirits therein; (6) with-
4 drawal of distilled spirits therefrom; (7) transfers of dis-
5 tilled spirits to or from one or more of such classes of bonded
6 warehouses; or (8) any other matter; it being hereby de-
7 clared to be the purpose of the amendment to section 51 of
8 the Act of August 27, 1894, made by section 407 hereof,
9 to establish the Internal Revenue Bonded Warehouse as
10 the sole type and kind of bonded warehouse under the
11 internal revenue laws for the storage of distilled spirits
12 (other than alcohol) on which the tax has not been paid.
13 (130) SEC. 411. Section 3296 of the Revised Statutes (U.
14 S. C., 1934 ed., title 26, sec. 1287) is amended to read as
15 follows:

16 "SEC. 3296. Whenever any person removes, or aids
17 or abets in the removal of, any distilled spirits on which the
18 tax has not been paid, to a place other than the Internal
19 Revenue Bonded Warehouse provided by law, or conceals
20 or aids in the concealment of any spirits so removed, or re-
21 moves, or aids or abets in the removal of, any distilled spirits
22 from any such warehouse authorized by law, in any manner
23 other than is provided by law, or conceals or aids in the con-
24 cealment of any spirits so removed, he shall be liable to a

1 penalty of double the tax imposed on such distilled spirits
2 so removed or concealed, and shall be fined not less than
3 \$200 nor more than \$5,000, and imprisoned not less than
4 three months nor more than three years."

5 (131)SEC. 412. Under rules and regulations to be pre-
6 scribed by the Commissioner of Internal Revenue, with the
7 approval of the Secretary of the Treasury, distillers may
8 collect in locked tanks distillates containing one-half of 1
9 per centum or more of aldehydes or 1 per centum or more
10 of fusel oil (heads and tails) removed in the course of distil-
11 lation. Such distillates containing one-half of 1 per centum
12 or more of aldehydes or more than 1 per centum of fusel
13 oil so collected may be removed for denaturation, under reg-
14 ulations prescribed by the Commissioner of Internal Revenue
15 with the approval of the Secretary of the Treasury, or de-
16 stroyed in the manner prescribed by the Commissioner of
17 Internal Revenue, under the supervision of an internal
18 revenue officer to be designated by the Commissioner, and
19 when so denatured or destroyed shall not be subject to the
20 tax imposed by law upon distilled spirits.

21 (132)SEC. 413. Section 3318 of the Revised Statutes, as
22 amended (U. S. C., 1934 ed., title 26, secs. 1208 and
23 1209), is further amended to read as follows:

24 "SEC. 3318. Every rectifier and wholesale liquor
25 dealer shall keep daily, at his place of business covered by his

1 special tax stamp, a record of distilled spirits received and
2 disposed of by him, and shall render under oath correct
3 transcripts and summaries of such records: Provided, That
4 the Commissioner may in his discretion require such record
5 to be kept at the place where the spirits are actually received
6 and sent out. The records shall be kept and the transcripts
7 shall be rendered in such form, and under such rules and
8 regulations as the Commissioner of Internal Revenue, with
9 the approval of the Secretary of the Treasury, may prescribe.

10 "The records required to be kept under the provisions
11 of this section and regulations issued pursuant thereto, shall
12 be preserved for such period of time as the Commissioner,
13 with the approval of the Secretary of the Treasury, shall
14 prescribe, and during such period shall be available during
15 business hours for inspection and the taking of abstracts
16 therefrom by the Commissioner or any internal revenue
17 officer.

18 "Every rectifier and wholesale liquor dealer who re-
19 fuses or neglects to keep such records in the form prescribed
20 by the Commissioner of Internal Revenue, with the approval
21 of the Secretary of the Treasury, or to make entries therein,
22 or cancels, alters, or obliterates any entry therein (except for
23 the purpose of correcting errors) or destroys any part of
24 such records, or any entry therein, or makes any false entry
25 therein, or hinders or obstructs any internal revenue officer

1 from inspecting such records or taking any abstracts there-
 2 from, or neglects or refuses to preserve or produce such
 3 records as required by this Act or by regulations issued
 4 pursuant thereto, shall pay a penalty of \$100 and, on con-
 5 viction, shall be fined not less than \$100 nor more than
 6 \$5,000, and be imprisoned not less than three months nor
 7 more than three years.

8 "Every rectifier and wholesale liquor dealer who refuses
 9 or neglects to render transcripts or summaries in the form
 10 required by the Commissioner, with the approval of the
 11 Secretary, shall, upon conviction, be fined not more than \$100
 12 for each such neglect or refusal."

13 (133)SEC. 414. Section 62 of the Act of August 27, 1894
 14 (U. S. C., 1934 ed., title 26, sec. 1210), is amended to
 15 read as follows:

16 "SEC. 62. No distiller who has given the required bond
 17 and who sells only distilled spirits of his own production at
 18 the place of manufacture, or at the place of storage in bond,
 19 in the original packages to which the tax-paid stamps are
 20 affixed, shall be required to pay the special tax of a whole-
 21 sale liquor dealer on account of such sales: Provided, That
 22 every distiller shall keep daily a record of such distilled
 23 spirits disposed of by him, and shall render under oath cor-
 24 rect transcripts and summaries of such records. The rec-
 25 ords shall be kept and the transcripts shall be rendered in

1 such form, and under such rules and regulations as the
 2 Commissioner of Internal Revenue, with the approval of
 3 the Secretary of the Treasury, may prescribe.

4 "The records required to be kept under the provisions
 5 of this section and regulations issued pursuant thereto, shall
 6 be preserved for such period of time as the Commissioner,
 7 with the approval of the Secretary of the Treasury, shall
 8 prescribe, and during such period shall at all times be avail-
 9 able, during business hours, for inspection and the taking
 10 of abstracts therefrom by the Commissioner or any internal
 11 revenue officer.

12 "Every distiller who refuses or neglects to keep such
 13 records in the form prescribed by the Commissioner of
 14 Internal Revenue, with the approval of the Secretary of
 15 the Treasury, or to make entries therein, or cancels, alters, or
 16 obliterates any entry therein (except for the purpose of cor-
 17 recting errors) or destroys any part of such records, or any
 18 entry therein, or makes any false entry therein, or hinders
 19 or obstructs any internal revenue officer from inspecting
 20 such records or taking any abstracts therefrom, or neglects
 21 or refuses to preserve or produce such records as required
 22 by this Act or by regulations issued pursuant thereto, shall
 23 pay a penalty of \$100 and, on conviction, shall be fined not
 24 less than \$100 nor more than \$5,000, and be imprisoned
 25 not less than three months nor more than three years.

1 "Every distiller who refuses or neglects to render the
2 transcripts or summaries in the form as required by the
3 Commissioner of Internal Revenue, with the approval of the
4 Secretary of the Treasury, shall, upon conviction, be fined
5 not more than \$100 for each such neglect or refusal."

6 (134)SEC. 415. All internal-revenue laws of the United
7 States in regard to the manufacture and taxation of, and
8 traffic in, distilled spirits, wines, and malt liquors, and all
9 penalties for violations of such laws, that were in force at
10 the time the National Prohibition Act was enacted, shall be
11 and continue in force, except as they have been repealed or
12 amended by Acts other than (1) Title II of the National
13 Prohibition Act, as amended and supplemented, and (2)
14 section 1 of the Liquor Law Repeal and Enforcement Act,
15 and except as they may be modified by, or may be incon-
16 sistent with, this Act.

17 (135)SEC. 416. Except as provided in section 329 of this
18 Act, nothing contained in this Act shall be construed as re-
19 stricting or limiting the provisions of Title III of the
20 National Prohibition Act, as amended.

21 (136)TITLE V

22 SECTION 501. (a) The Federal Alcohol Administra-
23 tion created as a division in the Treasury Department by
24 section 2 (a) of the Federal Alcohol Administration Act,
25 approved August 29, 1935 (Public Numbered 401,

1 Seventy-fourth Congress), is hereby made an independent
2 establishment of the Government. The office of Adminis-
3 trator of the Federal Alcohol Administration is abolished,
4 and hereafter the Federal Alcohol Administration shall be
5 composed of three members, appointed as provided in section
6 502 of this title.

7 (b) All rights, privileges, powers, and duties con-
8 ferred or imposed upon the Administrator of the Federal
9 Alcohol Administration are conferred and imposed upon the
10 Federal Alcohol Administration. All papers, records, and
11 property of the Administrator and the Federal Alcohol Ad-
12 ministration, as a division of the Treasury Department, are
13 transferred to the Federal Alcohol Administration as an
14 independent establishment of the Government.

15 (c) The Federal Alcohol Administration is authorized,
16 without regard to the civil-service laws, to appoint such
17 attorneys and experts, and, subject to the civil-service laws,
18 to appoint such other officers and employees, as it deems
19 necessary to carry out its powers and duties; and the com-
20 pensation of all such attorneys, experts, and other officers and
21 employees shall be fixed in accordance with the Classification
22 Act of 1923, as amended. All officers and employees ap-
23 pointed by the Administrator and engaged in carrying out
24 his powers and duties shall be officers and employees of the
25 Federal Alcohol Administration: Provided, That no such

- 1 officer or employee who does not directly possess a vested
- 2 law-earned civil-service status shall thereby acquire such
- 3 status, except upon recommendation by the Federal Alcohol
- 4 Administration to the Civil Service Commission, subject to
- 5 such noncompetitive tests of fitness as the Commission may
- 6 prescribe; and no such officer or employee, except although
- 7 and as to, may be retained in the Federal Alcohol Admini-
- 8 stration without appropriate civil-service status for a period
- 9 longer than six days from the effective date of this section.
- 10 (d) All provisions of law applicable to the Administra-
- 11 tion shall be applicable in the same manner and to the same
- 12 extent to the Federal Alcohol Administration.
- 13 SEC. 502. (a) The members of the Federal Alcohol
- 14 Administration shall be appointed by the President by and
- 15 with the advice and consent of the Senate. Not more than
- 16 two members of the Administration shall be members of the
- 17 same political party. The terms of office of the members
- 18 first taking office shall expire, as designated by the President
- 19 at the time of nomination, one at the end of the first year,
- 20 one at the end of the second year, and one at the end of the
- 21 third year after the date of the enactment of this Act. A
- 22 successor shall have a term of office expiring three years
- 23 from the date of expiration of the term for which his prede-
- 24 cessor was appointed, except that a person appointed to fill
- 25 a vacancy occurring prior to the expiration of such term

- 1 shall be appointed for the remainder of such term. No
- 2 person shall be eligible for appointment or continue in office
- 3 as a member if he is engaged or financially interested in, or
- 4 is an officer or director of or employed by a company en-
- 5 gaged in, the production or sale or other distribution of
- 6 alcoholic beverages or the financing thereof. Each member
- 7 shall, for his services, receive compensation at the rate of
- 8 \$10,000 per annum, together with actual and necessary trav-
- 9 eling and subsistence expenses while engaged in the per-
- 10 formance of his duties as member outside the District of
- 11 Columbia.
- 12 (b) One of the members shall be designated by the Presi-
- 13 dent annually at the beginning of the calendar year as chair-
- 14 man and shall be the chief executive officer of the Administ-
- 15 ration; one of the members shall be designated by the President
- 16 annually at the beginning of the calendar year as vice chair-
- 17 man of the Administration and shall perform the functions
- 18 and duties of the chairman in his absence or in the event of his
- 19 incapacity caused by illness; and one of the members, who
- 20 shall be a lawyer, shall be designated by the President as gen-
- 21 eral counsel of the Administration. The Administration may
- 22 furnish notwithstanding vacancies, and a majority of the
- 23 members in office shall constitute a quorum. The Adminis-
- 24 tration shall meet at the call of the chairman or a majority of
- 25 its members. The Administration is authorized to adopt an

1 official seal, which shall be judicially noticed. The Adminis-
 2 tration shall be entitled to free use of the United States mails
 3 in the same manner as the executive departments.

4 (c) The Administration is authorized and directed to
 5 prescribe such rules and regulations as may be necessary to
 6 carry out its powers and duties.

7 SEC. 503. (a) Sections 2 (b), 2 (c), and 2 (d) of
 8 the Federal Alcohol Administration Act are hereby repealed.
 9 All rules, regulations, orders, permits, and certificates, pre-
 10 scribed or issued by the Administrator and in full force and
 11 effect on the effective date of this section, shall continue in
 12 full force and effect until duly modified, superseded, or
 13 revoked.

14 (b) All proceedings, hearings, investigations, or other
 15 matters pending before, or being carried on by, the Admini-
 16 strator shall be continued and brought to determination by
 17 the Administration.

18 (c) No suit, action, or other proceeding lawfully com-
 19 menced by or against any agency or officer of the United
 20 States shall abate by reason of the transfer of rights, privi-
 21 leges, powers, and duties, or the abolition of the office of
 22 Administrator, under the provisions of this title.

23 SEC. 504. The unexpended balances of appropriations
 24 available for salaries and expenses of the Federal Alcohol
 25 Administration, as a division of the Treasury Department,

1 shall be available for salaries and expenses of the Federal
 2 Alcohol Administration, as an independent establishment of
 3 the Government, including the salaries and expenses of the
 4 members of the Federal Alcohol Administration.

5 SEC. 505. The third paragraph of section 5 (e) of
 6 the Federal Alcohol Administration Act is hereby amended
 7 to read as follows:

8 "In order to prevent the sale or shipment or other
 9 introduction of distilled spirits, wine, or malt beverages in
 10 interstate or foreign commerce, if bottled, packaged, or
 11 labeled in violation of the requirements of this subsection,
 12 (1) no bottler of distilled spirits, no producer, blender, or
 13 wholesaler of wine, or proprietor of a bonded wine store-
 14 room, and no brewer or wholesaler of malt beverages shall
 15 bottle, and (2) no person shall remove from customs
 16 custody, in bottles, for sale or any other commercial pur-
 17 pose, distilled spirits, wine, or malt beverages, respectively,
 18 after such date as the Administrator fixes as the earliest
 19 practicable date for the application of the provisions of this
 20 subsection to any class of such persons (but not later than
 21 August 15, 1936, in the case of distilled spirits, and Decem-
 22 ber 15, 1936, in the case of wine and malt beverages, and
 23 only after thirty days' public notice), unless, upon appli-
 24 cation to the Administrator, he has obtained and has in
 25 his possession a certificate of label approval covering the

1 distilled spirits, wine, or malt beverages, issued by the Ad-
 2 ministrator in such manner and form as he shall by regula-
 3 tions prescribe: Provided, That any such bottler of distilled
 4 spirits, or producer, blender, or wholesaler of wine, or
 5 proprietor of a bonded wine storeroom, or brewer or whole-
 6 saler of malt beverages shall be exempt from the require-
 7 ments of this subsection if, upon application to the Admin-
 8 istrator, he shows to the satisfaction of the Administrator
 9 that the distilled spirits, wine, or malt beverages to be
 10 bottled by the applicant are not to be sold, or offered for
 11 sale, or shipped or delivered for shipment, or otherwise
 12 introduced, in interstate or foreign commerce. Officers of
 13 internal revenue are authorized and directed to withhold
 14 the release of distilled spirits from the bottling plant unless
 15 such certificates have been obtained, or unless the applica-
 16 tion of the bottler for exemption has been granted by the
 17 Administrator; and customs officers are authorized and
 18 directed to withhold the release from customs custody of
 19 distilled spirits, wine, and malt beverages, unless such
 20 certificates have been obtained. The District Courts of the
 21 United States, the Supreme Court of the District of
 22 Columbia, and the United States court for any Territory
 23 shall have jurisdiction of suits to enjoin, annul, or suspend
 24 in whole or in part any final action by the Administrator
 25 upon any application under this subsection; or".

1 Sec. 506. The second proviso of subdivision (c) of sec-
 2 tion 5 of the Federal Alcohol Administration Act is amended
 3 to read as follows: "Provided further, That nothing herein
 4 nor any decision, ruling, regulation or other action of any
 5 Department of the Government or official thereof shall deny
 6 the right of any person to use wholly or in part the wine names
 7 or brands Port, Sherry, Burgundy, Sauterne, Haut Sau-
 8 terne, Rhine (Hock), Moselle, Chianti, Chablis, Champagne,
 9 Tokay, Malaga, Madeira, Marsala, Claret, Vermouth, Bar-
 10 bera, Cabernet, Saint Julien, Riesling, Zinfandel, Medoc, or
 11 Cognac, or any other geographic name of foreign origin, upon
 12 any of the foregoing produced in the United States if of the
 13 same type and the use of such name or brand is qualified by
 14 the name of the State or other locality in the United States in
 15 which the product is produced, and, in the case of the use of
 16 such name or brand on any label or in any advertisement, if
 17 such qualification is as conspicuous as such name or brand:
 18 And provided further, That nothing in this section shall be
 19 held in any wise to affect or abridge any of the powers
 20 granted the Federal Alcohol Administration by an Act of
 21 Congress entitled the 'Federal Alcohol Administration Act',
 22 approved August 29, 1935, to provide standards of identity,
 23 quality, labeling, or other regulations save as herein expressly
 24 provided as to said names or brands."

1 *SEC. 507. Section 9 of the Federal Alcohol Adminis-*
2 *tration Act (U. S. C., 1934 ed., supp. I, title 27, sec. 209)*
3 *is amended by adding at the end thereof the following new*
4 *subsection:*

5 " (e) *Nothing in this section shall affect the authority*
6 *of the Secretary of the Treasury, under the customs or*
7 *internal-revenue laws, to remit or mitigate the forfeiture, or*
8 *alleged forfeiture, of such distilled spirits, wines, or malt*
9 *beverages.*"

10 *SEC. 508. This title, except sections 502 and 505 shall*
11 *take effect when a majority of the members of the Federal*
12 *Alcohol Administration first appointed under the provisions*
13 *of section 502 qualify and take office.*

Amend the title so as to read: "An Act to insure the collection of the revenue on distilled spirits, wines, and malt liquors, to provide for the more efficient and economical administration and enforcement of the laws relating to the taxation of distilled spirits, wines, and malt liquors, to amend the Federal Alcohol Administration Act, and for other purposes."

Passed the House of Representatives August 22, 1935.

Attest: SOUTH TRIMBLE,
Clerk.

Passed the Senate with amendments May 12 (calendar day, May 19), 1936.

Attest: EDWIN A. HALSEY,
Secretary.

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DEPARTMENT OF STATE

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WASHINGTON

In reply refer to
WB 811.114 Canada /4947

January 13, 1936

My dear Mr. Secretary:

Reference is made to HR 9185 (A Bill to Insure the Collection of the Revenue on Intoxicating Liquor, etc.), which is now pending in the Senate. The Canadian Charge d'Affaires on Saturday called at the Department and expressed, on instructions from his government, objection to Section 403A of this Bill.

The Charge stated that it was the understanding of his government that the effect of Section 403 of this Bill would be to enable the Secretary of the Treasury to declare an embargo against the importation of the liquor produced by individual foreign manufacturers against whom the United States Government has a claim based upon customs or internal revenue laws unless and until two things happened: that is, first, the foreign firm submits to the jurisdiction of the court of the United States in which such proceeding has been instituted and second, the foreign firm furnishes to the Secretary of the Treasury such security as he may require not in excess of double the amount of the claim.

As

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

As regards these two requirements mentioned above, the Canadian Charge stated that he had no doubt that because of the extensive assets of the principal Canadian distillers in the United States they would find it necessary to submit to the jurisdiction of the appropriate courts anyway, but he stated that even if they did voluntarily submit to our jurisdiction it would appear that the requirement of security up to double the amount of the claim might effectively prevent the operation of certain Canadian firms in the United States. In this regard he mentioned the fact that he understood that the claim against one Canadian distiller was \$30,000,000, and he raised the question of whether it would be possible for this firm to continue in business in the face of the requirement for a \$60,000,000 bond to the United States Government.

Aside from the foregoing, the Canadian Charge expressed on behalf of his government, certain objections on the ground of principle, to Section 403 of the proposed Bill. These objections might be summarized as follows:

(1) He stated that the proposal seemed to be designed to enable pressure to be brought against Canadian distillers to compel them to submit to exactions not now provided for in existing legal processes. He stated that he understood the

Canadian

Canadian distillers had for some time been ready to negotiate a settlement with our Treasury Department, and that in any event it was, of course, open to the Treasury Department to bring actions in court in the usual manner. The proposed procedure, he added, seemed to be designed to overcome present rules of law in the matter of jurisdiction which are based on fundamental justice.

(2) The Canadian Charge stated that the proposed measures would seem to involve unjust discrimination against Canadian distillers. He pointed out that while the terms of this measure are general in application only Canadian firms would be affected.

(3) The Canadian Charge stated that it was the hope of his government that the United States authorities will not overlook the cooperation which Canada has extended to the United States in the prevention of smuggling. He referred particularly to the cooperation which Canada gave us during the prohibition era, mentioning the Anti-Smuggling Treaty of 1924, the large amount of information respecting smuggling activities which Canada furnished us under this convention, and he referred particularly to legislation which Canada passed in May 1930, under which export clearance was denied to liquors destined to countries where their importation was illegal. He pointed out that

that this legislation enacted following long representations from the United States, cost the Canadian Government millions of dollars in public revenue. The Charge stated that it was the view of his government that it would not be in accordance with this spirit of cooperation which has been shown by Canada, to compel Canadian firms by this proposed measure to pay exactions which might not be recovered by ordinary processes of law.

(4) Finally, the Charge referred to the Trade Agreement between Canada and the United States which went into effect on January 1st. He stated that the adoption of this proposed measure might nullify completely the concession on whiskey in this Agreement for which Canada had given advantages for American trade. In this regard the Charge referred particularly to Article XI of the Agreement which provides that in the event the government of either country adopts any measure, which though it does not conflict with the terms of this Agreement, is considered by the government for the other country to have the effect of modifying or impairing any object of the Agreement, the government which has adopted any such measure shall consider such representations and proposals as the other government may make with a view

to

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to effecting a mutual satisfactory adjustment of the matter.

As regards this fourth objection I may say that an officer of this Department, prior to the signature of the Trade Agreement, read to the Canadian Charge and to the Canadian Under Secretary of State for External Affairs the expression of the Treasury Department's views set forth on the enclosure to your letter of November 11, 1935.

The foregoing, of course, relates almost wholly to the objections expressed by the Canadian Charge in pursuance of an instruction from his government. I think it appropriate to add that this Department, on broad grounds of general principle, has from the beginning entertained serious doubts as to the propriety of Section 403 of this proposed measure. In a letter to the Attorney General, dated January 5, 1935, the Secretary of State wrote in part as follows:

"...You are advised that the adoption of the contemplated order involves imponderable consequences which only future events can resolve. I am of the opinion that the present is a particularly inopportune time to devise new procedures for bringing foreign enterprises and their property within the jurisdiction of the United States by placing restrictions on international trade. The possible effects of retaliation in certain foreign countries in regard to American concerns might lead to disastrous effects on our international trade. It would be difficult if not impossible for this country to protest against similar action by foreign countries should we set the precedent. I consequently still entertain grave doubts as to the effectiveness of the proposed measure when all the circumstances and possibility of retaliation are taken into consideration."

Sincerely yours,

(Signed) R. Walton Moore
Asst. Secretary of State

Monday
January 13, 1936

HM, Jr: Hello -
Senator
Bulkley: Hello, Mr. Secretary

HM, Jr: How are you?

B: Fine and dandy - say, Gaston called me up -

HM, Jr: Yes

B: and said, couldn't they send out a little Press Release about that matter that we've discussed so many times.

HM, Jr: Right -

B: I presume you've seen it yourself.

HM, Jr: I have not.

B: Well, it is inoffensive, I am happy to say. I would have preferred that you just didn't say anything - or at most say that it has been satisfactorily adjusted -

HM, Jr: Yes

B: Now, that's -

HM, Jr: I asked them to show it to you first, then if it's all right to bring it in.

B: Yes, well, he has showed it to me and I - I have it here before me -

HM, Jr: Yes

B: - and there's nothing in it that I specifically object to, only I just think it would be better for all concerned if - if it were soft-pedaled to the limit and simply a statement made that it was satisfactorily adjusted. But if you don't see it that way I wouldn't want to -

HM, Jr: Well -

B: urge you too hard on this because there's nothing very bad in it.

HM, Jr: Well, let me send for it and read it and call you back.

B: All right, much obliged -

- 2 -

HM, Jr: Thank you.

(Pause)

HM, Jr:

B: Yes

HM, Jr: - and I've read it - I agree with you that it's harmless -

B: Yes

HM, Jr: You see, here's our troubles, twice a week for about four months a Scripps-Howard man asked me, 'What about Cleveland?' -

B: Yes, I think you talked to me about it, I know -

HM, Jr: And each time I'd say, 'Well, I hope to have something for you shortly.' -

B: Yes

HM, Jr: And I've said that now for four months.

B: Yes

HM, Jr: And I don't want to rely on my memory to give him something verbal.

B: Yes

HM, Jr: Because I might -

B: Well, that's quite right - it ought to be carefully prepared.

HM, Jr: And I agree with you - I can - from your standpoint - I mean, the standpoint of Ohio, I mean, State - democracy - it would be better if we didn't say anything, but it's kind of difficult.

B: Well, it - it would be better if you could be sure that it would fit - that nothing would be said. Of course I appreciate that - what I mean, it's better to say something in order to avert saying something more.

HM, Jr: Yes

- 3 -

- B: And from that point of view I do not particularly object to this statement. There's nothing in it that's offensive at all.
- HM, Jr: No - Senator, we had a much much worse situation in Buffalo where there also is a Scripps-Howard paper -
- B: Yes
- HM, Jr: I mean, much worse.
- B: Yes
- HM, Jr: And there we gave out a statement and it ran, oh, just a little piece in an editorial and which they more or less took from the standpoint of - for the home-town boy and that ended it.
- B: Yes
- HM, Jr: They only mentioned it once, but up to the time we did something they were talking about it all the time.
- B: Well, I - I agree to that. I think that it's necessary to say something and my thought would be to frame it so that the least possible would be said.
- HM, Jr: Well, if you don't object to this, I - I'll give it out at my regular Press Conference.
- B: I - I don't object to it unless you think we could get by just by saying that the matter has been satisfactorily adjusted and that there's nothing more in it.
- HM, Jr: I don't think I could, Senator. I think - I think you'd find they'd immediately run up to see you and they'd run up around Cleveland trying to make a story.
- B: Well, I - I'm not sure that that isn't so.
- HM, Jr: Yes, I mean if I don't give them some facts then they'll start to dig.
- B: Yes
- HM, Jr: I think I've given them just enough facts to get by.
- B: Well, as I say, everything in there is -
- HM, Jr: Yes
- B: - is according to my understanding of the case and -

HM, Jr: But -

B: I - and there's not a single thing in it that I object to.

HM, Jr: Yes - on the other hand you've been around (laughter) longer than I have and you know that you never know how the newspapers will handle the story.

B: Oh, of course - I'm - I'm aiming - I think myself that - that it's better to say something. I - I disagree with those fellows out in Cleveland about that. They - they just think that nothing ought to be said at all. And I disagree with them - I tell them that if you try to do that you can't tell when it'll break down.

HM, Jr: Well, my people here, and I, after reading myself, I would say that this would be about the minimum we could get by with without having a lot of questions.

B: Well - I'll accept your judgment - there's nothing - there's nothing bad in that.

HM, Jr: All right, well, thank you.

B: Thank you.

HM, Jr: Very much obliged.

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Monday, January 13, 1936.

Press Service
No. 6-67

Secretary Morgenthau today made the following announcement:

As a result of a thorough investigation of the so-called Famous Brands case, in which it developed that three Treasury Department officials at Cleveland, Ohio, had financial interests, either directly or through members of their families, in a liquor marketing agency, the following action has been taken.

The three officials in question, Carl E. Moore, Collector of Internal Revenue, 18th Collection District, Clifford Pollock, Assistant Collector of Customs, and William G. Harper, Secret Service operative-in-charge, have divested themselves of all interests which they held, either personally or through other members of their families, in the agency.

They have agreed to return to Famous Brands, Ohio, Inc., all profits which they, or members of their families, received as a result of their financial interest in this agency.

Officials of Famous Brands, Ohio, Inc. have agreed to donate to the Cleveland Community Fund a sum equal to the profits returned by the three Treasury Department officials.

It developed early in the course of the investigation that Bert C. Brown, former operative-in-charge at Detroit, Michigan, for the Secret Service, was responsible for the organization of the liquor sales agency, and that he had prevailed upon the Ohio officials to assume a financial interest. When this fact was developed Mr. Brown was suspended, pending further inquiry. He was subsequently dismissed.

January 13, 1936

HM, Jr. asked Ambassador Sze to come in to see him today, but the Ambassador was ill and sent his First Secretary, Lao Wei-Shiu.

He told the First Secretary that the last time the Ambassador was here, he had brought up the question that Kung wanted to know whether we would buy any more silver and HM, Jr. had told the Ambassador that what we needed was additional information as to what was going on in China. He said the question then came up of the possibility of Soong coming to this country, and the Ambassador had said that he did not want to send any word over to China unless he felt that at this time it was entirely agreeable to the State Department. "Informally," Mr. Morgenthau said to the First Secretary, "I can tell you that it is agreeable to the State Department and to the President of the United States to have Soong come and that if Soong did decide to come here, he would get a very welcome reception. I know that he would have to make an announcement about his coming and my best suggestion would be that he say that he is coming to discuss the Farm Credit and the R.F.C. loans. We will keep it a secret on this side. We are not advising Ambassador Johnson and no one in the State Department, except Secretary Hull, knows about Soong's proposed coming. It is not necessary for you to discuss it with the State Department or anybody else here."

Continuing, Mr. Morgenthau said, "I got a message from Professor Buck, which is a direct message from Kung, and HM, Jr. read the last sentence of the following to the First Secretary:

"Shanghai, China,
January 11, 1936

Kung gave a luncheon on January 9th which was attended by four members of the Financial Committee of the Legislative Yuan including Mayfntsu, the economist; Y. C. Koo, banker and recently appointed counselor to the Executive Yuan to assist in the formulation of national economic plans; and Lewis and myself. The use of gold and silver was discussed by Kung and several were ready to accept the use of both. No disagreement was voiced. "We want to cooperate with

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"'America' was the emphatic statement made by Kung. After lunch Kung told me that he would see me again regarding gold and silver. He requested me to convey to you and through you to the President the warm appreciation of himself and the Chinese people for your past helpful cooperation. He wishes to offer more silver and trusts that it can be on the same terms as on the last transaction, particularly in view of the larger amount heretofore offered (although he hesitated to speak openly such a suggestion). He is reluctant to offer silver at present price but also would prefer not to ask any special favors of the American Government despite the fact that China requires all help possible to stabilize her own situation. He states that China will remember any special consideration gratefully and will see that America is rewarded materially as well. He gave assurance that he is ready to cooperate with you and the President in any consideration of monetary problems and would like to have any suggestions regarding your desires."

Mr. Morgenthau told the First Secretary that, "We will consider T. V. Soong's coming here as a Treasury matter and not a diplomatic mission. If he is coming, the sooner the better. I suggest that you get word to Ambassador Sze immediately."

January 14, 1936

This morning, before HM, Jr. went up on the Hill to appear before the Senate Finance Committee, he checked various figures with Upham, Haas, Bell, Coolidge and Oliphant.

He said he would tell the Senators that for the balance of this fiscal year and during the next fiscal year, our total securities that will come due will be \$5,800,000,000; that as things are now, we will have to raise another billion this year and if there is no legislation passed, as the President gave in his budget for the fiscal year beginning July 1 we will have to raise at least \$500,000,000 and if he votes \$2,000,000,000 for relief, it makes 2½ billions for next year. If they pass the bonus, we will have to add \$2,000,000,000 more, or a total of \$4,000,000,000 not counting that we will get anything back from the processing taxes. The total money to be raised will be \$11,300,000,000. That includes Treasury bills, etc. He said, "I am also going to tell them that through the action of the Courts, the deficit for the coming year has become doubled. I can't tell what the bond market will be, due to these conditions. I cannot separate the bonus, AAA and relief. Our deficit on July 1 was \$31,000,000,000. Due to the AAA decision, this will be increased. The average length of Government obligations is 8½ years and the average interest rate is 2.55% that we pay." He said, "I am going to say that I do not want to argue against the Bonus, but I simply want to say that I cannot tell what effect the bonus will have on the bond market. Nobody knows that."

At 10 o'clock the Secretary appeared before the Senate Finance Committee in Executive session. He was accompanied by Mr. Bell, Mr. Haas and Mr. Upham. The Committee had under consideration the "bonus" bill.

HM, Jr. told the Committee that he would prefer to have no transcript of his testimony, inasmuch as misinterpretation of statements about the public debt and Government credit may have serious consequences. After some discussion, in the course of which Senator Couzens explained that he does not consider himself bound by "secret" or "executive" sessions, and would feel free to make public anything he heard which he thought is in the public interest, it was decided to take a stenographic record of the testimony given.

January 14, 1936

The Attorney General today replied to the Treasury's letter of January 9 asking a ruling on whether available funds might be used to pay administrative expenses, including salaries of employees, incurred in connection with administration of AAA. A copy of the reply is attached hereto.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON

A-69783.

January 14, 1936.

The Honorable,

The Secretary of the Treasury.

Sir:

There has been considered your letter of January 9, 1936, as follows:

"The Supreme Court has recently held in the case of United States v. Butler, that certain provisions of the Agricultural Adjustment Act of May 12, 1933, conflict with the Constitution. This Department is consequently bound to make its action conform to that opinion. Pending your decision in the matter, the Department has discontinued making payments of salaries and administrative expenses incurred in carrying out the Agricultural Adjustment Act. The question has arisen whether the appropriation 3X017 'Salaries and Expenses, Agricultural Adjustment Administration', and other funds heretofore available, may now be used for such purposes, and your opinion upon this question is respectfully requested.

"The Department is aware of your decision (A-61873, 14 Comp. Gen. 846), with respect to the payment of salaries of members and employees of the Railroad Retirement Board, and administration expenses in liquidating the affairs of the Board, after the decision of the Supreme Court, in the case of The Alton Railroad V. The Railroad Retirement Board, decided May 6, 1935. It is believed, however, that your decision on that situation may be readily distinguished from the situation growing out of the Supreme Court case of United States v. Butler. In your decision it was pointed out that the Supreme Court in the Railroad Retirement Act case had affirmed the decree of the Supreme Court of the District of Columbia, which had held the Railroad Retirement Act unconstitutional in its entirety. The following language was quoted from the decree so affirmed:

"It is further considered, adjudged, and decreed that the Railroad Retirement Act and each and every provision thereof, is void and of no effect."

It was concluded then that the Railroad Retirement Board and its employees had no lawful existence as such, and that there was no authority for payment from the fund there in question of any salaries

of the members and employees of the Board, or any administrative expenses in terminating the affairs of the Board.

"The Supreme Court in the case of United States v. Butler, however, limited its consideration to the question of rental or benefit payments and the processing taxes raised to make such payments. The Court did not consider such provisions as those relating to marketing agreements, licenses, orders, the removal of surplus agricultural commodities, the encouraging of the exportation of agricultural commodities and products, or the provisions relating to the Philippine Islands and Puerto Rico. The Agricultural Adjustment Act contains the usual separability clause and it is our opinion that the application of this clause requires a conclusion that these provisions are separable from those held invalid by the Supreme Court. That Congress was aware of the possibility of the invalidity of the taxes imposed by the Act and assumed that other provisions would still be applicable is evident from the provisions of section 21(d) which make express provision in that event.

"There is, therefore, a sound basis for holding that the Agricultural Adjustment Administration, established by the Agricultural Adjustment Act, and its employees, have a lawful existence as such, unlike the Railroad Retirement Board and its members and employees, and that the Agricultural Adjustment Administration has authority to carry on functions which are not affected by the above-mentioned decision of the Supreme Court. The same reasoning is equally applicable in the case of employees of other departments engaged in administering provisions of the Act. For example, there are now pending in the Bureau of Internal Revenue of this Department many claims for refunds under section 21(d) of the Act, as amended.

"A somewhat comparable situation was presented by that considered in your decision rendered June 8, 1935 (A-62441, 14 Comp. Gen. 878) in connection with the availability of funds appropriated by the Emergency Appropriation Act, fiscal year 1935, approved June 19, 1934, for administering and enforcing the provisions of section 9(c) of the National Industrial Recovery Act. This appropriation was available for the administrative expenses of the Petroleum Administrative Board, the Petroleum Labor Policy Board, and the Oil Enforcement Section, Division of Investigations, which were established under section 2(a) of Title I of the National Industrial Recovery Act, to administer and enforce section 9(c) of said Title and Act, and the Code of Fair Competition for the Petroleum Industry, and subsequently aided in carrying out the provisions of the Connally Oil Act of February 22, 1935. While the Supreme Court, by its decision of January 7, 1935, and its decision of May 27, 1935, held unconstitutional section 9(c), and the Code of Fair Competition for

the Petroleum Industry, nevertheless your decision indicates that the appropriation for administrative expenses of the above-mentioned agencies was still available for that purpose, even after the decisions of the Supreme Court had been rendered. It must be assumed that the reasons for this result were that these agencies continued in existence, despite the fact that the Supreme Court had declared invalid some of the provisions which these units were established to enforce. The same situation exists with respect to the Agricultural Adjustment Administration. Although some of the functions performed by that Administration have been declared unconstitutional, nevertheless other functions remain to be carried on by that agency which are unaffected by the decision in the Butler case, and it must likewise be deemed that appropriations available for administrative expenses under the Agricultural Adjustment Act remain available after the decision in that case.

"Payments have likewise been temporarily discontinued from the fund 3T030.198 'Miscellaneous Contributed Funds, Department of Agriculture (Special Tax-Exemption Certificate Pool)'. This fund resulted from the sale of surplus cotton tax-exemption certificates surrendered to a Special Pool organized under Section 58 of the 1935 Regulations prescribed under the Cotton Control Act of April 21, 1934. This Special Pool is based on trust agreements entered into between the producer surrendering the certificates and the Manager of the Pool, and they provide that the Manager shall endeavor to sell to other producers the poundage represented by the certificates surrendered, shall collect the proceeds derived from the sale of such certificates, and shall deposit such proceeds in the Treasury to the credit of those producers participating in the surrender of the certificates. It is further agreed in the trust agreement that following the deduction of administrative expenses, producers participating in the Special Pool will share proportionately in the total net proceeds derived from the sale of such surplus certificates. It is thus apparent that the amounts in the fund under consideration constitute a trust fund and are not to be considered in the same manner as rental and benefit payments under the Agricultural Adjustment Act. Your opinion is respectfully requested whether checks may properly be issued against the fund in question in satisfaction of all trust agreements.

"It is respectfully requested that prompt consideration be given to the inquiries referred to you and your prompt decision in the matter will be greatly appreciated."

The only provisions of the Agricultural Adjustment Act of May 12, 1933, 48 Stat. 31, as amended, that were for administering

by the Treasury Department are those, - such as found in Sections 15 to 21, inclusive, - relating to the collection of the taxes imposed under the act and to the making of certain refunds specifically provided for therein. Therefore, questions as to the effect of the decision of the Supreme Court of the United States on the activities of the Agricultural Adjustment Administration, Department of Agriculture, or on the status of its employees, are not proper for consideration by this office on the basis of your submission, but are being considered on a submission received from the Secretary of Agriculture. Likewise, questions as to the availability of the unexpended balance of the appropriation referred to in the first paragraph of your letter, supra, - which is the appropriation of \$100,000,000 made by Section 12 (a) of the Agricultural Adjustment Act, as amended, - may not properly be answered at your request as it appears the funds transferred to your Department pursuant to Section 12 (c) of the act, and in which there were unexpended balances on the date of the Court's decision, were transferred, not from the appropriation made under Section 12 (a), but pursuant to Section 12 (c) from funds provided under Section 12 (b), as amended. Section 12 (b) reads as follows:

"(b) In addition to the foregoing, for the purpose of effectuating the declared policy of this title, a sum equal to the proceeds derived from all taxes imposed under this title is hereby appropriated to be available to the Secretary of Agriculture for (1) the acquisition of any agricultural commodity pledged as security for any loan

made by any Federal agency, which loan was conditioned upon the borrower agreeing or having agreed to cooperate with a program of production adjustment or marketing adjustment adopted under the authority of this title, and (2) the following purposes under part 2 of this title: Administrative expenses, payments authorized to be made under section 8, and refunds on taxes. The Secretary of Agriculture and the Secretary of the Treasury shall jointly estimate from time to time the amounts, in addition to any money available under subsection (a), currently required for such purposes; and the Secretary of the Treasury shall, out of any money in the Treasury not otherwise appropriated, advance to the Secretary of Agriculture the amounts so estimated. The amount of any such advance shall be deducted from such tax proceeds as shall subsequently become available under this subsection."

By decision of January 6, 1936, in United States v. Butler, the Supreme Court of the United States determined the exaction of said processing tax to be in contravention of the Constitution, and in consequence thereof there will be no further collections.

Inasmuch as under the provision of section 12 (b), supra, authorizing advances to the Secretary of Agriculture from the General Fund in anticipation of processing tax collections and on the basis of estimates by joint action of the Secretary of Agriculture and the Secretary of the Treasury, from time to time, of current requirements, there appears to have been so advanced to the Secretary of Agriculture from the General Fund, on the basis of estimates as provided for, several hundred million dollars in excess of the total processing tax collections, it appears your question involves whether the moneys so advanced to the Secretary of Agriculture, or that portion thereof heretofore transferred by the Secretary of Agriculture to the Treasury Department under the authority of section 12 (c),

supra, may now legally be used for any or all of the purposes for which available prior to the decision of the Supreme Court of the United States of January 6, 1936, supra.

It will be noted that said Section 12 (b) appropriated only "a sum equal to the proceeds derived from all taxes imposed under this title." Hence, to the extent the aggregate amount actually derived from such taxes is less than the aggregate of all expenditures, including transfers, from the fund set up under said section, plus the amount of the unexpended balance now in said fund, including the unexpended balances of amounts transferred from said fund under Section 12 (c), the moneys so advanced pursuant to Section 12 (b) were not appropriated and are not now available for any use whatsoever, and any unexpended balances of funds transferred to your Department under Section 12 (c) are for returning to the General Fund of the Treasury.

Your submission in this regard must be and is answered accordingly.

Your question relative to the fund derived from the sale of surplus cotton tax-exemption certificates issued under the provisions of the act of April 21, 1934, 48 Stat. 598, will be made the subject of a separate reply.

Respectfully,


Comptroller General
of the United States.

January 15, 1936

I told the President that I have not made any statement that he would not sign a cash bonus and he said, "I knew you had not made any such statement."

Wednesday
January 15, 1936.

- Arthur
Sulzberger: turn you down, but I would tell you
that he doesn't realize quite what a terribly messy
thing it all is.
- HM,Jr: Yes
- S: And that it might be helpful if you could have someone
there to aid
the bodies are in pieces - some of them are decapitated-
- HM,Jr: Yes
- S: And if someone could go there who would aid in the
identification of this boy and get him together -
- - - you see, it takes so long to get the body
shipped, why it would be a tremendous help. I've got
our people working, but I thought if you could say a
word to someone that it might move things along as well.
- HM,Jr: Well, I mean -
- S: I don't know, for example, what kind of identification
has to be done - whether someone of the family has to
go and look at a body in several different pieces. I
don't know anything about that kind of thing.
- HM,Jr: Yes
- S: I didn't think that you would send anyone - I thought
that there might be someone there who could just put a
a little burr on the tails of the people there to see
that they pushed this particular one along.
- HM,Jr: I see. It is hands of the Department of Com-
merce?
- S: I don't know anything about that.
- HM,Jr: Yes
- S: I really don't know.
- HM,Jr: Yes
- S: The only thing I do know is that there is a mortuary
there called, Thompson and Brothers, and that the
bodies are headed in that direction but that they are
not there yet.

HM,Jr: Pardon me?

S: I say, these bodies are headed for Thompson Brothers Mortuary - T-h-o-m-p-s-o-n -

HM,Jr: Yes

S: in Memphis, but they are not there yet. And our correspondent tells me that the bodies are terribly mutilated -

HM,Jr: Yes

S: And many of them in many pieces.

HM,Jr: Yes - well, it's - it's near Memphis?

S: Yes - Memphis is the - Memphis is the point.

HM,Jr: All right

S: I'll keep following it - from some more people there. But I thought if you could stimulate it as well, it would really help us.

HM,Jr: You say that Frank didn't want any help from me?

S: Well he said that he didn't think that any help would be necessary - but he doesn't know what I am telling you, do you see?

HM,Jr: I see.

S: He - he just thinks that a body is being shipped home - well it may come back like mince meat.

HM,Jr: O. K.

S: What?

HM,Jr: All right

S: Goodbye

HM,Jr: Thank you

S:

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January 15, 1936.

HM,Jr: Morgenthau speaking -
 Captain
 Ccvell: Yes, - Captain Covell talking, sir -
 HM,Jr: Captain -
 C: Yes
 HM,Jr: In this accident - this aeroplane accident - happened
 last night -
 C: Yes, sir
 HM,Jr: The son of a cousin of mine by name of - his name was
 Charles Altschul, A-l-t-
 C: Just a moment, sir - Char - A- l-t-?
 HM,Jr: s-c-h-u-l-
 C: s-c-h-u-l- , Charles?
 HM,Jr: Yes - a young boy, he happened to be an aviator himself.
 C: Yes, sir.
 HM,Jr: Now, I understand they're going to have all kinds of diffi-
 culty in identifying the bodies, et cetera, see?
 C: Yes, sir
 HM,Jr: Now, is there anybody that we can send from Coast Guard
 to - it's near Memphis - I mean, can you sort of see
 if there's any person we can send down there to assist
 so that they can get the body?
 C: Near Memphis, sir?
 HM,Jr: Yes, the accident took place.
 C: Near Memphis, Tennessee?
 HM,Jr: Yes
 C: Let me see - we have - we have one boat there, but
 I wouldn't - I think our - we had a stern wheeler
 down there that would have been good - I - right
 at Memphis, but she's gone out. I'll tell you, Mr.
 Secretary, I'll look right into this -

HM,Jr: Well, if there's anybody else - now, listen, I want you to handle this as a personal matter for me -

C: Yes, sir

HM,Jr: If the Health Department has anybody -

C: Yes

HM,Jr: I want somebody to go there as my personal representative and to see that everything can be done to assist. And I'm asking you personally to do this for me.

C: Yes, I'll do it, Mr. Secretary.

HM,Jr: Fine

C: I'll tell you, I'll get right in touch too with our Medical Director there, Dr. Mc , I think that would probably be our best chance.

HM,Jr: Whoever we have there, I'm asking you personally to handle this for me -

C: Yes, sir

HM,Jr: - to have somebody on the scene -

C: I -

HM,Jr: - to cooperate.

C: Yes, sir, I understand.

HM,Jr: Will you?

C: I'll do so

HM,Jr: And as soon -

C: Then I'll report back to you.

HM,Jr: As soon as you get it report back and ask for Mrs. Klotz or me. If I'm in conference ask for Mrs. Klotz.

C: Yes, sir

HM,Jr: Will you?

C: Yes, sir, I'll do so.

HM,Jr: All right, thank you

C: All right

HM,Jr: See how quick you can do it.

C: All right

HM,Jr: (Spoken to Operator) If Captain Covell calls back let him talk to either Mrs. Klotz or me.

Operator: All right.

Wednesday
January 15, 1936

Altschul -

HM,Jr: Yes
Captain
Covell: They'll have an ambulance and everything and then hold
the body subject to further orders from you, sir.

HM,Jr: I see, well, now, ask - do it because I'm right in
the midst of the Budget here -

C: Yes, sir

HM,Jr: Ask the Surgeon General to tell his man in Memphis -

C: Yes, sir

HM,Jr: - that the minute that they get the body, please to
phone me.

C: Yes, sir - the minute they get the body to tell the
Commanding Officer at the hospital in Memphis - the
minute they get the body -

HM,Jr: Yes, sir, to phone up here and - the minute they have
the body to phone us.

C: To phone the Surgeon General?

HM,Jr: Yes, the Surgeon General -

C: And he can tell you direct?

HM,Jr: Yes

C: All right, sir

HM,Jr: Yes, and by that time I'll have some word.

C: All right, very well, sir.

HM,Jr: Yes, that - I appreciate that, thank you.

C: All right, sir

HM,Jr: Goodbye.

Wednesday
January 15, 1936.

HM,Jr: Hello -

Dr. H. S.

Cumming: Good morning, Mr. Secretary, this is Dr. Cumming -

HM,Jr: Yes

C: I'm sorry to hear about this tragedy and I wanted to get a little

HM,Jr: Oh, my God, Dr. Cumming, I've been all over this thing! Now, do I have to go all over it again?

C: No, I just wanted to know whether you wanted the taken down to the Marine Hospital in Memphis or just report to you that they've gotten it - and ask for further instructions. - ?

HM,Jr: I went all over ths thing - everybody in the Treasury has got all of the instructions four times!

C: Well, I -

HM,Jr: I told Covell what I wanted! -

C: All right, I'll talk to him.

HM,Jr: My God! I mean, can't anybody in the Treasury get - ever get any orders right?

C: I'll - I'll get it from him, then.

HM,Jr: I've given the whole thing to Covell once!

C: All right, I'll talk to him then, -

HM,Jr: Please!

C: All right. Goodbye.

Wednesday
January 15, 1936

HM, Jr: Doctor Lombard, L-o-m-b-a-r-d
Mrs.
Johnson: Yes

HM, Jr: The head of the Marine Hospital at Memphis -

J: Yes

HM, Jr: He has proceeded in an automobile to the scene of
the accident -

J: Yes

HM, Jr: And after he gets there and after he finds out what
the conditions are he'll phone us.

J: Yes, all right, thank you so much, I got that all
right.

HM, Jr: Dr. Lombard, the head of the Marine Hospital at
Memphis has left in an automobile for the scene of
that -

J: Yes

HM, Jr: - aeroplane accident.

J: Yes. All right, thank you.

HM, Jr: And he has the name of Charles Altschul and he'll see
what he can do.

J: All right, thank you so much, Mr. Morgenthau.

HM, Jr: All right.

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HM,Jr: That would be different, wouldn't it?
 John K.
 Ottley: Yes, it - it would be - be very different from
 a financial standpoint. I mean he's got plenty
 of money -

HM,Jr: Yes

O: And he could do anything he wanted to do and do it
 easy if he wanted to.

HM,Jr: Well, I haven't talked to him.

O: What?

HM,Jr: I have not talked to him. - I wonder whether you'd
 be willing to talk to him?

O: Yes, I will if you want me to.

HM,Jr: I wish you would.

O: All right, sir

HM,Jr: And would you call me back after you talk to him?

O: You'd like for him - in other words, you'd like for
 him to - if he's - just talk to him
 what you want to talk to him about -

HM,Jr: Well, whether he'd be interested - in -

O: That's right -

HM,Jr: And if he's -

O: And if so, I mean, if he'd be interested you'd like
 for him to come to see you.

HM,Jr: If he'd be interested I'd like to have him come right
 up to Washington to see me -

O: O. K.

HM,Jr: Immediately - I mean, I can't - of course he under-
 stands until I see him -

O: Yes

HM,Jr: - and we see each other -

O: the point is this -
I've bought a lot of - I've hired a lot of men and
bought a lot of horses and a lot of dogs and I never
bought any of them unless I looked at them.

HM,Jr: That's the idea - want to look at his mouth.

O: Yes, that's right (laughter you're right.

HM,Jr: And if he's interested, why let him come on the first
train and come up here.

O: All right, I'll - I'll talk to him and - then
call you right - and call you back.

HM,Jr: Thank you very much.

O: He's not at his desk at the moment, but -

HM,Jr: All right.

O: I'll - I'll get in touch with him and call you
right back.

HM,Jr: As I understand he - he's your -

O: I feel highly flattered that - that you've found out
about - (laughter) that you've found out about

HM,Jr: Yes (laughter) All right, thank you.

O: As a matter of fact what we try to do is - we -
I don't try to have any but good ones -

HM,Jr: But good ones?

O: I say I don't try - I mean, I - I just don't have
any but good ones.

HM,Jr: Good for you (laughter) All right, Mr. Ottley,
thank you.

O: And of course good ones are cheap at any - at most
any price -

HM,Jr: That's right

O: And poor ones are high at any price.

HM,Jr: You're right.

O: All right, sir, glad to talk to you and I - I'll give that my attention.

HM,Jr: Thank you, very much.

O: All right, sir

HM,Jr: Goodbye

O: Goodbye.

January 15, 1936

Assistant Secretary of State Sayre has sent to the Treasury a letter dated January 15 (copy attached) in which it is stated that the Executive Committee on Commercial Policy would like to appoint a sub-committee to study and report on gold imports and exports so that the Executive Committee might have more complete information concerning the debtor-creditor position of the United States. HM, Jr. turned this letter over to Mr. Haas for prompt preparation of draft of reply.

HM, Jr. told Haas to say very definitely to the State Department that he was opposed to an interdepartmental committee; that if they would let us know just what they wanted we would be glad to give it to them. He said, "I do not see why we cannot collate all these statistics on gold for a one-year period and give them out." Haas did not think we should give out such information just now, but HM, Jr. asked him to have it ready in any event. The Secretary also said he objected to the State Department getting into this thing. "What have they done in the last three years on the international debt? Nothing! They have not made any move. The curse of Washington is that there are too many interdepartmental committees." He definitely was opposed to it.

January 16, 1936

Mr. Sayre and Dr. Feis came in to see the Secretary on the above matter. HM, Jr. told them that the question of gold imports and exports is a Treasury responsibility; that he will not share it with anybody; that if the State Department wants to know anything about it, he would be glad to go over to the State Department and give them anything that they want -- it will not even be necessary for them to come over here -- but that he positively would not share the responsibility on "gold" with anyone. Mr. Feis agreed that it belonged in the Treasury Department.

January 17, 1936

My dear Mr. Sayre:

I refer to your letter of January 15, 1936, regarding the desirability of securing more prompt and more complete information upon the debtor-creditor position of the United States.

Matters pertaining directly to international and monetary movements and currency relationships fall, of course, within the range of the Secretary of the Treasury's responsibilities, and in the carrying out of these responsibilities it has been found necessary to collect information relating to monetary and capital movements, some of which is of a confidential nature.

Should any of this information be of service to any of the Departments, I shall be glad to see that it is made available to them. Further, I shall be happy to arrange for the Treasury to gather such additional information pertinent to monetary affairs as may be desirable.

It seems to me in this case there is no great necessity of having a special committee consisting of members from various Departments, but that such information as the Department of Commerce or the State Department desire can readily be obtained informally from the Treasury.

Sincerely,

Honorable Francis B. Sayre,
Chairman, Executive Committee
on Commercial Policy,
Department of State,
Washington, D.C.

CCB/esh
1/17/36

COPY

DEPARTMENT OF STATE
Washington

January 15, 1936

My dear Mr. Morgenthau:

The Executive Committee on Commercial Policy which as you know was established by the President for the purpose of coordinating all matters relating to the commercial policy of the United States, has recently been giving consideration to the desirability of securing more prompt and more complete information upon the debtor-creditor position of the United States, both with respect to the absolute amount of investments abroad and foreign investments here, and as to the nature of current changes in those amounts.

At the meeting of the Committee held January 3, 1936, at which there were present representatives of the Treasury Department, the Federal Reserve Division of Research and Statistics, and the Division of Finance of the Department of Commerce, it was agreed that it would be desirable to have a sub-committee make a study and report upon this question, including the following matters, among others:

"(a) A technical examination of the statistical materials necessary to provide adequate and prompt knowledge of our debtor-creditor position, of current changes in that position in all its aspects, and, within the discretion of the Committee, on such other phases of our balance of payments reports as require extension or improvement. This would presumably give a full account of what material is available on each of these items and what additional material is needed, and suggestions as to the technical problems involved.

"(b) Recommendations as to how the necessary additional material might be obtained, and in what form. This would presumably include suggestions as to what each department concerned

in the subject might do in order to create new sources of materials. It is likely that the Government will have to call upon private interests to furnish additional information on forms to be developed.

"(c) Consideration of whether, because of the nature of some of the material, or in the interests of promptness, it might be advisable to undertake the preparation of special reports on current phases of the balance of payments situation, supplementary to the published material.

"(d) Recommendations and estimates of the added personnel and expense required to carry out the work."

It was voted that the Committee request the Secretary of the Treasury, the Secretary of Commerce, and the Chairman of the Board of Governors of the Federal Reserve System, each to designate a member of such a sub-committee, whose chairmanship should rest in the Department of Commerce, to prepare a thorough analysis and report. I would accordingly appreciate it if you would indicate to me the representative of your organization upon this sub-committee.

Sincerely yours,

(s) Francis B. Sayre,
Chairman,
Executive Committee on
Commercial Policy.