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<td></td>
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<td></td>
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</tr>
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Regraded Unclassified
STATUS OF TAX BILL

I. Summary of the Harrison Plan and of its Results

A. The items in the Harrison plan (they will be enumerated and
in each case the corresponding recommendation of the President's
message will be stated):

1. Retain corporation income tax and raise it to 18% flat.
The President's message recommended repealing this and the
other two corporate taxes.

2. Levy a flat 7% tax on undistributed earnings regardless
of size of corporate income and of percent of earnings retained.
The President's message in substance recommended a tax on un-
distributed earnings equivalent to personal income normal and
surtaxes, with no corporate tax if full distribution.

3. The plan would place the normal tax on dividends after
raising it 25%. The message recommended its imposition without
increase.

4. The plan would increase the normal tax on everybody from
4 to 5% whatever the source of their income. The message
recommended no increase in the personal income tax rates.

5. The plan would make retentions of earnings under 30% presumably
reasonable and retentions in excess of 50% unreasonable; and
subject unreasonable retentions to the higher tax rates of Section
102. The message did not mention this method of handling the
problem of our tax avoidance.

B. What the results of this plan would be:

1. This plan would safeguard the revenue just as the retention
of the present graduated corporate income tax would; but
the estimate under this plan is based on the same data as the Budget estimates and the yield of the House bill; and it cuts down the risk only to the extent of the larger percent of revenue collected at the source.

2. Since all the additional revenue required could be obtained by stopping the avoidance of surtaxes or collecting their equivalent from corporations retaining earnings, as the Message recommended, the following results of this plan must be viewed as samples of the extreme measures which are being suggested as the alternative to getting the revenue needed by making existing surtax rates effective on a relatively small minority now avoiding them:

   a. Increasing the normal tax from 4 to 5% would raise the taxes on everybody. This increase would be greatest on the great mass of the population, which falls in the small income groups. Thus, wage earners, clerks, and the small salaried group generally would have their taxes increased 25% at least. So far as these smaller income groups get dividends, the increase in their taxes would be even more than 25%.

   b. Partners and individual businessmen now paying their normal and surtaxes would all have their taxes increased by the rise in the normal rate. For the great mass of these business men with incomes up to say $6000 this increase would be 25%.

   c. The plan increases the tax of the great body of corporations, which are not operated to enable stockholders to avoid
surtaxes. The increase in their corporate tax would be from about 19 to 41%; and the smaller the corporation the bigger the increase, such larger increase affecting the vast majority of the corporations of the country. And they get this increase even though they distribute all their earnings. If they retain 50%, their taxes would be increased from 47 to 74%.

d. Stockholders, under the plan recommended in the message, would pay the 4% normal and surtaxes. Under this plan stockholders with incomes up to about $8,000 in corporations with incomes of $2,000 or less, comprising the vast majority of the total of corporations, would have taken out of their share a tax increase of 70% over present law, although earnings were fully distributed; and if 50% of earnings retained, the increase would be about 74%.

5. The President's message stated two objectives — equalizing the tax burden on business earnings and stopping surtax avoidance. Retaining even the present corporate income tax of from 12½ to 15% would be an abandonment of the first objective, and the 7% supertax proposed would be nothing but lip service to the second objective. It would not prevent those with large incomes leaving earnings in corporations to escape the surtax.
6. This plan would to get about $175,000,000 revenue raise the taxes on 2 million 7 hundred thousand people, operating much as a sales tax, as contrasted with the less than 60 thousand people, not now carrying their due share of the tax burden on that portion of their real income represented by withheld profits, whose taxes would be increased by the House Bill.

7. The corporate tax recommended in the President's message was constructive from a business point of view since its direct burden was more largely on stockholders. This plan might well be adverse from a business point of view since its direct burden is more largely upon corporate business as well as on partnerships and individual businesses.

8. This plan is unjust and indefensible. Its serious consideration cannot be understood except as refreshing the type of desperate measures being proposed as alternatives to facing the responsibility of getting the money needed by merely stopping surtax avoidance in the high income brackets, as the House rates would. The President, the Secretary of the Treasury, and the Commissioner of Internal Revenue and others speaking for the Treasury are all on record that the additional funds required can be obtained by making the personal income tax rates on business profits effective on the minority in the high brackets now avoiding them. The adoption of any such plan would constitute a serious political liability in the face of that record, particularly in view of the fact that already some 60% of our revenues are coming from the consumer class.
I. Summary of the Finance Committee's Plan and of its Results

A. The items in the Committee plan (they will be enumerated and in each case the corresponding recommendation of the President's message will be stated):

1. Except from corporate income and undistributed earnings taxes $1,000 of income of corporations having incomes of $20,000 or less.

2. Retain corporation income tax and raise it to 1% flat. The President's message recommended repealing this and the other two corporate taxes.

3. Levy a flat 7% tax on undistributed earnings, regardless of size of corporate income and of percent of earnings retained. The President's message in substance recommended a tax on undistributed earnings equivalent to personal income normal and surtaxes, with no corporate tax if full distribution.

4. The Committee's plan would place the individual normal tax of 4% on dividends. The message recommended its imposition, but only in conjunction with repeal of all present corporation taxes.

5. The Committee would retain the present capital stock and excess profits taxes indefinitely at full present rates. The message recommended their repeal.
What the results of this plan would be:

1. This plan would safeguard the revenue just as the retention of the present graduated corporate income tax would; but the estimate under this plan is based on the same data as the Budget estimates and the yield of the House bill; and it cuts down the risk only to the extent of the larger percent of revenue collected at the source.

2. Since all the additional revenue required would be obtained by stopping the avoidance of surtaxes or collecting their equivalent from corporations retaining earnings, as the Message recommended, the following results of the Committee's plan must be viewed as samples of the extreme measures which are being suggested as the alternatives to getting the revenue needed by making existing surtax rates effective on a relatively small minority now avoiding them:

a. A corporation earning $100,000, paying $16,000 to the Government in taxes and distributing all of the balance would have to pay a further tax of 7% on the $16,000, that is, would have to borrow money or dip into its surplus in order to pay its full tax.

b. The plan increases the tax of the great body of corporations, which are not operated to enable stockholders to avoid
surtaxes. The increase in their tax, assum-
ing full distribution of current earnings, would be from about 18% to 56% and, apart from the $1000 exemption, the smaller the corporation the bigger the increase, such larger increase affecting a vast body of the corporations of the country. And they pay this increase even though they distribute all their earnings. If they add to their reserve 50% of their statutory net income, their taxes would be increased from 42% to 71%.

b. Stockholders, under the plan recommended in the message, would pay the 4% normal and surtaxes. Under this plan stockholders with incomes up to about $6,000 in corporations with incomes of $10,000 for example would have taken out of their share a tax increase of 34% over present law, although earnings were fully distributed; and if 50% of earnings were reinvested, the increase would be 50%.

c. The President's message stated two objectives — equalizing the tax burden on business earnings and stopping surtax avoidance. Ne-
taining even the present corporate income tax of from 12\% to 15\% would be an abandonment of the first objective, and the 7\% supertax proposed would be nothing but lip service to the second objective. It would not prevent those with large incomes leaving earnings in corporations to escape the surtax.

6. This plan would increase the taxes of vast numbers of corporations and stockholders as contrasted with the less than 60 thousand people, not now carrying their share of the tax burden on that portion of their real income represented by withheld profits, whose taxes would be increased by the House Bill.

7. The corporate tax recommended in the President’s message was constructive from a business point of view since its direct burden was more largely on stockholders. This plan might well be adverse from a business point of view since its direct burden is more largely upon corporate business.

8. This plan is unjust and indefensible. It departs more than present laws from the principle of ability to pay. Its serious consideration cannot be understood except as reflecting the type of desperate expedients being proposed as alternatives to facing the responsibility of getting the money needed by merely stopping surtax avoidance in the high income brackets, as the House rates would. The President, the Secretary of the Treasury, the
Commissioner of Internal Revenue and others speaking for the Treasury are all on record that the additional funds required can be obtained by making the personal income tax rates on business profits effective on the minority in the high brackets now avoiding them. The adoption of any such plan would constitute a serious political liability in the face of that record, particularly in view of the fact that already some 60% of our revenues are coming from the consumer class.
Questions Concerning Possible Offerings of Government Securities to be Dated June 15, 1936

1. Could a 5 year 1-3/8% note (due 6/15/41) be sold successfully?

<table>
<thead>
<tr>
<th>Comparable issues</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-1/2's 12/15/40</td>
<td>1.18%</td>
</tr>
<tr>
<td>1-1/2's 5/15/41</td>
<td>1.21</td>
</tr>
</tbody>
</table>

Extrapolated yield for an issue due 6/15/41 - 1.24%

A 1-3/8% note due 6/15/41 would sell:

- at 100-27/32 to yield 1.20%
- 100-19/32 " " 1.25
- 100-12/32 " " 1.30

An issue with a 1-3/8% coupon rate should be successful.

2. What coupon rate would be necessary in order to sell a 6 year bond (due 6/15/42)?

<table>
<thead>
<tr>
<th>Comparable issues</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-3/8's 6/15/40-43</td>
<td>1.17%</td>
</tr>
<tr>
<td>3-5/8's 3/15/41-43</td>
<td>1.41</td>
</tr>
<tr>
<td>3-1/4's 6/15/41</td>
<td>1.44</td>
</tr>
<tr>
<td>3-1/4's 10/15/43-45</td>
<td>2.06</td>
</tr>
</tbody>
</table>

Coupon considered necessary - 1-3/4 %

A 1-3/4% bond due 6/15/42 would sell:

- at 100-27/32 to yield 1.60%
- 100-13/32 " " 1.65
- 100-9/32 " " 1.70
3. What coupon rate would be necessary in order to sell a 9 year bond (due 6/15/45)?

<table>
<thead>
<tr>
<th>Comparable issues</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-1/4's</td>
<td>10/15/45-45</td>
</tr>
<tr>
<td>3-3/8's</td>
<td>6/15/43-47</td>
</tr>
<tr>
<td>3-1/4's</td>
<td>4/15/44-46</td>
</tr>
<tr>
<td>4's</td>
<td>12/15/44-54</td>
</tr>
<tr>
<td>2-3/4's</td>
<td>9/15/45-47</td>
</tr>
</tbody>
</table>

Coupon considered necessary - 2-1/4

A 2-1/4% bond due 6/15/45 would sell:

<table>
<thead>
<tr>
<th>at</th>
<th>to yield</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>101-7/32</td>
<td></td>
<td>2.10%</td>
</tr>
<tr>
<td>100-26/32</td>
<td>&quot;</td>
<td>2.15%</td>
</tr>
<tr>
<td>100-13/32</td>
<td>&quot;</td>
<td>2.20%</td>
</tr>
</tbody>
</table>

4. How long an issue bearing a 2-5/8% coupon could be successfully sold?

<table>
<thead>
<tr>
<th>Comparable issues</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>5's</td>
<td>6/15/46-48</td>
</tr>
<tr>
<td>3-3/4's</td>
<td>3/15/46-56</td>
</tr>
<tr>
<td>3-1/8's</td>
<td>6/15/46-49</td>
</tr>
<tr>
<td>4-1/4's</td>
<td>10/15/47-52</td>
</tr>
<tr>
<td>2-5/4's</td>
<td>3/15/48-51</td>
</tr>
<tr>
<td>3-1/8's</td>
<td>12/15/49-52</td>
</tr>
<tr>
<td>5's</td>
<td>9/15/51-55</td>
</tr>
</tbody>
</table>

An issue due in 15 years or in 15 years optional after 12 years (6/15/51 or 6/15/48-51) could probably be sold successfully. The optional issue would be preferable.

A 2-5/8% bond due 6/15/51 would sell:

<table>
<thead>
<tr>
<th>at</th>
<th>to yield</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>101-18/32</td>
<td></td>
<td>2.50%</td>
</tr>
<tr>
<td>100-50/32</td>
<td>&quot;</td>
<td>2.55%</td>
</tr>
<tr>
<td>100-10/32</td>
<td>&quot;</td>
<td>2.60%</td>
</tr>
</tbody>
</table>

A 2-5/8% bond due 6/15/48-51 would sell:

<table>
<thead>
<tr>
<th>at</th>
<th>to yield</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>101-9/32</td>
<td></td>
<td>2.50%</td>
</tr>
<tr>
<td>100-25/32</td>
<td>&quot;</td>
<td>2.55%</td>
</tr>
<tr>
<td>100-8/32</td>
<td>&quot;</td>
<td>2.60%</td>
</tr>
</tbody>
</table>
5. How long an issue bearing a 2-3/4% coupon could be successfully sold?

**Comparable issues:**

<table>
<thead>
<tr>
<th>Coupon</th>
<th>Maturity</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-3/4's</td>
<td>3/15/48-51</td>
<td>2.52%</td>
</tr>
<tr>
<td>3-1/3's</td>
<td>12/15/49-52</td>
<td>2.57</td>
</tr>
<tr>
<td>3's</td>
<td>9/15/51-55</td>
<td>2.62</td>
</tr>
<tr>
<td>2-7/8's</td>
<td>3/15/55-60</td>
<td>2.72</td>
</tr>
</tbody>
</table>

An issue due in 20 years or in 20 years, optional after 15 (6/15/56 or 6/15/51-56) could probably be sold successfully. The optional issue would be preferable.

A 2-3/4% bond due 6/15/56 would sell:

- At 102-10/32 to yield 2.60%
- At 101-17/32 " " 2.65
- At 100-24/32 " " 2.70

A 2-5/4% bond due 6/15/51-56 would sell:

- At 101-27/32 to yield 2.60%
- At 101-7/32 " " 2.65
- At 100-20/32 " " 2.70

**Note:** All prices and yields quoted above are as of the close of the market on May 20, and the conclusions reached concerning the feasibility of various issues are based upon such quotations and are valid only if the market does not move materially between now and the date when books are closed for subscriptions to the new issues. No attempt has been made to forecast whether or not this will be the case.

HCM
(5/21/56)
Debt Due in 1941

1-1/2% notes due March 15  $676,707,600.00
3-1/4% bonds due August 1  $834,474,100.00

$1,511,181,700.00

Debt Callable in 1941

3-3/8% bonds callable March 15  $544,914,050.00
A 2-5/8% bond due in 14 years, optional after 11 years (6/15/47-50) would sell:

- at 101-15/32 to yield 2.50
- 100-28/32 " " 2.55
- 100-9/32 " " 2.60
MEMORANDUM FOR THE SECRETARY:

Accompanied by Commander Thompson, I called on Under Secretary Phillips this morning with regard to the smuggling of alcohol from Belgium.

I advised Mr. Phillips that dispatches from Antwerp indicate that 1,250,000 liters of alcohol has now been concentrated in Antwerp to be exported from Belgium for smuggling into the United States. Mr. Phillips had already been informed of this.

I recalled the conversations which were exchanged by the Treasury Department and the State Department early in December, in which I had pointed out, pursuant to your instruction, that the President had advised you that he would be prepared to denounce the Belgian Trade Agreement in the event of further sailings from Belgian ports of vessels carrying alcohol to be smuggled into the United States; that you had at that time requested that the Belgian Government should be notified to this effect, and advised that in the event of further sailings the Trade Agreement would be denounced; that the Secretary of State had objected to this course of action but had agreed to call in the Belgian Ambassador and urge the Belgian Government to take steps to put an end to this illicit traffic; that you had accepted the views of the Secretary of State in this respect; and that the Belgian Ambassador had been called in by the Secretary of State and his government urged to take action.

I called Mr. Phillips' attention to the fact that the SS. HILLEFERN had been allowed to leave Antwerp March 28, and that it must be assumed, therefore, that the Belgian Government was indifferent to the representations made by this Government in December; and that it would appear that the time had now arrived when the Belgians should be notified that unless the illicit traffic in alcohol is ended the Trade Agreement will be denounced by this Government.

Mr. Phillips was entirely familiar with the smuggling situation as it affects Belgium. He indicated, however, that he thought a threat to abrogate the Trade Agreement would not be likely to succeed in accomplishing the objects which we have in mind. He said, further, that the Belgian Ambassador had called at the State Department yesterday and had advised him that his Government was disposed to take action to
prohibit the exportation of alcohol from Belgium in Belgian vessels. He (Mr. Phillips) recognized that this concession would be of no value whatsoever to the United States inasmuch as the traffic is not carried in Belgian vessels but in vessels of British, Danish, and Norwegian registry. Mr. Phillips said further that the State Department expected to-day definite information from the Dutch Government regarding prospective action by that government which would make it impossible to use Dutch ports as bases for the illicit alcohol traffic, and that it was his intention to call in the Belgian Ambassador to-morrow to advise him of the action expected to be taken by Holland, and again to urge that the Belgian Government take similar action.

I called Mr. Phillips' attention to the fact, reported by the American Consul General at Antwerp, that certain high officials of the Belgian Government were supposed to be members of the syndicate which is responsible for the illicit traffic in alcohol, and advised him that in my opinion it would be useless under these circumstances to expect Belgium, voluntarily and without considerable pressure from this Government, to give up this traffic.

The matter was, however, left in Mr. Phillips' hands to be proceeded with as he indicated; and there is of course a possibility that his representations to be made to-morrow to the Belgian Ambassador may prove effectual.

GRAVES.
There having arisen a difference of opinion in the General Counsel’s office on Mr. Crowley’s case, Oliphant asked the Secretary to hear Opper, Harlan, and Brown state their opinions. MoReynolds was also present.

This is Mr. Opper’s opinion: “I would turn the matter over to the Attorney General with a statement that we do not believe there is a violation of the Federal law indicated, but nevertheless I (the Secretary) am sending the case to you for any such action as you may consider appropriate.” The second procedure, he said, “is to proceed on the basis that we are satisfied that there is no violation of the Federal law under which prosecution could be started and, therefore, return it to the Comptroller for routine filing. In this way, it would not be passing the buck to any Department which has not up to this point been drawn into the case. As far as the Federal law is concerned, the Statute of Limitations has expired.”

Harlan feels that the case should be turned over to the Attorney General. Brown feels that it should be returned to the Comptroller and the matter closed. Oliphant feels that it should be turned over to the Attorney General, but said that he had asked these men to come in so that the Secretary might hear all sides of the case. Oliphant also said, “If any question is ever raised, we can say that we passed it on to the Department of Justice and then left it to them to pass it on to the State agencies in the regular routine way as they do with all other cases.

One of the attorneys said that if there was no notoriety connected with this case, the normal thing would be to handle it with our own legal staff and because the Statute of Limitations has expired it would automatically go back to Mr. O’Connor. Whenever there is a doubt we send the case to the Department of Justice and where there is no doubt, we never send a case to Justice.

HM, Jr. told the group, “I want to swear you all to secrecy. I am having Crowley here at 11 o’clock to give me his resignation, effective June 30, with a promise that if he wants a job he can have it. How can I go through with this and then turn the case over to the Attorney General? Would you rather have me turn it over to the Attorney General and then have Crowley stay here? The President has given me
complete power and I have his confidence in the handling of this case myself. I will shoot square with Crowley and I certainly will not ask him to resign and then turn around and turn the case over to the Attorney General."

Opper stated, "As a Federal offense, the Statute of Limitations has run out, but not on the State statute." The Secretary then said, "But you boys did not tell me this before. You definitely told me that both the Federal and State Statutes of Limitation had expired and I so informed the President." McReynolds added that he, too, was under that impression.

HM,Jr. continued, by saying: "The reason then for turning this over to the Attorney General would be for him to decide whether the Federal Government should turn this over to the State since the Wisconsin Statute of Limitation has not expired? Supposing I say to Crowley, I have to turn this over to the Attorney General. My suggestion to you is that you resign now. I will see the President before Cabinet this afternoon and ask his advice as to how I should proceed."

After consulting with the lawyers, HM,Jr. cancelled the 11 o'clock meeting with Crowley.

(Not having gotten to the President before Cabinet, the President gave HM,Jr. an appointment for 2 o'clock Friday, May 22, to discuss the Crowley-O'Connor matter together with several other pending matters.)
In connection with the following items referred to in
Re: Crowley Loans", the facts suggest a possibility of violations of the penal provisions of Wisconsin statutes relating to State banks on which the statute of limitations apparently has not run.
(See Chapter: 221.17 (false entries), 221.30 (loans to bank officials), 221.39 (embezzlement.)

III - Florence Crowley indebtedness, secured by mortgage on Edgewood Avenue property located in Madison, Wisconsin.

On February 21, 1931, Miss Florence Crowley received a loan of $60,000 from the State Bank of Wisconsin, and on the same day Mr. Crowley's commercial account in the bank was credited with $60,000.

IV - A. Loans of Four Lakes Investment Company.

On June 26, 1950 and June 30, 1950, loans were made to this company in the amount of $2,000 and $50,000, respectively, which were credited to the account of Leo T. Crowley at the State Bank of Wisconsin. On December 31, 1931, a further loan was made in the amount of $100,000, the proceeds of which apparently went to reduce the loan of the General Paper and Supply and Crowley Wholesale Grocery Company at the same bank.

The 1,000 shares of preferred stock posted as collateral against these loans apparently was first deposited at the State
Bank of Wisconsin on September 10, 1930. Facts have been mentioned in the examiner's report which call into question the legality of this stock.

IV - B. William P. Crowley loan, secured by mortgage on Madison Brick Warehouse.

On December 5, 1931, a loan of $75,000 on a mortgage was made to William P. Crowley at the State Bank of Wisconsin, and on the same date Mr. Leo T. Crowley's checking account at the bank was credited with $75,000.

V - Financial statements of Crowley companies furnished State and National banks.

A. General Paper and Supply and Crowley Wholesale Grocery Company.

The statement of December 30, 1930, shows notes payable of $129,500. On that date, it is known that the company was obligated to six banks in a total amount of $256,500.

B. Goodall-Crowley Oil Company.

The statement of this company of November 30, 1930, apparently furnished first to State Bank of Wisconsin, shows notes payable in the amount of $59,000, whereas records of bank and its branch show indebtedness of this company in amount of $75,000.

VII - Leo T. Crowley overdrafts at State Bank of Wisconsin, Madison, Wisconsin.

In 1931 overdrafts of Mr. Leo T. Crowley's deposit account at the State Bank of Wisconsin ran as high as $37,605, and in January, 1932, they ran as high as $5,505.
For particulars of provisions of Wisconsin statutes
above referred to see excerpts attached to "A Summary and Analysis
of Memorandum dated January 15, 1955 Re: Crowley Loans". For
excerpts of State statutes relating to the running of statute of
limitations on criminal offenses as well as civil suits, see
attached.
I know a great many service men are looking forward to June 15th. That has been an important day on the Treasury calendar ever since the bonus bill was passed. We are preparing the 37 million bonds. As rapidly as the Veterans Administration can certify cases to us, we are preparing the number of bonds to which each service man is entitled and the check for the balance. We expect to be able to turn over to the Post Office Department, on June 15th, for delivery to the veterans, bonds and checks covering the great bulk of the cases that have been certified to us. And we are going to stay on the job until the last payment has been made.

The government will be prepared to handle promptly all bonds which veterans may desire to turn in for immediate redemption. But we all feel that a great many veterans, after considering carefully the value of these bonds, will hold on to them as investments. Their yield will make that source profitable to anyone who does not need the cash immediately.
May 22, 1936

After HM, Jr. saw the President this afternoon, he called in McReynolds and Oliphant and related to them his conversation with the President.

He said, "I told the President that I had to come back to him. I told him that on further consideration I now find that the Statute of Limitations for the State of Wisconsin has not expired and it puts an entirely different complexion on the case and the President said, 'What do you want to do?' And I said, Well, I have been advised that I should turn this case over to the Attorney General and he should advise me whether it should be given to the State authorities of Wisconsin. The President took a very peculiar angle on this thing. He said, 'That is very, very unfair.' And I thought he meant to Crowley and he said, 'No; to the Attorney General'. He said, 'It puts him on the spot,' and I said, 'What do you want me to do?' And he replied, 'Send for Leo and show him this report and ask him if the authorities of Wisconsin are familiar with this situation and whether they have given him clearance on this thing and if he says that they have, then say, Well, I am sorry, Leo, I have to have some documentary evidence that the State of Wisconsin is familiar with these facts or at least a verbal conversation with the District Attorney of the State of Wisconsin. I said, Do you realize that I cannot put my arm around Leo Crowley and ask him to resign and promise him a job in view of what has happened now? And he said, 'No, you can't. You certainly ought to talk to Leo'.

Then I told him that Hopkins, who was the National Bank Examiner who made the first report on Crowley which subsequently turned out to be a phoney was now District Supervisor for Crowley in charge of three States -- Wisconsin being one of them -- and I also said on gossip which I cannot prove, Hopkins personally is in charge of the so-called Ann Arbor Reorganization which I understand is not straight. Furthermore, I have not been able to investigate Nichols who is Chief Bank Examiner, but has a bad record."

HM, Jr. then asked McReynolds and Oliphant, "Would you be willing to sit with me when I see Crowley? I will do the talking, but I would like you to be here. If you have any feelings about it, Herman, let me know, but if he begins
to talk law I think I will need you." Oliphant hesitatingly said, "I -- I think that it will only be necessary for Mac to sit in." HM, Jr. said to him, "Well, sleep on it. McReynolds said he would be delighted to sit in on it. He added, "I do not see how you can fairly avoid letting Crowley have the time, with a document in front of him, to present a defense. Crowley has asked for the time to produce the evidence which he says he knows he can produce. Let him have this document before you talk to him." HM, Jr. agreed and asked McReynolds to give it to him on Monday.

The Secretary also told Oliphant and McReynolds the following: "I asked the President about German countervailing duties. The President said, 'What is the situation? I do not remember.' I refreshed his memory that the Attorney General had given him this thing with a brief attached but with no recommendation, so he said, 'What about it?' And I replied, In this thing if you read it you will find that the reason the State Department gives for not wanting to do this is that it affects so many South American countries. I said, If we should do 2/3 of this thing, viz: that part which has to do with scrips and bonds and not the foreign exchange, the thing will apply solely to Germany. Also, when the court made the decision they volunteered a part of the decision which has to do with the foreign exchange, but that is not actually in the law. It is simply a part which the Court gave extraneously. He wrote a memorandum which he did not give me, but said he would send over to me on Monday in which he said he wants the law carried out and wants the Department of Justice, State and Treasury to cooperate so that the Treasury could carry out the law. The reasons I did this were (1) I have a memorandum from Taylor and a second one from Viner in which they entirely concur on doing two out of the three, and if I could say to Hull, Your argument that we drag in South America with this does not apply and get over two of the things, we could sit down and afterwards take up the third thing. The reason I am telling you all this is so that you can put Johnson to work and see whether you, as my General Counsel, can concur or whether you cannot concur in the position that I have taken from an administrative standpoint. If we do two now, is there any reason why, a month from now, we could not do the third?"

Oliphant's reply was, "You are awfully tired now. I would like to talk to you further about it."
HM, Jr. also told Mr. Oliphant that Thursday a week ago the Attorney General turned over to the President a memorandum in which he said, Mr. President, if I am forced to give you an opinion on the legal ground, then I concur with the Treasury, but I feel that for political and other reasons that I will not give you an opinion, but here is a memorandum from an Assistant Solicitor on this matter and, Mr. President, I hand this to you and you will have to make the decision.
FINANCE COMMITTEE'S TAX PLAN

I. The Finance Committee's Plan vs. the President's Message.

A. The Committee's plan would:

1. Exempt from corporate income and undistributed earnings taxes $1,000 of income of corporations having incomes of $20,000 or less. No such exemption was needed under the plan recommended by the President.

2. Retain corporation income tax and raise it to 18% flat. The President's message recommended repealing this and the other two corporate taxes.

3. Levy a flat 7% tax on undistributed earnings, regardless of size of corporate income and of per cent of earnings retained. The President's message in substance recommended a tax on undistributed earnings equivalent to personal income normal and surtaxes, with no corporate tax if full distribution.

4. Place the individual normal tax of 4% on dividends. The message recommended its imposition, but only in conjunction with the repeal of all present corporation taxes.

5. Retain the present capital stock and excess profits taxes indefinitely at full present rates. The message recommended their repeal.
This attempt to nullify the President's recommendations can be easily
evaded. The Finance Committee can't realize how bad its plan really is
the following statements indicate. When it and the country do, there
will be a hasty retreat to the House Bill.

1. Under the Finance Committee's plan, a corporation earning
$100,000, paying $18,000 to the Government in taxes and dis-
tributing all of the balance would still have to pay a further
tax of 7% on the $18,000, that is, would actually have to borrow
money or dip into its surplus in order to pay its full tax bill.

2. The $1,000 exemption to corporations with incomes under $20,000
lowers the total tax bill only on corporations with incomes
of $3,400 or less, if they distribute all, and $3,000 if they re-
invest 30% of their earnings. All other corporations, relatively
few of which have been used for surtax avoidance, would have their
tax bills increased, the increase ranging up to a maximum of 66 2/3%
over present rates.

3. All of John Smith's savings are invested in corporations.
His total taxable income is less than $4,000, and would be
though all earnings were distributed to him. The Finance Com-
mittee would take from 22 1/2 to 25% out of his share in these
corporate earnings depending on what was distributed. Even
the 22 1/2% would make Smith's tax rate on his share of the
corporate earnings more than the tax rate of a bank president
whose salary yielded him a surtax net income of over $60,000.

4. Stockholders, under the plan recommended in the message,
would pay the 4% normal and surtaxes. Under the Finance Com-
mittee's plan, stockholders with incomes up to about $6,000
in corporations with incomes of $10,000, for example, would have
taken out of their share a tax increase of 34% over present
law, although earnings were fully distributed; and if 30% of
earnings were reinvested, the increase would be about 51%.

5. The plan increases the tax of the great body of corpora-
tions, which are not operated to enable stockholders to avoid
surtaxes. The increase in their tax, assuming full distribution
of current earnings, would be from 28 to 54%; and, apart from
the $1,000 exemption, the smaller the corporation the bigger
the increase, such larger increase affecting a vast body of
the corporations of the country. And they pay this increase
even though they distribute all their earnings. If they add
to their reserve 30% of their statutory net income, their
taxes would be increased from 42 to 66 2/3%. 
6. If the 7% supertax would encourage the distribution of earnings, the 4% normal (which the Finance Committee would put on dividends) would discourage such distribution. So the real penalty on surtax avoidance under the Finance Committee's plan would not be 7% but only 3%.

7. The Finance Committee's 7 per cent supertax will stop surtax evasion — by the little fellow whose total taxable income reaches only that high in the surtax brackets. It is the elite surtax avoiders whom the Finance Committee's plan leaves untroubled.

8. The Finance Committee's alleged supertax to stop surtax avoidance would impose a 7% rate, which is less than 1/10th of the present highest surtax rate of 75%.

9. The Finance Committee's supertax of 7% means that any stockholder controlling dividend distribution and having a surtax net income of any amount above $6,000 would have every reason to leave earnings in the corporation and thereby avoid surtax.

10. Under the Finance Committee's plan, a stockholder in control would, by leaving earnings in the corporation, escape more than he escapes under present law because he would escape both the present surtaxes and the 4% normal tax on dividends, and the price he pays for escaping both of these would be 7%.

11. The rates on undistributed earnings in the House Bill are only equivalent to our present surtax rates. If the House rates seem too high, it can be only because our surtax rates are too high and nobody is making that contention. The rates must be as high as those in the House Bill to stop surtax avoidance and that was pointed out to the Finance Committee — and pointed out in public hearings.

12. The President recommended putting the normal tax on dividends only because he recommended repealing the corporate income tax. Does the Finance Committee propose to put the normal tax on dividends because it is increasing the corporation income tax?
13. Originally the corporate income tax was supposed to be the counterpart of the normal tax on individual incomes and hence, dividends were exempt from the individual normal tax. The Senate proposal, by lifting the corporation income tax to a new all time high while putting the normal tax on dividends without raising it, drastically increases the already excessive spread between these two taxes thus establishing a new high in the disregard of the principle of equality.

14. The Finance Committee had the choice of stopping surtax avoidance by some 60,000 individuals or adding to the tax burden of hosts of stockholders in all kinds of corporations throughout the country. It chose the latter.

15. The President told the country that all the additional permanent revenue required could be obtained by stopping surtax evasion. The Finance Committee instead would get it from the treasuries and stockholders of all corporations with incomes over $3,000 or $3,400 depending on distribution. The President's disclosure has made any such tax law indefensible when that body of stockholders realizes what it really does to them.

16. The Finance Committee by increasing the corporate income tax adds to the inequality of tax treatment of business profits from individual businesses and partnerships on the one hand and from corporations on the other. Under existing law the stockholder with a small income in effect pays part of the tax burden of the stockholder with a large income. The Finance Committee would make him pay yet more of it.

17. The corporate tax recommended by the President was constructive from a business point of view since its direct burden would fall more largely on stockholders. The Finance Committee's plan would throw the burden more largely upon corporate business and might well be adverse from a business point of view.

18. The President's recommendations for revision of the tax on corporate earnings were underlain by a purpose to improve the tax structure while getting the money by stopping surtax avoidance. The Finance Committee's proposal is planless and purposeless except to raise revenue regardless of injustices done and tax avoidance ignored.
19. The adoption of any such plan as the Finance Committee has approved would constitute a grave political liability, in view of the repeated official announcements to the country that all the needed revenue can be obtained from stopping surtax evasion and in view of the further fact that already some 60 per cent of our revenues are coming from the consumer class, which does not contain the group of big surtax avoiders.

20. The plan of the Finance Committee is indefensible because it is unjust. It departs even more than present law from the principle of ability to pay. It is an expedient rooted in what the country will interpret as a desperate attempt to avoid facing the responsibility of getting the needed money by stopping tax avoidance.
May 22, 1936
4 p.m.

After the Secretary returned from the White House, he called in McReynolds, Helvering, Upham, Taylor, Hass, Seltzer, Gaston and Oliphant.

He told the group the following: "I will try and explain this, but it is a very difficult job. The President would not have a stenographer and insisted that I take it longhand and would not have anyone in the room. What we are trying to do, confidentially, is to have a letter to Pat Harrison prepared today, of not more than a page and a half, which will be given to a Secret Service man who will leave with it tomorrow so it can be in the hands of the President Sunday morning. The President wants to do it entirely by himself and does not want to see anyone. I will read what I have written down. 'Letter has to be on principle rather than the changes by House or Senate relating to Treasury suggestions. Letter not more than two pages. Keep saying this hits the little fellow.' This is the way the letter starts: 'My dear Mr. Chairman: In continuance of our conversation of the other day, I feel that it is only right that I should give you certain broad conclusions on the amendments to the tax bill proposed by the Finance Committee. In my message I suggested 'give the principles emphasizing the amount that could be raised by stopping leaks.' Last paragraph: It seems to me that the Committee draft violates these principles as follows; and the final paragraph: The House bill retains the principles in greater part. I am told that the complex calculations in the House bill can be avoided by much simpler amendments.' (Note: Mr. Morgenthau's penciled notes, written on both sides of a manila envelop, are attached.)

At this point, Oliphant went into Mrs. Klotz' office, at the Secretary's suggestion, to answer an urgent call from Senator La Follette. In his absence, the Secretary asked Mr. Helvering, "What is the status of the Guffey bill?" Helvering answered, We are not batting fast on that from an administrative standpoint in the Bureau, because of not getting some decision to advise the Collectors. We are getting lots of letters and telegrams from operators and collectors. Reed was to clear that yesterday, but he has not." The Secretary then inquired, "When do you think you will hear from him?" and Helvering replied, "Oliphant has been trying to get him all afternoon. I am not a constitutional lawyer, but I can't see where the new act would put in force those things that were collected under the old
Oliphant returned to the Secretary’s room. Continuing the tax discussion, the Secretary said, "I don’t want to frighten you, but what he said was, ‘Now, Henry, whatever you put in this letter it just can’t be anything but right. I would rather not make any statement than have anything that can be challenged by anybody, because unquestionably my letter to Harrison will get out. You just can’t put anything in that letter unless you are sure. If you are not sure, leave it out.’ Oliphant asked, ‘He means leave out anything that would be challenged?’ McReynolds remarked, ‘You will have to leave a lot out to put it in two pages.’

The Secretary’s instructions were: ‘I would rather have the letter a little weaker. In this room here, if the President gets criticism he looks to me, and I don’t say, Well, Herbert Gaston wrote that; I am sorry, Mr. President, that’s Herbert’s fault. I have never done that in my life. I would rather have the thing a little weak. But the main thing that he is trying to get at is he does not want to use the word ‘President’ anywhere in the letter. I would not refer to the President’s message. He wants to refer to principles and the House bill and set up the fact that the House maintains the principles and the Senate did not and the fact that this thing seems to hit the little fellow and lets the big fellow off. I don’t think I would say anything about holdings companies or anything that smatters of reform.’ Oliphant’s reaction to this statement was, ‘Good! Very glad of that.’ Resuming his instructions the Secretary said, ‘Now, I am drawing on my own. After all, I have to take it. I wouldn’t put anything in there that smatters of reform and I would again emphasize the revenue.’ Oliphant inquired, ‘No holding companies? No Eccles philosophy?’ and HM, Jr. responded, ‘No; that’s up to Eccles. I take it you are talking of the wind. You had better have me funny than weeping.’

HM, Jr’s next remark was, ‘Now, let’s get this thing as to time. I know you are all as tired as I am. I very much want to see this thing and I thought I would leave at noon or right after noon for the Farm. Do you suppose if I came down by 12 o’clock tomorrow, is that too early to ask for something?’ Oliphant answered, ‘We ought to have it by then.’ The Secretary said, ‘I suggest that Gaston take a look at it,’ and to Upham, ‘You had better take a look at it to get the benefit of your ideas before it jells,’ and to Helvering, ‘Are you available to take a look at it before
to which Mr. Helvering replied, "I can, but I doubt if I can contribute to it." The Secretary's next remark was, "Why don't we say we will meet here tomorrow at 12 o'clock." Oliphant then inquired, "You want to see it and it has to be up there Sunday morning?" Helvering answered, "That's the point. And if it is ready, I may take it on the plane and take a Secret Service man with me. But I old him I am not going near him. He said he might call me. I said 'No business'."

(Note: At this meeting the Secretary gave to Upham, Haas, Gaston, Oliphant and Helvering, a photostat of the statement showing the status of the Finance Committee's tax plan as of noon today. On the original of this statement the President had made notations in his own handwriting. The original was to be returned to the President with the letter which is to be prepared by the Treasury, referred to in the second paragraph of this report of meeting. A copy of the photostat is attached.)
(The letter has to be on the principles rather than the changes in the House or Senate relating to the Treasury suggestions. Letter not more than a page and a half. Keep saying that this hits the little fellow.)

Note: He does not want to say "Under the plan recommended by the President."

My dear Mr. Chairman:

In continuance of our conversation of the other day, I feel that it is only right that I should give you certain broad conclusions on the amendments to the tax bill proposed by the Finance Committee.

In my message I suggested (give the principles, emphasizing the amount that could be raised by stopping the leaks).

It seems to me that the Committee draft violates these principles as follows:

The House bill retains the principles in greater part. I am told that the complex calculations in the House bill can be avoided by much simpler amendments.
FINANCE COMMITTEE'S TAX PLAN AS OF NOON TODAY

May 22, 1936.

I. The Finance Committee's Plan vs. the President's Message.

A. The Committee's plan would:

1. Exempt from corporate income and undistributed earnings taxes $1,000 of income of corporations having incomes of $15,000 or less. No such exemption was needed under the plan recommended by the President.

2. Retain corporation income tax and raise it to 15% flat. The President's message recommended repealing this and the other two corporate taxes.

3. Levy a flat 7% tax on undistributed earnings, regardless of size of corporate income and of per cent of earnings retained. The President's message in substance recommended a tax on undistributed earnings equivalent to personal income normal and surtaxes, with no corporate tax if full distribution.

4. Place the individual normal tax of 4% on dividends. The message recommended its imposition, but only in conjunction with the repeal of all present corporation taxes.

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This attempt to nullify the President's recommendations can be easily defeated. The Finance Committee can't realize how bad its plan really is as the following statements indicate. When it and the country do, there will be a hasty retreat to the House Bill.

1. The $1,000 exemption to corporations with incomes under $15,000 lowers the total tax bill only on corporations with incomes of $5,400 or less. All other corporations, relatively few of which have been used for surtax avoidance, would have their tax bills increased, the increase ranging up to a maximum of 85 2/5% over present rates.

2. All of John Smith's savings are invested in corporations. His total taxable income is less than $4,000, and would be though all earnings were distributed to him. The Finance Committee would take from 21 to 25% out of his share in these corporate earnings depending on what was distributed. Even the 21% would make Smith's tax rate on his share of the corporate earnings more than the tax rate of a bank president whose salary yielded him a surtax net income of over $50,000.

3. Stockholders, under the plan recommended in the message, would pay the 4% normal and surtaxes. Under the Finance Committee's plan, stockholders with incomes up to about $6,000 in corporations with incomes of $10,000, for example, would have taken out of their share a tax increase of 40% over present law, although earnings were fully distributed; and if 50% of earnings were reinvested, the increase would be about 52%.

4. The plan increases the tax of the great body of corporations, which are not operated to enable stockholders to avoid surtaxes. The increase in their tax, assuming full distribution of current earnings, would be from 20 to 44%; and, apart from the $1,000 exemption, the smaller the corporation the bigger the increase, such larger increase affecting a vast body of the corporations of the country. And they pay this increase even though they distribute all their earnings. If they add to their reserve 30% of their statutory net income, their taxes would be increased from 34 to 61%.
5. If the 7% supertax would encourage the distribution of earnings, the 4% normal (which the Finance Committee would put on dividends) would discourage such distribution. So the real penalty on surtax avoidance under the Finance Committee's plan would not be 7% but only 3%.

6. The Finance Committee's 7 per cent supertax will stop surtax evasion — by the little fellow whose total taxable income reaches only that high in the surtax brackets. It is the elite surtax avoiders whom the Finance Committee's plan leaves untroubled.

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8. The Finance Committee's supertax of 7% means that any stockholder controlling dividend distribution and having a surtax net income of any amount above $6,000 would have every reason to leave earnings in the corporation and thereby avoid surtax.

9. Under the Finance Committee's plan, a stockholder in control would, by leaving earnings in the corporation, escape more than he escapes under present law because he would escape both the present surtaxes and the 4% normal tax on dividends, and the price he pays for escaping both of these would be 7%.

10. The rates on undistributed earnings in the House Bill are only equivalent to our present surtax rates. If the House rates seem too high, it can be only because our surtax rates are too high and nobody is making that contention. The rates must be as high as those in the House Bill to stop surtax avoidance and that was pointed out to the Finance Committee — and pointed out in public hearings.

11. The President recommended putting the normal tax on dividends only because he recommended repealing the corporate income tax. Does the Finance Committee propose to put the normal tax on dividends because it is increasing the corporation income tax?
12. Originally the corporate income tax was supposed to be the counterpart of the normal tax on individual incomes and hence, dividends were exempt from the individual normal tax. The Senate proposal, by raising it drastically increases the already excessive spread between these two taxes thus establishing a new high in the disregard of the principle of equality.

13. The Finance Committee had the choice of stopping surtax avoidance by some 60,000 individuals or adding to the tax burden of hosts of stockholders in all kinds of corporations throughout the country. It chose the latter.

14. The President told the country that all the additional permanent revenue required could be obtained by stopping surtax evasion. The Finance Committee instead would get it from the treasuries and stockholders of all corporations with incomes over $5,400. The President's disclosure has made any such tax law indefensible when that body of stockholders realizes what it really does.

15. The Finance Committee by increasing the corporate income tax adds to the inequality of tax treatment of business profits from individual businesses and partnerships on the one hand and from corporations on the other. Under existing law the stockholder with a small income in effect pays part of the tax burden of the stockholder with a large income. The Finance Committee would make him pay more of it.

16. The corporate tax recommended by the President was constructive from a business point of view since its direct burden would fall more largely on stockholders. The Finance Committee's plan would throw the burden more largely upon corporate business and might well be adverse from a business point of view.

17. The President's recommendations for revision of the tax on corporate earnings were underlain by a purpose to improve the tax structure while getting the money by stopping surtax avoidance. The Finance Committee's proposal is planless and purposeless except to raise revenue regardless of injustices done and tax avoidance ignored.
18. The plan of the Finance Committee is indefensible because it is unjust. It departs even more than present law from the principle of ability to pay. It is an expedient rooted in what the country will interpret as a desperate attempt to avoid facing the responsibility of getting the needed money by stopping tax avoidance.
Estimate of Probable Increase in Revenues
from Senate Finance Committee Proposal C3

I. Tax Provisions

1. Impose 18 percent tax on corporation statutory net income as
now defined, except that corporations with net incomes of
$20,000 or less may deduct an exemption of $1,000 from net
income in arriving at statutory net income.

2. Repeal the present exemption of dividends from normal tax on
individuals.

3. Impose 7 percent tax on undistributed adjusted net income of
corporations. Adjusted net income is defined as statutory
net income plus 90 percent of dividend income. Undistributed
adjusted net income is defined as adjusted net income less
dividends paid.

II. Estimated Revenue, Calendar Year 1936

Estimated net increase in revenue $596 millions

THIS ESTIMATE ASSUMES NO CHANGES IN EXISTING LAW OTHER THAN

THE THREE CITED ABOVE AND THAT THE NEW BILL WILL CONTAIN PRO-
VISIONS WHICH WILL PROHIBIT ALL AVOIDANCE OF THE ABOVE TAXES.
Letter has to be in time for
rather changes by House or
Seneca relating to Treas. 

Suggestions

Letter not more than two pages

Keep saying this hits little

fellow

My dear Mr. Chairman,

In continuation of our conversation
I feel that it is
of the other day that I should give you
only right that I should give you

in my message - suggested
(mentioned) and + emphasizing amount
could be raised by stitching ledas.
Last. It seems to me that Committee draft violates these principles as follows:

Trial 7.
The House Bill returns the principles in Section 10.

Part I: 

That the complex calculations in House bill can be avoided by much simpler amendments —
My dear Mr. Chairman:

In continuance of our conversation the other day I feel that it is only right that I should give you my definite conclusion relating to amendments proposed by the Senate Finance Committee to the House of Representatives Tax Bill.

In my message early in March I stressed the need for additional revenue to replace outlawed taxes and I fully recognized the right of the Congress to select the type of new taxes. At the same time I pointed out that nearly all of this additional, permanent revenue could be obtained by stopping the very grave avoidance of surtaxes which is now so widespread under existing law. I said:

"Since stockholders are the beneficial owners of both distributed and undistributed corporate income, the aim, as a matter of fundamental equity, should be to seek equality of tax burden on all corporate income whether distributed or withheld from the beneficial owners. As the law now stands our corporate taxes dip too deeply into the shares of corporate earnings going to stockholders who need the disbursement of dividends; while the shares of stockholders who can afford to leave earnings undistributed escape current surtaxes altogether."

To attain the principle of fundamental equity in taxing corporate income, I made this suggestion:
"The rate on undistributed corporate income should be graduated and so fixed as to yield approximately the same revenue as would be yielded if corporate profits were distributed and taxed in the hands of stockholders."

I must be frank in telling you that my study of the Finance Committee's proposed plan leads me to believe that it does not in any effective way incorporate either of the fundamental suggestions outlined in my message. It does not raise sufficient revenue. Equally important, it increases the taxes on corporate earnings which now go to stockholders and still permits those stockholders who can afford to leave earnings undistributed, to continue the practice and escape surtaxes, except to an almost negligible extent.

In other words, the amendments increase very heavily the taxes of those who now pay full taxes and do not prevent the avoidance now practiced by people whose earned income ought to, but does not, pay the proportionate share of taxes contemplated by this and by former Congresses.

Very sincerely yours,

Honorable Pat Harrison,
Chairman,
Senate Finance Committee,
Washington, D. C.
Honorabe Pat Harrison,
Chairman,
Senate Finance Committee,
Washington, D.C.
Hon. Henry Morgenthau,  
Secretary of the Treasury,  
Washington, D. C.

Dear Mr. Morgenthau:

We are interested in a plan to bring about a thorough and complete study of the injustices of the present tax system as affected by corporate structures and other devices which tend to prevent an equitable distribution of the tax burden. We would like to have your idea as to the best method of providing such a study. Could it be done by the Treasury Department? Would it be advisable to undertake this study through a provision for a special commission of some character, such as a commission of three which would include the Commissioner of Internal Revenue and two other members to be appointed by the President?

Our belief is that a proper study would require that complete access be given to the records of the Bureau of Internal Revenue and that, in addition, the authority making such study should be vested with the right to summon witnesses and papers and to make proper investigation of books etc.

We would be pleased to have your ideas as to such an investigation with any suggestions you might give, including drafts of amendments to be proposed to the present tax bill.

Sincerely yours,

[Signature]

Hugo Black
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE May 28, 1936

TO Secretary Morgenthau
FROM Herman Oliphant

The letter in its redrafted form would be taken by the Senators to mean that there should be no real investigation. They have pointed out to me that the Joint Committee on Taxation would not go into the matter in any thorough fashion because of the way it is at present constituted, which is as follows:

Chairman Harrison  Keyes
Vice Chairman Doughton  Hill (Sullivan, N.Y., now 16 E. 57th St.)
King  Cullen
George  Treadway
Cousens  Bacharach

Moreover, Mr. Parker would be in immediate charge of the study. Appointed under the old regime in August, 1926, he has consistently opposed the present bill and thinks our surtaxes are too high, favoring heavier taxes on the little fellow.

Rather than indicate that a study by the Joint Committee is all that you think the present situation requires, it would seem to me better to simply state that you have no suggestions of any kind to make.
May 28, 1936

My dear Senators:

I acknowledge receipt of your joint letter of May 22nd, stating your interest in the plan for a thorough study of the injustices of the present tax system as affected by corporate structures and other devices, and outlining the type of commission which might make such a study. You request my ideas as to such an investigation and suggestions including draft of appropriate legislation.

In view of the fact that there now exists a Joint Committee on Internal Revenue Taxation, composed of members of the Senate Finance Committee and the Ways and Means Committee of the House, and the fact that this Committee has its own staff of experts and has authority to call on the Treasury Department for any information or assistance it requires, it would seem to me to be undesirable to set up another committee authorized to investigate matters in the same field.

Sincerely yours,

Secretary

Hon. Robert M. LaFollette, Jr.
Hon. Hugo L. Black
United States Senate.
My dear Senators:

I acknowledge receipt of your joint letter of May 23rd, stating your interest in the plan for a thorough study of the injustices of the present tax system as affected by corporate structures and other devices, and outlining the type of commission which might make such a study. You request my ideas as to such an investigation and suggestions including draft of appropriate legislation.

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Hon. Hugo L. Black
United States Senate.

HD/a/cap
McR:gen
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Sincerely yours,

Secretary

H. Robert E. LaFollette, Jr.
Hon. Hugo L. Black
United States Senate.

HD/a/csp
McRiggs
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Since the subject lies so peculiarly within the province of the Congress, I do not think it appropriate for me to express an opinion on the policy or substance of your proposal. However, I am glad to comply with your request for a possible draft of legislation embodying the general plan outlined in your letter, and I enclose it herewith.

Very truly yours,

Secretary.

Honorable Robert M. LaFollette, Jr.
Honorable Hugo L. Black
United States Senate
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Very truly yours,

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Honorable Hugo L. Black
United States Senate

RG/a/csp
Section ___. There is hereby established a special commission of three members, one of whom shall be the Commissioner of Internal Revenue and the other two to be appointed by the President of the United States, to be known as the Special Commission on Taxation. The Commission is hereby authorized and directed to make a full and complete study and investigation to determine:

(a) Whether there is any substantial amount of avoidance, evasion or violation of the laws of the United States relating to income, estate and gift taxes and taxes upon corporations and the procedure for their administration and enforcement; and whether there exist practices on the part of agents, attorneys, accountants, experts and other persons which tend to bring about such avoidance, evasion or violation or otherwise to impair the revenues of the United States, or to prevent an equitable distribution of tax burdens; (b) what methods and devices, whether or not they may be technically in compliance with law or regulation, are used or availed of on the part of taxpayers to avoid payment of such taxes, with the effect of defeating the purpose of Congress to reach the sources of revenue contemplated in the laws imposing such taxes; (c) whether the laws of the United States contain adequate provision for the ascertainment, prevention and punishment of such avoidance, evasion and violation and of such practices, methods and devices.
The Commission shall report to Congress as soon as practicable the results of its study and investigation together with its recommendations.

For the purposes of this section the Commission is authorized to hold such hearings, to sit and act at such times and such places, to employ, or to call upon departments and agencies of the Government for, such experts and legal, clerical, stenographic and other assistance, to require by subpoena or otherwise the attendance of such witnesses, including taxpayers, and the production of such correspondence, books, records, papers and documents, to administer such oaths, to take such testimony, and to make such expenditures as it shall deem advisable. For the purposes of this section, the Commission is hereby specially authorized, and shall have the right, acting directly as such Commission, or by or through such examiners or agents as the Commission may designate or appoint, to inspect any or all tax returns and make such use thereof and of the information contained therein at such times and in such manner as it may determine.

The members of the Commission shall receive compensation for such days as they may actually work at the rate of twenty-five dollars per day plus travel and subsistence expenses, except that no compensation other than travel and subsistence expenses in the performance of the duties vested in the Commission shall be paid hereunder to the Commissioner of Internal Revenue or to any other member of the Commission receiving other compensation from the United States. The Commission
may appoint employees and agents hereunder without regard to the Civil Service laws and may fix their compensation without regard to the Classification Act of 1923 as amended.

The cost of stenographic services to report hearings herein authorized shall not be in excess of twenty-five cents per hundred words.

The expenses of the Commission, which shall not exceed $ , are hereby authorized to be paid out of the appropriation, "Collecting the Internal Revenue, 1937," upon vouchers signed by the Chairman or by any member of the Commission duly authorized by it for such purpose.
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The Commission shall receive any information, advice, or other assistance from the United States or any other member of the Commission. The duty of the Commission shall be to make an independent and impartial report in the performance of its duty upon its own and the assistance of any person, member of the United States or any other person, member or the Commission. Such a report as the Majority may direct shall be made to the Commission for the benefit of the public. The majority of the Commission shall receive a copy of such report.
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Civil Service laws and may fix their compensation without regard
to the Classification Act of 1923 as amended.

The cost of stenographic services to report hearings herein
authorized shall not be in excess of twenty-five cents per hundred
words.

The expenses of the Commission, which shall not exceed $2
are hereby authorized to be paid out of the appropriation, "Collecting
the Internal Revenue, 1937," upon vouchers signed by the Chairman or by
any member of the Commission duly authorized by it for such purpose.
THE WHITE HOUSE
WASHINGTON

May 22, 1936.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Please confer with the
Secretary of State and the Attorney
General and try to find an immediate
method of carrying out the law.
I am convinced that we have to act.
It may be possible to make the
action apply to Germany only.

F. D. R.
TO Secretary Morgenthau

FROM Herman Oliphant

German Subsidies

I deem it advisable again to bring to your attention the matter of the imposition of countervailing duties on German goods in order that you may be advised of the status of the case in this office.

On April 22 the Attorney General was furnished with a copy of my memorandum addressed to you on April 15 in regard to this matter and with other data covering the facts and law involved. Although you were assured that he would advise the President before May 1 as to the propriety of the action contemplated by the Treasury, no word has been received as to such advice having been given.

It becomes more and more difficult to withhold a definitive ruling as to the application of countervailing duties in this case in view of the insistence of domestic interests, particularly representatives of the paper, tanning, feather, and horseshoe industries, that the relief which the laws contemplate is being arbitrarily withheld from them. An early disposition of the case is also urgently required by reason of information in regard to currency procedure in countries other than Germany, particularly in Hungary and Italy, which indicates that extensive investigations should be made promptly if the requirements of the law are to be observed.

Pickup
German Subsidies

I deem it advisable again to bring to your attention the matter of the imposition of countervailing duties on German goods in order that you may be advised of the status of the case in this office.

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(Signed) Herman Oliphant
May 22, 1936

After reading the attached memorandum prepared by Irey on the New Orleans income tax cases, I called Bob Jackson and I said, in view of what had happened, I wanted to raise the question with him officially as to whether or not Viosca was fit to try these cases, as I seriously doubted it. Jackson said that the Court had appointed him and not the President. Then he asked me, "Isn't Moody handling these cases," and I told him that I did not know.
MEMORANDUM FOR THE SECRETARY:

In a note to you on May 9th I advised of the disposition of the cases of five defendants under indictment for income tax violations in New Orleans, and in the same memorandum I outlined the status of the remaining cases.

Since that memorandum, the following has occurred:

On May 11th Nick Fernandez pleaded guilty before Chief Circuit Judge Foster, was sentenced to pay a fine of $250.00 and required to pay into the internal revenue his taxes and penalties amounting to $3,292.97.

On May 14th a plea of nolo contendere was entered before Judge Foster for the Louisiana Quarry Company, C. D. Nichols, H. S. Schiff and R. S. Wilson. The plea was accepted by the court who fined the corporation $1,000 and each of the individuals named $100.00. The taxes and penalties stated in the indictment, amounting to $27,340.00, were also required to be paid. Seymour Weiss was involved as one of the defendants in this case. He did not enter a plea and the United States Attorney moved to dismiss the case as to him because he believed the Weiss case to be a weak one. The case was dismissed.

Promptly on receipt of the telegram with reference to this case, I inquired of the Department of Justice and was told that United States Attorney Vicosca had been directed not to dismiss any of these cases without specific direction of the Department of Justice, and that no instruction for dismissal had been given him in the case of Seymour Weiss. I thereupon (May 15th) telephoned Mr. Burford at New Orleans and was told that he had discussed the matter with Mr. Vicosca, who stated he had been in telephone conversation with Assistant Attorney General Keenan several times and that he had been told by Mr. Keenan that it was alright for him to go ahead and do what he thought best in these cases. Mr. Burford said that Mr. Vicosca had also told him he had reason to believe that the Department of Justice wants "to be rid of these cases at any cost." The action taken by the United States Attorney in dismissing the case as to Seymour Weiss was a complete surprise to Mr. Burford, who, as you know, has been in active charge of these investigations for about three years, Mr. Vicosca had not even informed his
assistant, who was busily engaged in issuing subpoenas and doing other necessary work preparatory to the trials. The law partner of Senator Joe Robinson, a Mr. House, represented defendant Wilson in the Louisiana Quarry case and Mr. Viosca told Mr. Burford he understood representations had been made to the White House in the interest of this case. This seemed to have caused Mr. Viosca considerable concern.

Mr. Burford informed me that there was no need for a nolo contendere plea in this case; that he had been informed by the attorneys for Schiff and Nichols that they were willing to enter straight pleas of guilty, but Wilson's attorney insisted on a nolo contendere plea. He also stated he has been told that "the Long element" in New Orleans is pressing Viosca to dispose of these cases in a way satisfactory to themselves and that he has been promised that, if he did so, his appointment as United States Attorney would be confirmed at the next session of Congress.

The indictment against Seymour Weiss in the Louisiana Quarry Company case was one of three indictments pending against him. Another involves him in a conspiracy charge in the Hartwig Moss Insurance Agency case, and the third is an indictment against him on his individual income tax return. Because of my fear that Mr. Viosca might make an effort to dismiss the remaining two cases against Seymour Weiss, I endeavored on the morning of the 15th to contact someone who might be in a position to prevent such a move. Failing to contact Mr. Jackson, who was out of town, I talked with Mr. Boyd, in charge of the criminal cases in his division of the Department of Justice. He told me that on the day previously they had sent a telegram to Mr. Viosca, directing him not to dismiss any of the cases pending without first securing instructions from the Department. I suggested to Mr. Boyd that he telephone Mr. Viosca, which he did. He was told by Mr. Viosca that while he had received oral instructions from Mr. Sewell Key of the Department of Justice not to dismiss these cases, he had not received the telegram until after the case had been finally dismissed. His excuse for dismissing the case was that he felt it would have to be done sometime and that it might look better for the Government if it was done at the same time disposition was made of the cases against the other defendants. Mr. Boyd told me that in this conversation he gave Viosca specific oral instructions again to do nothing with respect to these cases without direction from the Department of Justice.
On Saturday morning at about 11:45, Assistant Attorney General Keenan telephoned me and stated that he did not anticipate that Viosca would take the action he did in the Seymour Weiss case and that it was a surprise to him when he returned to Washington and found this particular case against Weiss had been dismissed. He stated he had been trying to get in touch with the Secretary but could not do so because he was out of town, but that he wanted me to convey to the Secretary the message that it has been his constant desire and purpose to work with the Treasury Department one hundred per cent in these cases and that it has been his intention not to permit anything to be done in respect to the Seymour Weiss cases without the approval of the Treasury Department. He stated he wanted to assure us that no action looking to the dismissal of the remaining New Orleans cases will be taken without the full knowledge of the Treasury Department and an opportunity for recommendation.

Because Mr. Jackson now has full responsibility for the handling of these cases, it is my purpose to see him at his earliest convenience and discuss these matters with him, in order that he may be fully informed and may take such action to safeguard the interests of the Government as he believes necessary.

I feel that it is not necessary for you to do anything with respect to these matters at this time, as I now believe we will have full opportunity to express ourselves before anything definite is done. I am merely sending this memorandum in order that you may be informed of the developments in these cases.
May 25, 1936

Commissioner Helvering and Admiral Peoples

Mr. Oliphant

I have just been advised by the Department of Justice as follows:

1. That instructions to Collectors to cease collecting taxes under the Guffey Coal Act should go forward.

2. That the clause in Government Contracts falls under the Court's decision and that all contracts other than those for coal should continue to be made, the clause being omitted.

3. That it would be desirable to postpone for a week or ten days the conclusion of coal contracts until it is ascertained whether further legislation will be had at this session.

(Signed) Herman Oliphant

ROffice 5-25-36

cc: Bernard, Kent,
    Secretary, McReynolds, Gaston
TO

Secretary Morgenthau

FROM

Herman Oliphant

Bob Jackson phoned me at 9:50 saying, "The Secretary, Irey, you and I should get together and talk over the Louisiana situation otherwise it is going to get all messed up between the Departments." With a laugh, he said, "I have called the Secretary a number of times and he was out, and the Secretary has called me back a number of times and I was out."

I told him that it probably would have to go over until Tuesday, but I would give you his message.

after receiving this letter called Irey twice and
Bob Jackson once I told them both to get ahead and have conference Monday and not wait on me.
May 23, 1936

I spoke to the Attorney General and asked him what about this matter of Viosca down in New Orleans. He replied, "I have spoken to Jackson and told him to get in touch with you personally." I then said, "Are you not disturbed about what happened over last week-end," and he said, "Why, no! Henry, take my word for it. That is nothing to get really disturbed about."
Hello, Mr. Lubin.

How are you, Mr. Secretary?

Pretty well, thank you.

Say, I called you with regard to the question of the Soldiers' Bonus.

The Soldiers' Bonus?

Now this expenditure of funds by the soldiers -

Yes

- is going to have a very definite effect upon the absorption of the unemployed in certain industries.

Yes

The economic effect of that is going to be the cause of discussions for the next fifteen years when they want other new types of money.

Yes

And I really believe it's very important that the Administration know where the money is going.

Yes

It is our suggestion and the Central Statistical Board's suggestion that it would be very simple if, in every say three hundredth envelope that had a check, a simple schedule asking, say seven or eight simple questions were enclosed with the request that if they'd care to answer we'd appreciate it. And let these go back to the Veterans' Bureau to be tabulated. I've been checking on the automobile employment situation -

Yes

And I've been told by the automobile people that they think that about two-thirds of the automobiles that will be sold as the result of the bonus have already been sold on notes in anticipation.

Yes

Now, in view of the fact that this is going to be an
economic question for the next five years -

HMjr: Yes

L: And of interest to every Secretary of the Treasury, I was wondering whether the Treasury thought the thing was important enough for us to push it?

HMjr: Well, I tell you who I'd like you to talk to, because he's been handling this thing entirely for me and that's Dan Bell.

L: Yes

HMjr: Do you mind calling him?

L: I'll be glad to.

HMjr: Because Dan - you know him well, don't you?

L: Yes, I know him very well.

HMjr: Well, he's been handling this whole thing and if you don't mind - talking it over with him and after he makes up his mind he can come to me and I'll give him a decision in five seconds.

L: Oh, that's swell!

HMjr: If you can sell it to him.

L: I'll be glad to.

HMjr: Will you mind?

L: I'll be glad to.

HMjr: I mean, I'm not - I'm giving you to somebody important enough who can make up his own mind.

L: Well, that will be fine.

HMjr: Thank you.

L: All right, thank you.
Operator: Go ahead
Elmer
Irey:

Hello, Mr. Secretary

Irey: I've got the following memorandum from Oliphant - it's dated today. It says, 'Bob Jackson phoned me' - meaning Oliphant - 'at nine-fifty saying the Secretary, Irey, you and I should get together and talk over the Louisiana situation otherwise it's going to get all messed up between the departments'. Now, Oliphant told him that I couldn't do it until Tuesday. What is the situation?

I: Now, you know I told you in my last memorandum that we were going to have that conference. Bob Jackson --

HMjr: Can you talk louder?

I: I told - I told you in that last memorandum I sent you -

HMjr: Yes

I: - that we were going to have that conference.

HMjr: Yes

I: Bob Jackson called me this morning and told me about this request for a conference with you and I said, 'Well, Bob, we don't want to have a conference with the Secretary, we want to have it among ourselves -'

HMjr: Yes

I: 'and then tell the Secretary what we think should be done afterwards'.

HMjr: Yes, yes -

I: And he agreed with me on that and he said, 'Well, we'll get together then before we see the Secretary.' call a conference and waste your time until we're ready to make some definite statement to you.

HMjr: Well, supposing I call him back and tell him that?

I: That would be fine. That's exactly what I told him this morning.

HMjr: Did you - where did you talk to him?
I: He called me here in my office this morning --

HMjr: Yes

I: And I didn't know this memorandum had been sent, but he said that he had been planning with Oliphant to meet with you.

HMjr: Yes -- Well, I'll call him and tell him what you said and tell him I wish -- I don't see why they can't get straightened out in this thing.

I: It isn't anything to bother you --

HMjr: 'God!' -- the Attorney General won't even -- won't sit in on it but that's neither here nor there. I'm interested in this.

I: Yes

HMjr: But -- I don't see what all the fussing is about.

I: There is no fussing at all.

HMjr: What they need is a good lawyer down there to try this case.

I: That's all and that's what we fellows ought to work out and not bother you with it until we're ready to tell you what we've done --

HMjr: Well, I'm going to call him up and tell him that.

I: And Keenan called me yesterday and he said he wanted to have a conference -- wanted to be in on a conference. I told him about this conference with Jackson and told him to get in touch with Jackson.

HMjr: Well, it seems to me that Jackson should call the conference and ask the people from the Treasury that he wants.

I: That's right, exactly.

HMjr: It's his responsibility.

I: And I've recognized that ever since he went over there, as you told me, it's his baby now --

HMjr: But he -- but up to now he hasn't taken it.

I: No
HMjr: What?
I: No, that's true, he says he's been busy of course on these other things and I realize that he has been.
HMjr: Well, I'm going to call him up and I'll call you back - where are you?
I: I'm down at the Commissioner's office now but I'm on my way back to my office.
HMjr: O.K.
I: I'll be in my office.
HMjr: All right.
I: All right.
Hello -
Mr. Irey
Hello -
Yes, Mr. Morgenthau -
I've spoken to Jackson -
Yes
And I suggested that you fellows get together Monday before you see me.
Yes
Now, after all, he says the whole thing boils down to whether Viasco should be superseded or not.
Yes
And I told him that that's a decision that only the Attorney General could make.
That's right.
And I don't think it's up to us to tell them whether they should or not.
The only thing that I see that we should do is just give them whatever information we have.
Yes, whatever information - and the responsibility of trying the case is theirs.
Yes
And - well, Jackson says he doesn't know. I said, 'Well, I can't help it,' I said, 'the responsibility is the Attorney General's,' and I spoke to the Attorney General at Cabinet and he said he had placed the entire responsibility in Robert Jackson's hands'.
(Laughs) Yes -
Personally, I don't see why I should get into it at all, but I - everything that is disagreeable always lands in my lap anyway.
Well, I was pretty much wrought up when they told me
they were arranging a conference with you because that was never contemplated when they talked to me about a conference before.

HMjr: Well this is a decision that the Attorney General should make.
I: Yes
HMjr: And why should he duck it?
I: Not at all. The only - only part we have in it is to give him the benefit of whatever our files may show.
HMjr: Why sure, and I've had to talk and we give them what they want - the way they should try the case is their business.
I: Yes - I'm awfully glad you
HMjr: He said the Attorney General will do anything that I want, - well, I didn't want him to appoint Mr. Igoe -
I: (Laughs)
HMjr: - in Chicago. He did that -
I: I'll say so.
HMjr: And now look at the mess that we're in.
I: Yes
HMjr: Why should I - what they're trying to do is to put it on me.
I: Yes and they want you to hold the bag.
HMjr: Well, I'm not Attorney General.
I: Yes
HMjr: And if anything goes wrong he'll say, 'Well, the Treasury told me to do so and so'.
I: Well, you're absolutely right in that stand Mr. Morgen-thau, there can't be any question about it.
HMjr: Well
I: And he ought to resent your trying to tell him to --
HMjr: Well, he doesn't, he wants me to come in on it.
I: Yes

HMjr: Well, you fellows see him Monday and see what happens.

I: All right, and I'll let you know.

HMjr: I mean, there's no difference, we give them the evidence and we place the evidence. It's up to them to try the case.

I: Yes

HMjr: I don't like it at all.

I: No, I think you're absolutely -

HMjr: I don't like it at all. Then if anything goes wrong it's because of what we told them.

I: Yes

HMjr: Now --

I: They want the bag held over here right along.

HMjr: Well sure and it's up to the Attorney General of the United States to try our cases and if he can't try our cases let him say so.

I: Yes — and he ought to resent us telling him what to do about trying these cases.

HMjr: Well, he doesn't, he wants — he definitely wants to place it in my lap, what we should do about Viasco. Now that's his responsibility.

I: Of course that's been Cummings' attitude from the time I first conferred with him when you sent me over there a year ago or more.

HMjr: I know — well — I wasn't born yesterday --

I: (Laughs)

HMjr: And all I can do is to have our men not leave a stone unturned to get the evidence.

I: No

HMjr: Then we put the evidence at the disposal of the — of the Government's lawyer and it's up to them to carry it through.

I: Yes
HMjr: And live up to their oath.
I: Well -
HMjr: Is that right?
I: That's absolutely right.
HMjr: O. K.
I: All right, sir, goodbye.
Saturday
May 23, 1936

Hello -
Mr. Jackson
Hello
Bob Jackson?
Yes
Henry Morgenthau -
Yes --
Good morning -
How are you this morning?
I'm all right.
I got in touch with Mr. Oliphant -
Yes - and then he sent me a memo and I just got it.
Well - Tuesday he suggested.

Well now, here's the thing. Since talking to him I've talked to Irey and I don't - I don't want this thing held up on my account and Irey feels - said he's also talked to you. He thinks that you fellows ought to get together and agree before I sit in on the thing. As a matter of fact in Cabinet I talked to the Attorney General - I asked him what the situation was and he said he had turned the entire matter over to you.

Well, of course - everybody is willing to turn it over to me and just leave me between a United States Attorney who - is not a - very satisfactory fellow and - give me that kind of tools to work with and then look to me for results, you know?

Well, the point - the point -
You see my point, don't you?

Well, the point, I mean I want to take a couple of minutes - the point is I don't want to feel that a thing that is as important as this is held up even a day on my account.

Well, I don't think that it - can be moved any faster anyway.
HMjr: Yes, but I mean -- Irey seems to think it - you could get places if he could have a talk with you and whoever you wanted.

J: Well I'm willing to talk with anybody about it.

HMjr: Well, I mean, let's you and - I mean, isn't the initiative with the Attorney General's Office? I mean the responsibility to try this case is theirs.

J: Well, the responsibility fundamentally is Viasco's. He is the United States Attorney in that district.

HMjr: Yes, but we haven't - the United States Treasury has no supervision over Viasco.

J: Of course the question really gets down to just this, shall we supersede Viasco?

HMjr: Yes, well now, what can I do about it? Let's call a spade a spade.

J: Well, - when it comes to that, what can I do about it?

HMjr: What --

J: You see the position I'm in. Here's the United States Attorney in that district -

HMjr: Yes

J: Now, it gets right down to this, shall we send somebody down there who will of course be hailed as coming from the - from the Administration and take this case right on the Administration map or shall we treat it as a regular case to go the regular way through the United States Attorney? - in which case I have a strong suspicion that the case won't get anywhere.

HMjr: Well, now let me ask you this, Bob, after all you and I - don't have to handle each other with kid gloves, do we?

J: No - thank God! (Laughs a little)

HMjr: If the United States District Attorney is to be superseded, who does that?

J: The Attorney General -

HMjr: Well, that's it. Well now, what's the use of sitting down with me? I mean, I spoke to him in Cabinet and
he told me he had placed the entire thing in your hands.

J: Well, you see I get such conflicting reports as to what the President wants in this thing. On the one hand we have Joe Robinson's partner going down there and representing these people and representing that the President wants these cases disposed of.

HMjr: Really?

J: That's in Irey's report.

HMjr: Yes

J: You saw that didn't you?

HMjr: Well, the inference -

J: Yes

HMjr: I mean, he doesn't come out as point blank as that, though.

J: No - I know, but I haven't any doubt that he conveys that inference because it's been talked of at the White House.

HMjr: Well -

J: Certainly the inference.

HMjr: I'm willing to stake my reputation that the President of the United States has never said anything to anybody.

J: Well, - it's difficult for me to know what to do. Now I want to do what he wants and I know that if we designate a special man to go down there and supersede -

HMjr: Yes

J: - he'll in all probabilities get licked because he'll have the local fellows against him.

HMjr: Yes - And what's the position of Moody?

J: Moody, as far as I can get at it, is mad about something and having nothing to do with the case. He let us down.

HMjr: Well I mean, how can the Attorney General not get into this thing?

J: Well, I - I suppose he's got to get into it.
HMjr: Yes -- After all he's the Government's lawyer.
J: Yes but of course Viasco is the lawyer in that district.

HMjr: Yes
J: That is if it's going to be handled as a normal case Viasco would try it.

HMjr: Yes
J: If it - if we send somebody down there they'll be treated - regarded as being sent by and with the consent of the President.

HMjr: Well -
J: And it will tend to make an Administration case of it. Now, the question is, with the situation there whether we'd better do that or whether we'd better let it go its normal course. I think probably we're up against a licking either way it goes.

HMjr: Yes
J: Because we have no success sending Yankees down there to try these cases in New Orleans and if we leave it to Viasco we're pretty certain that he won't accomplish much.

HMjr: Well, what do you think of Irey's suggestion, that you people have a preliminary talk before you see me?
J: Well, that's all right, I told him that we'd be

HMjr: Pardon me?
J: I told him that we'd better get together before we talked with you.

HMjr: Yes - couldn't you do that Monday?
J: Yes, I could do it today for that matter.

HMjr: Well -
J: But the decision has got to be made by somebody in more authority than I have.

HMjr: Well, the decision - the first decision has to be made by the Attorney General, I mean, I've got no right
to tell the Attorney General that the United States District Attorney should be superseded or not.

J: Well, I think — I know that the Attorney General wants done whatever you want done. That's been about all the instructions I've had from him was to confer with the Treasury and go along and do what you wanted.

HMjr: But, I mean, you take Mr. Igoe in Chicago, I mean the situation there is — if you know anything about that — ?

J: Yes, I know it's bad.

HMjr: But — but — that's a bad situation and Irey reported against Igoe before he was appointed.

J: Yes -- we've got bad situations in several places, including some in New York state.

HMjr: Yes

J: As I say, it's a little discouraging sometimes to be expected to use that kind of material.

HMjr: Well here's — if you'll get together with Irey and whoever else is in on this in the Treasury — I don't know who Oliphant has on it — and whenever you fellows are ready I'm ready.

J: I see.

HMjr: I haven't ducked this or anything else since I've been here.

J: Well, I — I understand that.

HMjr: And I'm ready any time.

J: It's a darn difficult decision to make.

HMjr: Yes — But the decision as to who should represent the United States Attorney General's Office - nobody can make that decision but the Attorney General.

J: Well, he's perfectly willing to follow whatever course you want on it.

HMjr: Well, I think he ought to make up his own mind.

J: That is as I understand it the Treasury selected Woodcox.
No, I don't think so. I think that that was made over by the Attorney General, I think. But he was acceptable to us, he was entirely acceptable to us.

That wasn't - that wasn't the way I understood it here. --

Well, I'm not sure, but I thought that - hello?

I thought he was - in any event he was acceptable to us whether we picked him or not.

Well, of course I - I want to do whatever -

Yes - Well, I get - without your saying I -

I'm in a little bit awkward position -

Yes, but of course right now, I mean officially, I mean if I ever had to say anything, I mean the Attorney General said, 'I put it entirely in Robert Jackson's hands'. That's what he told me Thursday.

Yes

But, if you'll call Irey over and get together with him and Tuesday or Wednesday, whenever you fellows are ready I'm ready.

Yes, all right, that's fine.

Do we understand each other?

I think we do.

I think so.

All right.

And - too bad about Lehman isn't it?

Yes, it is, that's very regrettable.

Yes

I - I am hoping that he can reconsider it.

Yes

Because --
Well, Bob, let's take a horseback ride together some time and we'll talk about the woods and the birds.

I'd like to do that - they're much more inspiring than some of the (laughs) other things we have to deal with.

O. K.

All right.

Goodbye

Goodbye.
May 23d

Secretary Morgenthau called a meeting in his office this morning at 12 o'clock on the Tax Bill. The following were present:

Mr. Oliphant  
Mr. Gaston  
Mr. Seltzer  
Mr. Murphy

Mr. Helvering  
Mr. Haas  
Mr. Taylor  
Mr. Upham  
Mr. McReynolds

Mr. Morgenthau to Mr. Gaston: Make a note that a copy of the President's Tax Message is to go with this thing so he can refer to it.

Note: Mr. Morgenthau read from the Finance Committee's Tax Plan as of Noon Today - May 22d.

Mr. Morgenthau: Well they wouldn't pay the 18%.

Mr. Oliphant: Their share pays it.

Mr. Morgenthau: Could you work it like this - "but before receiving their dividend the corporation would already have paid 18% taxes".

Mr. Gaston: After their dividends would be reduced 18%.

Mr. Oliphant: Your point is they don't do it. We will correct that.

Mr. Haas: It is collected at the source.

Mr. Oliphant: We will correct that.

Mr. Morgenthau: That can be changed.

Mr. Gaston: Very easily.

Mr. Morgenthau continued reading.

Mr. Morgenthau: I don't like that tax avoidance. That goes into just what I don't want to go into.

Mr. Morgenthau: The part that I don't like is that of large stockholders of large incomes in control. I don't like him to say that.
Mr. Gaston: The incentive to retain corporation earnings for the purposes of tax avoidance is not removed.

Mr. Oliphant: How about leaving it in and let him strike it out?

Mr. Morgenthau: No I don't want to do that.

Mr. Taylor: You are changing No. 1 materially aren't you?

Mr. Morgenthau: Well they will change the second sentence that the stockholder does not pay the 18% - the corporation pays it and, therefore, the dividends which the fellow received ---

Mr. Taylor: 18% in addition - both statements mean actually as compared to your statement - is 3%.

Mr. Oliphant: No they are putting the normal on and raising normal on corporations.

Mr. Taylor: I think it is very unfortunate wording.

Mr. Gaston: We didn't say vastly - we are talking about corporation stockholders.

Mr. Taylor: I think it is an overstatement.

Mr. Morgenthau: "Since they would be required to pay the normal and surtax" - don't they do that now?

Mr. Taylor: No they pay the normal.

Mr. Gaston: The comparison is between 18% now and 22% under the new plan.

Mr. Morgenthau: Couldn't this thing be put this way. Make the difference as to what would happen to the stockholder between the draft of the House Bill and the draft of the Senate and not compare it to what it is now.

Mr. Murphy: Point No. 1 was not meant as it was dictated to compare it with the present law. If Mr. Taylor has the impression that it was compared with the present law a great many other people would have the same impression.

Mr. Morgenthau: What was it supposed to be?

Mr. Murphy: It was supposed to be an absolute statement.
Mr. Morgenthau: I think it could easily be misunderstood.

Mr. Gaston: I dictated it and I intended to compare it with the present situation. It is increased from 13% to 22% and that is a great increase.

Mr. Murphy: But as an assumptive statement it is misleading. I understand it to be an absolute statement.

Mr. Morgenthau: Well there is no question the way it is now it is misleading.

Mr. Oliphant: It greatly increases the tax burden on the thousands to whom dividends are paid. That is over 50%.

Mr. Morgenthau: 50% over what?

Mr. Oliphant: Over the present law.

Mr. Gaston: The highest he can pay is 15%; the new is 18%; there is added a normal tax of 4% so that if a man pays no tax whatever the estimate is 18% and 22% under the present law.

Mr. Murphy: You apply 18 on the basis of 100; you reduce that to 82 so that when you add them together you get 18 plus 4 - a little better than 21% rather than 22%.

Mr. Morgenthau: But the corporation stockholders - how much increase?

Mr. Murphy: A little better than 16%.

Mr. Murphy: 15% is deducted at the source. Under the proposed program 18 would be deducted from the source. In addition he would have to pay a tax of 4% so you can't add together the 18 and 4 but you add 18 plus 4 reduced by 4%.

Mr. Morgenthau: How do you get 60%?

Mr. Murphy: From 15 to 21.

Mr. Morgenthau: But you can't figure - isn't the 4% a normal tax on his own dividends?

Mr. Murphy: He is not now subject to that tax. The whole amount paid at the source by him directly is 60%.

Mr. Morgenthau: How would you word it to show how the increase compared with the present tax?
Mr. Murphy: You mean taxes paid direct by them?

Mr. Morgenthau: On his dividends.

Mr. Murphy: That is increased infinitely.

Mr. Morgenthau: The thing you want to do is this. Remember that not 15 of the readers of newspapers understand income tax law. It must be so the fellow on the street understands what it is all about and that a very smart accountant can't take it and twist it.

Mr. Murphy: I don't feel that you can make a mathematical statement unless you take taxes at the source.

Mr. Morgenthau: Why not make it into two parts - the increase that the corporation has to pay and the increase that the stockholder pays. Divide it in two. Say under the proposed draft of the Senate Bill the corporations increase would be on an average so much.

Mr. Oliphant: Income from business should be treated equally so that the thing we are talking about - the full tax taken out of my share - whether it is paid or not.

Mr. Murphy: The point will become diffused and foggy.

Mr. Morgenthau: How do you want to say it?

Mr. Oliphant: "I now have taken out of my share directly or indirectly so much. Under this method I would have taken out of my share so much or so much.

Mr. Taylor: If you can state that the way the Secretary stated it - divide it into two parts so it looks like that and then put the mathematics down.

Mr. Murphy: Except you can't express the percentage interests.

Mr. Taylor: He paid no taxes - now he pays 4%. So much before and now they pay this.

Mr. Oliphant: So that the stockholder has --

Mr. Taylor: State it separately and then wind up by unifying them, so that the stockholder definitely has taken out so much.

Mr. Oliphant: Well it seems to me that is the simplest. He has income of $4,000 from a corporation and you compare rate and you see that the rate on him is as high as the surtax on a person in a $50,000 corporation.
Mr. Morgenthau: For instance, if Bob here has a salary of $4,000 —

Mr. Murphy: It does not say $4,000 from any source and this can.

Mr. Morgenthau: Well it does not say that. He would have it increased to as high as the rate of another person whose salary is yielding him $50,000. I don't like it at all. I have to talk frankly. It will take me hours and hours to satisfy myself and how will the newspaper readers understand it. The sentences can be twisted. Is it from dividends? Salary? What other sources? Other than what?

Mr. Helvering: If a man receives rents —

Mr. Morgenthau: Well you have to explain it. I can stop 100 people on the street and there won't be one single person that knows what it means. I don't know what it means. I defy anyone — unless it is someone I meet out of the Bureau.

Mr. Helvering: A man with $50,000 income who —

Mr. Morgenthau: Let me have a moment to go into this thing to see if there is another method to do this thing. Let me take it aside. Let's say an expert — income tax expert could understand this. Isn't there another way to accomplish this without sitting here all afternoon and chewing it over? Isn't there a way of saying this in here. That as to this principle which I laid down in my Message, the draft of the Senate Finance Bill entirely misses this principle. As to the principle the draft of the tax bill entirely misses this principle. Now there is a flat statement. That's No. 1. Then you say undistributed corporation income should be taxed.

Mr. Morgenthau: As to the second principle laid down in my Message I am sorry to say that the Committee draft misses its mark as well. The President is on the offensive and the burden of proof is on Mr. May and let them prove it. But say we give the example and Mr. May and his crowd tear it apart. Then the President has to defend his example. I quote my message — I put down two principles, first, the stockholder and then the graduated tax. I say to the President, "this absolutely misses the mark in both instances". Then let the experts make the remark that that statement is not true.

Mr. Oliphant: He said, "break it up in three parts". We followed it too closely. I think this is stronger.

Mr. Morgenthau: The President was under the most terrible strain. He is trying to do a week's work in a day. We are trying to help him. I am not a debater but from the standpoint of a debater I am trying to help him.
Mr. Taylor: It seems to me the Committee draft violates that.

Mr. Morgenthau: I have no objection to the change.

Mr. Taylor: Your criticism is well taken since this is something for public consumption when you discuss the question of income subject to surtax. The public does not know anything about it. Your point is well taken and your principle that you lay down is perfectly sound. You accomplish the same purpose by saying they don't meet the principle he lays down. Without giving a specific illustration you show it - you save yourself the trouble of defending it with respect to those experts.

Mr. Upham: I prefer your way of doing it but don't like to have you talk about "Committee" draft because there is no draft in existence.

Mr. Oliphant: That is the language the President used.

Mr. Upham: I wonder if you are including in here Harrison's attempt to strengthen 102 in a way which will meet the President's suggestion and avoid tax avoidance.

Mr. Morgenthau: Is there any evidence that he has done that?

Mr. Upham: At the session this morning there was a good deal of discussion about it.

Mr. Morgenthau: And it has not been done?

Mr. Upham: Not yet.

Mr. Oliphant: He is insisting on it to be done to save his face. Everybody has agreed that that is a blind alley.

Mr. Morgenthau: Let's say this letter is dated as of tomorrow. You can say, "I have before me a summary prepared by the Treasury of the tax proposal of the Senate Finance Committee". That gives him (the President) protection.

Mr. Upham: It is difficult to get in on it at this stage and be helpful.

Mr. Oliphant: This was discussed when Magill was down here. Everybody agreed that it is a futile effort.

Mr. Morgenthau: Let me have a minute. Take an entirely different line. Unfortunately all of these things
are always done with a pistol at your head. Let's think about the President. Let's say he writes a letter along these lines and it goes to Pat Harrison's office Monday. Will it have any real effect?

Mr. Upham: Yes, it will most certainly have an effect. I have been going on the assumption that it has been decided to write the letter.

Mr. Morgenthau: I never go on that assumption.

Mr. Upham: Pat is in a hot spot with his Committee and if the President could talk to him he would get somewhere but to write him a letter - Pat will get mad and blow up.

Mr. Morgenthau: If the President goes back to the Committee and says, "I agree" - that won't do any good. Therefore, as a result of that we want to go ahead and do what we talked about.

Mr. Upham: If Pat wants the Treasury to help him get out of a hole we ought to do it but we oughtn't to help La Follette get Pat out of a hole unless we know he wants our help.

Mr. Morgenthau: This is LaFollette's idea?

Mr. Oliphant: I don't know. LaFollette's contribution is to get the letter out.

Note: Mr. Morgenthau then dictated the following:

"I have just quoted to you the two fundamental principles which I outlined in my Tax Message to the Congress on March 5th. After studying a summary prepared by the Treasury for me of the tax proposal which is now pending before your Committee it seems to me that neither of the two fundamental principles which I have outlined are incorporated in the tax proposal in its present form".

Note: The above was typed out and Mr. Morgenthau turned it over to Mr. Oliphant with the rest of the papers.

Mr. Helvering: Well the positive statement that it does not comply with those two principles finishes it.

Mr. Morgenthau: That is what we did for him and we gave him that. I am fearful that there may be technical loopholes. If you use these examples it puts him on the defensive. That puts the burden of proof on them. If you disagree with me please say so.

Mr. Oliphant: I agree if the principles are not carried out. Then the second line of people can use the figures.
Mr. McReynolds: Wouldn't you technically accomplish the purpose? What you are trying to do now is throw away. You are trying to give Pat an out on his agreement to report the bill in the form that they agreed yesterday and to-day but what you are proposing here would not give him that out.

Mr. Morgenthau: Well we don't know that he wants that out. LaFollette says that Pat wants an out.

Mr. Oliphant: LaFollette says the fight is over in the Senate, both in the Committee and on the floor. There is no way at all for anyone to get in a fight with the rates that are in the House Bill. Then Black made a suggestion that if the President wrote Harrison he disagreed that this would enable Harrison to go back and then Bob jumped up and called the President.

Mr. Haas: The examples on these tax measures are so difficult to explain that the laymen can't understand it. I am inclined to lean towards your way of handling it. I am biased because of the figures.

Mr. Taylor: If you send the letter at all, and I have certain reservations about that, I think it ought to be in the simple form.

Mr. Upham: I just had a question. Will this letter mean that the President is endorsing the House Bill? He raised no points about it not meeting the fundamental principles laid down in his Message. Is that equivalent to saying he is satisfied with the House Bill?

Mr. Oliphant: He dictated something on that. They are striking statements of what this is.

Mr. Oliphant: When does this start, as a matter of time?

Mr. Morgenthau: This does not have to leave here till 12 o'clock tonight.

Mr. Oliphant: Would you have another opportunity to look at it?

Mr. Morgenthau: No but I will be on the telephone. Who wants to assume responsibility? Here is the original. Who will put this letter together and give it to Chief Moran and see that it gets up there?

Mr. Oliphant: It ought to be someone who will be here anyway. No one should have to stay just for this.

E.M.Jr: Who will be here?

Mr. Oliphant: I will be here - Gaston will be here.
Mr. Morgenthau: Herman, here is the original of this. That goes to the President and a copy of his message. I would say finished isn't it? It puts the burden of proof on the people on the Hill and I think we could sit here all afternoon and you will not get examples which the fellow on the street will understand and which I can understand that won't be subject to attack and misinterpretation.

Haas: Just tell Harrison that this does not agree.

Mr. Morgenthau: The President did tell Harrison. He said, I am not going to tell you the faults of this bill. As to how they should be worked out is your job.

Note: At this point Chief Moran appeared.

Mr. Morgenthau to Chief Moran: The message for the President will be ready at 2:30 standard time and then the man would meet me at the Washington-Hoover Airport. Have you got your man?

Chief Moran: Yes.

Mr. Morgenthau: Who is he.

Chief Moran: C. H. Allen.

Mr. Morgenthau: If it is not ready by midnight he will go up on the midnight. He should report to Oliphant at 2:30 here. If it is not ready then he can stick around until it is ready. When he does come he will get one copy to me and one to the President.

Chief Moran: Then he is not going up with you?

Mr. Morgenthau: They don't know. If he does not he can catch the midnight but he gets one copy to the President and one copy to me.

Mr. Morgenthau to Mr. Oliphant: Make two sets of everything.

Mr. Morgenthau: I want to say this because I always speak my mind. He sends this thing up to the President but the more I think of it the more I think that there is nothing more that Pat can do after he gets this letter. The only thing he can do is to go right ahead and defy the President and I think it is very embarrassing for the President and very embarrassing for Harrison. I don't think it accomplishes the result. This is an analogous of the one I discussed with the President and the President said, "that is something you want to discuss with the Attorney General. Discuss it with him verbally". He said, it is very unfair to the Attorney General to put himself on record with Pat and say, 'this bill does not comply'.
Mr. Morgenthau: Pat has only one thing to do and that is to say, "I am sorry Mr. President - it is the best we can do and you take it and like it. But to give him this cold he is taking a terrible risk. I mean if it was unfair what I was proposing to do to the Attorney General this is ten times worse. I was going to ask the Attorney General to do something that was his own job and the President thought that was unfair. This is ten times as unfair and I think it may put us right back where we were last year to calling each other names. What do you think Cy?

Mr. Upham: I agree with you 100%. I think it is clever politics on LaFollette's part.

Mr. Morgenthau: Did I say I was an amateur yesterday? Well I will say it to-day.

Note: At this point Mr. Oliphant defended LaFollette.

Mr. Upham: I will withdraw that then.

Mr. Oliphant: I think we ought to speak up for our friends - we haven't many. I agree that you ought to telephone Harrison but apparently they consulted the President and he went into a bill of 3%.

Mr. Upham: I think he and the Committee honestly believe that this is the beginning of the recognition of the President's principle.

Mr. Morgenthau: I don't have to read the example. I mean I am convinced that they don't. Now incidentally with this thing ought to go the latest estimates.

Mr. Haas: 522 are the latest, that is this morning but at noon to-day they had to be changed because Pat wants to strengthen 102.

Mr. Morgenthau: Herman, get the latest figures and whatever the President gets give me a duplicate.

Mr. Oliphant: We could put on top of this thing he penciled a summary.

Mr. Morgenthau: That's all right. That goes half way toward what Herbert wants.

Mr. Morgenthau: I am personally going to advise him (the President) to make a general statement for his sake.

Mr. Gaston: I think you are right.
Mr. Upham: May I give an example?

Mr. Upham: Under the House Bill a corporation's tax may be as high as 29½% of its net income. That, of course, is the burden which is borne by the share-holder of that corporation. Under the House Bill the small company which is under receivership or which has a deficit or which is in debt has a flat rate of 22½%. The highest rate under the Senate Bill that that small corporation will have to pay runs around 23.7. So that under the House Bill the small corporation and stockholders of small corporations can have a higher tax than under the Senate bill.

Mr. Gaston: But under the House Bill there will be a great incentive to distribute so that the corporation pays no tax at all.

Mr. Morgenthau to the group: Well we understand each other don't we?

Mr. Helvering: Well practically - this short statement will be the statement sent to Harrison?

Mr. Morgenthau: If the President takes my advice. First he takes the short statement and, second, he reads it over to Harrison on the telephone.
Henry Morgenthau, Jr.
2201 R Street,
Washington, D.C.

Dear Henry,

In connection with the question as to whether a countervailing duty under Section 303 should be applied to imports from Germany, it is clear that, if you are convinced beyond all doubt that the German practices constitute bounties or grants within the meaning of the law, it is mandatory upon you to apply the duty. I have been wondering, however, whether, if there is substantial reason for doubt, you would be justified in applying the duties. I have just found in my notes a reference to Treasury practice of not too ancient date which it seems to me has direct bearing on the present case. The information I give here is all that I have in my notes, but the background of the case will be readily available to you at the Treasury.

On May 13, 1926, the then Secretary of the Treasury issued a finding (T.D. 41964) revoking a previous finding (T.D. 41561) imposing countervailing duties on imports of the merchandise of a particular German cartel. The reason --or one reason-- given for the revocation of the finding was that:

"The question whether such rebate or allowance constitutes a bounty is not entirely free from doubt."

If the absence of complete freedom from doubt justifies the revocation of a finding, then it at least equally justifies not making the finding in the first instance.

May I also point out that the above wording, and especially the failure to use the word "grant", is another item in support of my position that the Treasury practice has always been not to find a bounty unless the exporter, in addition to what he received from the purchaser of his goods, also received from some other source additional remuneration which was not merely exemption from or remission of some special burden placed on him by his government.

It seems to me that the following expresses accurately the spirit of Treasury practice in this matter as I have
found it in my studies of the problem:

"A drawback is a device resorted to for enabling a commodity affected by taxes to be exported and sold in the foreign market on the same terms as if it had not been taxed at all. It differs in this from a bounty, that the latter enables a commodity to be sold abroad for less than its natural cost, whereas a drawback enables it to be sold exactly at its natural cost." G.A.3577 (cited in Wharton's Law Dictionary).

Except for the bond and scrip cases, a German exporter cannot sell abroad for less in marks than the cost of his goods in marks without suffering a loss.

The Treasury practice may have been bad law after the Supreme Court decisions, but the reenactment in 1930 of the original provisions without any strengthening of the statutory language would seem to show that Congress had no objections to the way in which the Treasury had been interpreting its will. It seems to me to be rather late in the day for the Treasury to invoke these old decisions, when it has never acted in full accordance with them in the past.

The more I reflect on the problem, the stronger is my conviction that the case for application of the countervailing duties to German exports paid for in "cheap marks" is too weak to justify you in applying them.

Sincerely,

Jacob Viner
Dear Sirs:

Enclosed is a form of letter, which I have approved, respecting the purchase of Chinese yuan and which I authorize and request you, as fiscal agent of the United States, to write to the Central Bank of China, Shanghai, China. I also authorize and request you, as fiscal agent of the United States, to carry out the transactions contemplated by such letter.

It is understood that the terms of the Department's letter to you of September 4, 1934, regarding dealings in foreign exchange for the account of the fund established in section 10 of the Gold Reserve Act of 1934, shall apply to the action taken by you pursuant to the foregoing.

The transactions contemplated by the enclosed form of letter have been approved by the President.

Very truly yours,

(Signed) Wayne O. Taylor
Acting Secretary of the Treasury.

The Federal Reserve Bank of New York,

New York, New York.

Enclosure

CUB162 5/23/36
Dear Sirs:

The Secretary of the Treasury of the United States has, as a result of recent communications and conversations with representatives of the National Government of the Republic of China, authorized us, as fiscal agent of the United States, to enter into the following arrangement with you, for the purpose of supplying the Republic of China with United States 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, Chinese yuan, the yuan 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." Upon receipt by us of advice from you by cable that this account has been credited with a stated amount in Chinese yuan, we shall in turn credit you on our books in a special account to be opened in the name of "Central Bank of China, Special Account" in an amount in United States dollars equal, at the then prevailing buying rate of exchange in New York for cable transfers in yuan on Shanghai, to the amount in yuan so credited to us on your books. Interest on such special yuan account is to be credited thereto monthly at the rate of 3% per annum.

2. The total amount of yuan 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 United States $200,000,000, computed at the rate at which such yuan were purchased by us.
In the event of your failure to repay the loan (including interest) due on the mortality of the insured, the proceeds of the policy shall be paid to us, and we shall have the option to purchase the policy from you for its face value. If the proceeds are insufficient to cover the claims, we may require additional collateral. The policy shall be held in trust for the benefit of the insured and will be transferred to the insured upon repayment of the loan. The insured shall be responsible for any expenses incurred in connection with the policy, including any taxes and fees related to the policy. We reserve the right to accelerate the loan and require immediate repayment if the insured fails to make timely payments. The insured shall provide us with all necessary information and documentation to facilitate the process. Any disputes shall be resolved through arbitration in accordance with the terms of the policy. The insured shall be responsible for any legal fees and costs incurred in connection with the policy. The policy is subject to and governed by the laws of the state of New York. Any provision of the policy that is deemed invalid or unenforceable shall be severed and the remaining provisions shall remain in full force and effect. This policy is not transferable without our prior written consent.
such of such silver as held under pledge at any time, and
from time to time, in New York, or in our discretion in other
markets, at the price or prices prevailing at the time of such
sale or sales and to apply the proceeds thereof, less any
taxes, duties and similar charges payable with respect to such
silver and any reasonable and necessary expenses incurred by us
in respect of such silver (including, but without limitation
thereof, expenses of sale, transportation, storage, melting, refining
and insurance), 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 on your part to repurchase
said yuans (including interest) as hereinafore provided; and you
will and do hereby authorize and request all such depositaries in
San Francisco or New York to honor any request made by us to hold
or deliver any or all of said silver, subject, however, in the
case of silver held under pledge at the United States Mint at San
Francisco and at the United States Assay Office in New York to
any lien or charge of said Mint or Assay Office against such silver.

It is understood and agreed that our obligation, as fiscal agent
of the United States, to purchase any amount of yuan pursuant hereto
shall be conditional and dependent upon the prior performance by
you of the obligations and things to be performed and done by you
under this paragraph 4.

5. It is understood and agreed that the figures as to the weight
and degrees of fineness of any silver pledged hereunder as determined
by a United States Mint or Assay Office or by a recognized American
refinery, will be accepted by you as final.
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. Our obligation to purchase yuan hereunder shall terminate on
our December 15, 1936, unless an extension has been agreed upon
before that time, and it is understood that in the event that
you wish an extension of this arrangement you will give us notice
to that effect, in writing or by cable, so that such notice
shall be received by us at least thirty days prior to our
December 15, 1936. Such termination, however, shall not
affect any of our rights or any of your obligations hereunder,
all of which shall continue in effect until you shall have fully
performed your said obligations.
Dear Sirs:

Enclosed is a form of letter, which I have approved, respecting the purchase of silver and which I authorize and request you, as fiscal agent of the United States, to write to the Central Bank of China, Shanghai, China. I also authorize and request you, as fiscal agent of the United States, to carry out the transactions contemplated by such letter.

It is understood that the terms of the Department's letter to you of June 19, 1934, regarding the purchase for the account of the United States of silver, at home or abroad, shall apply to the action taken by you pursuant to the foregoing.

Very truly yours,

(Signed) W. G. Taylor
Acting Secretary of the Treasury.

Federal Reserve Bank of New York,
New York, New York.

Enclosure

GWDelh 5/23/36
Dear Sir,

The Secretary of the Treasury of the United States has, as a result of recent communications and conversations with representatives of the National Government of the Republic of China, authorized us, as fiscal agent of the United States, to enter into the following arrangement with you:

We, as such fiscal agent, will purchase from you during the year 1936 and in January 1937, for delivery aboard steamer of United States registry at Shanghai, up to 75,000,000 ounces .999 fine of silver upon the following terms and conditions:

(a) On the first business day of June 1936, we shall transmit to you by cable a bid for up to 12,000,000 ounces .999 fine of silver.

(b) On the first business days of July, August, September, October, November and December 1936, and of January 1937, we shall transmit to you by cable a bid for up to 9,000,000 ounces .999 fine of silver.

(c) Each of the bids referred to in paragraphs (a) and (b) will be the average of the fifteen daily prices, immediately preceding the day on which such bid is made, bid by the United States Treasury in the New York market per ounce .999 fine of silver for New York delivery. The bids will be in terms of United States currency per ounce .999 fine for 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. If silver is delivered
which does not meet such requirements the cost of
putting such silver into bars meeting such require-
ments shall be borne by you.

(d) If you elect to sell silver to us at the price so bid
by us you shall so advise us by cable reaching us
not later than 12 o'clock noon United States Eastern
Standard Time on our first business day following
the dispatch of our cable to you, stating the number
of ounces .999 fine of silver within the foregoing
limitations which you have so elected to sell us.

(e) The receipt by us of any such cable 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
number of ounces .999 fine of silver specified in your
cable, at the price specified in our cable to you.

(f) All silver sold to us under this arrangement shall be
shipped from Shanghai, in steamers of United States
registry during the calendar month in which it was
contracted to be sold to us, consigned to us at the
United States Mint at San Francisco, at the United
States Assay Office at New York, at any other depository
or depositories in San Francisco or New York, or at any
one or more of them, whichever we may designate.

(g) Insurance (in the amount of the cost to us or the market
value, whichever is greater, of the silver plus 2%)

covering all risks from your vaults in Shanghai to vaults in San Francisco or New York will be arranged by us in New York and the cost of such insurance, as well as the cost of storage, transportation, and other reasonable and necessary expenses incurred by us in connection with such silver will be charged to your account on our books under advice to you. In order to enable us to arrange for such insurance in ample time, it is agreed that you will cable us not later than 48 hours before the silver leaves your vaults the name of the steamer and sailing date from Shanghai, the number of bars, or, in case of silver in other forms, the forms and number of boxes, and in either event the number of ounces .999 fine, which you actually propose to ship.

(h) 95% of the cost of the silver so sold to us, as fiscal agent of the United States, will be placed to the credit of your account on our books upon receipt by us of cable advice from agents in Shanghai to be designated by us that the following documents in good order have been delivered by you to them:

(1) Full set of "on board" bills of lading marked "freight prepaid" showing shipment of silver as above, by you and consigned to us as aforesaid.

(2) Your written assurance that the shipment will be free from any and all Chinese duties, taxes and similar charges.
(3) United States consular certificate.

(4) Weight list in triplicate.

The balance of 5% less melting, refining, transportation, storage, insurance and any other reasonable and necessary charges incurred by us for your account in respect of the silver will be placed to the credit of your account after bars of the customary size, of the degrees of fineness and carrying the marks required for "good delivery" in the New York market, have finally been placed in the vaults of our designated depositaries in New York or San Francisco.

(i) It is understood and agreed that title to such silver shall pass to us upon delivery as herein provided aboard steamer.

(j) It is understood and agreed that we are authorized to arrange as soon as possible at your expense for the melting and refining of any silver purchased hereunder which is not in the form of refined bars of the customary size, of the degrees of fineness and carrying the marks required for "good delivery" in the New York market.

(k) It is understood and agreed that the figures as to the weight and degrees of fineness of any silver purchased hereunder as ultimately established by a United States Mint or Assay Office or by a recognized American refinery will be accepted by you as final and you authorize us to make any necessary adjustment of the amounts theretofore credited to you, upon receipt of such figures.
(1) In lieu of the customary contract provision for termination at the end of the month, which requires extensions to be made from month to month thereafter, and in recognition of the special character of this arrangement, it is hereby understood and agreed that this arrangement shall remain in effect until fully performed, unless previously terminated by either party upon not less than thirty days notice by cable to that effect. But any such termination shall not affect any contracts entered into pursuant hereto prior to the date of such termination.

(2) All business days mentioned herein relate to business days in New York.

Very truly yours,
Basic Data Concerning Possible Offerings of Government Securities
To Be Dated June 15, 1946

1. Five year 1-5/8% note, due June 15, 1941

<table>
<thead>
<tr>
<th>Comparable issues:</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-1/2's 12/15/40</td>
<td>1.19%</td>
</tr>
<tr>
<td>1-1/2's 3/15/41</td>
<td>1.21</td>
</tr>
</tbody>
</table>

Extrapolated yield for an issue due 6/15/41 - 1.23%

A 1-3/8% note due 6/15/41 would sell:

<p>| | |</p>
<table>
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</thead>
<tbody>
<tr>
<td>at 100-27/32 to yield</td>
<td>1.20%</td>
</tr>
<tr>
<td>100-19/32</td>
<td>1.25</td>
</tr>
<tr>
<td>100-12/32</td>
<td>1.30</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Comparable issues:</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>3's 6/15/46-48</td>
<td>2.39%</td>
</tr>
<tr>
<td>3-1/4's 3/15/46-56</td>
<td>2.45</td>
</tr>
<tr>
<td>3-1/6's 6/15/46-49</td>
<td>2.41</td>
</tr>
<tr>
<td>4-1/4's 10/15/47-52</td>
<td>2.43</td>
</tr>
<tr>
<td>2-5/4's 5/15/48-51</td>
<td>2.54</td>
</tr>
<tr>
<td>3-1/8's 12/15/49-52</td>
<td>2.57</td>
</tr>
<tr>
<td>5's 9/15/51-55</td>
<td>2.62</td>
</tr>
</tbody>
</table>

A 2-5/8% bond due June 15, 1950, optional after June 15, 1947, would sell:

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<table>
<thead>
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</thead>
<tbody>
<tr>
<td>at 101-06/32 to yield</td>
<td>2.50%</td>
</tr>
<tr>
<td>100-25/32</td>
<td>2.55</td>
</tr>
<tr>
<td>100-08/32</td>
<td>2.60</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Comparable issues:</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-3/4's 5/15/48-51</td>
<td>2.54%</td>
</tr>
<tr>
<td>3-1/8's 12/15/49-52</td>
<td>2.57%</td>
</tr>
<tr>
<td>5's 1/15/51-55</td>
<td>2.62%</td>
</tr>
<tr>
<td>2-7/8's 3/15/55-60</td>
<td>2.72%</td>
</tr>
</tbody>
</table>

A 2-3/4% bond due June 15, 1956, optional after June 15, 1951, would sell:

- at 101-27/32 to yield 2.60%
- 101-7/32 " " 2.65
- 100-20/32 " " 2.70

Note: All prices and yields quoted above are as of the close of the market on May 25.

Treasury Department, Division of Research and Statistics.

May 25, 1956.
May 25, 1936

This is record of telephone conversation with HM, Jr. on the farm.

Present: Mr. McReynolds, Mr. Upham, Mr. Taylor, Mr. Haas, Mr. Gaston and Mr. Oliphant.

The Secretary: I called the President yesterday late and he has -- as a matter of history, he wrote a letter to Pat and he is asking me to call Pat and I want Upham to go upon the Hill and see Pat and find out where I can meet him, alone, at around 6 o'clock (Standard Time). Either he can come to my office or to my house or I can go to his office or his house, but I think if everything goes well, I ought to be at the office at 5, which will give me a chance to see all of you and we can see what happens today and I want to see Pat somewhere at six o'clock.

The instructions from the President are these: for Helvering, Oliphant and Haas:

He would like to have prepared today the following amendment so that he can have it if he decides to offer it on the floor of the Senate:

(1) Re-establish the House plan for taxing undistributed earnings in effect. (The object is to force distribution.)

Mr. Oliphant: Did he mention incorporating the simplified rate schedule?

HM, Jr.: No; but I can say for him, that's O.K."

(2) To leave the $2.5 - 15% corporation income tax as it is at present.

(3) Exempt the little corporation. He (the President) said: "I have an entirely new idea. I have got one of my wild ones." And some provision to allow corporations to meet their bonded indebtedness (not their bank loans, however) by setting up an amortization fund, but, if they do that, they must not increase their capital stock. "This ended the new thought," he (the President) said.

(4) The tax on undistributed earnings should, of course, be graduated.

The letter we wrote, which is unsigned, is practically the letter as he got it; he added a little something. But
he wanted me to see Pat and have a talk with him alone and show him the letter.

Mr. Oliphant: That's fine.

HM, Jr.: Will you gentlemen work on this as is?

Mr. Oliphant: Did he say anything about putting normal tax on dividends?

HM, Jr.: He never mentioned it. Everything that he mentioned, I wrote down.

Mr. Oliphant: When are you leaving up there?

HM, Jr.: I am leaving at 2:30 (Standard Time) and, incidentally, I am having Lieut. Tollaksen -- anything important give to Tollaksen -- meet me at 3 o'clock at Newark. I ought to get to Washington at 4:30.

Mr. Oliphant: Do you plan to be out-of-doors this morning?

HM, Jr.: Try to; yes. I haven't had much rest.

Mr. Oliphant: What time will you be having lunch?

HM, Jr.: At 12:30 (11:30 your time.)

I want Upham to call me and to go immediately to the Hill and find out what time will be convenient for Pat so I will know that, and I would like to be called between nor and 11:30 (Standard Time).

Mr. Oliphant: One other question. Gastons wants to know if there is to be a press conference today?

HM, Jr.: Tell him to postpone it until tomorrow afternoon, but I would like one tomorrow afternoon.

Mr. Oliphant: How are you feeling?

HM, Jr.: All right. Does anybody want to talk to me? What's going on up on the Hill?

Mr. Oliphant: They are going to have a meeting and going
into some details and then Pat had called Seltzer early this morning and said they would have a lot of trouble raising money required over and above the last plan they had would raise and mentioned one of the plans that had been talked about and asked Seltzer to come up and explain it to the Committee.

HM, Jr.: Yes. I would like Upham to go immediately to the Hill. I will see you all at 5 o'clock.

---

Regraded Unclassified
President's instructions for Helvering, Oliphant and Haas, telephoned by the Secretary:

1. Re-establish the House plan for taxing undistributed earnings in effect. (The object is to force distribution.)

2. To leave the 12\(\frac{1}{2}\) - 15% corporation income tax as it is at present.

3. Exempt the little corporation. Entirely new idea -- some provision to allow corporations to meet their bonded indebtedness (not their bank loans, however) by setting up an amortization fund, but, if they do that, they must not increase their capital stock.

4. The tax on undistributed earnings should, of course, be graduated.

5. When asked if the President mentioned incorporating the simplified rate schedule, the Secretary said, "No; but I can say for him, that's O.K."

6. When asked whether the President gave any instructions about the imposition of normal tax on dividends, the Secretary said, "He never mentioned it."

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Note: The handwritten note at the bottom-right corner of the page reads: "10 Million capital, Bonded debt and stock not to permit 3/4 out of net undistributed as amortization fund."
1. Repeal capital stock and excess profits tax.

2. Impose present corporate tax rate (12 1/2 percent to 15 percent) on statutory net income as defined in present law, which includes 10 percent of inter-corporate dividends.

3. Define adjusted net income as the statutory net income less corporation income taxes plus 90 percent of dividends received. Define undistributed adjusted net income as adjusted net income less the dividend credit, less a special exemption of $15,000 to all corporations. Impose a tax on undistributed adjusted net income equal to the sum of the following:

   Amount

   25 percent on the first 30 percent of the undistributed adjusted net income not in excess of 20 percent of the adjusted net income.

   35 percent on the amount of the undistributed adjusted net income which is in excess of 30 percent and not in excess of 40 percent of the adjusted net income.

   45 percent of the amount of the undistributed adjusted net income which is in excess of 40 percent of the adjusted net income.

---

Estimated Revenue on Incomes of Calendar Year 1936

(In Millions of Dollars)

Net estimated increase in revenue 622
I move that the bill H. R. 12395 be recommitted to the Committee on Finance with instructions to report back such bill as passed by the House with amendments to accomplish the following purposes:

1. Impose on the net income of every domestic corporation a normal tax at the same rates and on the same basis as the corporation income tax under existing law.

2. Impose upon the undistributed net income of every domestic corporation (with the exemptions enumerated below) a supertax equal to the sum of the following:

   20 per centum of the amount of the undistributed net income which does not exceed 20 per centum of the adjusted net income;

   35 per centum of the amount by which the undistributed net income exceeds 20 per centum and does not exceed 40 per centum of the adjusted net income;

   45 per centum of the amount by which the undistributed net income exceeds 40 per centum of the adjusted net income.

For the purposes of the supertax the adjusted net income shall be the net income as defined by existing law (computed without the allowance of any deduction of dividends received) minus the credit provided in section 26 (relating to interest on certain obligations of the United States and Government corporations) and minus the normal tax; and the undistributed net income shall be the adjusted net income minus $15,000 and minus the credit for dividends paid provided for in section 27.
Exempt the following corporations from the supertax:

1. Banks and trust companies as defined in section 104 of the House bill;
2. Insurance companies;
3. Corporations in bankruptcy and receivership;
4. China Trade Act corporations;
5. Corporations entitled to the benefits of section 251.

Exempt from the supertax that part of the net income of any corporation which was granted a flat rate of tax under section 14, 15, or 16 of the bill as passed by the House (relating to cases of accumulated earnings and profits less than adjusted net income; contracts not to pay dividends; and debts).

3. Insert in the bill the credit allowed by section 25(a)(1) of the Revenue Act of 1934 to individuals for the purpose of the normal tax, of the amount received as dividends from a domestic corporation which is subject to income tax.

4. Strike out section 27(1) of the bill (relating to intercorporate dividends). Allow foreign corporations a credit, against their income taxable under the House bill, equal to the amount of dividends paid during the taxable year to citizens and residents of the United States and domestic corporations.

5. Strike out sections 401 and 402 of the bill and insert provisions repealing the capital stock and excess profits taxes.
The Secretary called in MoReynolds, Upham, Taylor, Haas and Oliphant. He told them the following:

"Miss Blanton called me and said that Pat is laid out flat and I asked her to call me as soon as she knew when I could see him. She called me back and suggested that I see George and Barkley. In the meantime, I talked to the President and told him Pat was sick and that before I talked to George and Barkley I wanted to talk to him -- it's too important. I had an appointment in five minutes to see the President.

"He tried to get Barkley and couldn't. The more I thought of it, if the plan is to go on the floor, the fellow is Joe Robinson, so I suggested to the President that he call Joe and have him send for George and Barkley, and I would go up there. Furthermore, I don't want to get King down on me and have him say, I am the next ranking man. Frankly, I wanted to get the President on this thing. He was a little reluctant, but called Joe and Joe went over a lot of stuff -- incidentally, tell Bell that on this Flood Relief that they should put in a paragraph that the President should study Flood Relief and then send up an appropriation bill next January for Flood Relief, so it will carry authorization but no appropriation, and Joe sort of reluctantly agreed to that.

"The way the matter stands, he talked to Joe and Joe got everything off his chest. Joe was to send for Barkley and George and me, and if I did not hear from him by 11:30 I am to call Robinson to remind him. Now, the President looked at this (See Exhibit No. 1) and agreed to it. He liked it. Then he gave me some more stuff about this idea he has had in the back of his head for a long time -- when a company sets up a bonded indebtedness it should be made to set up a fund to retire the indebtedness. He said, 'I got it from reading the newspapers!' So I think we had better do a little something. If he has one idea on the tax bill, I think he is entitled to one idea! So there we are!

"You, as technician on the Hill, Upham, do you think that under the circumstances, with Pat Harrison out, do you think I did the right thing from the standpoint of the relations of the Treasury with the Hill, in getting the President to call Joe Robinson?" Upham answered,"Oh, I think that's all right." Continuing, HM, Jr. said, "Particularly as the
President now leans to the minority report and a fight on the Senate floor? He said, 'Before we go into that, somebody has to count noses in the Senate and that was what influenced me to bring Joe Robinson in at this time and also to have the President officially tell Joe that I am going up there.' Oliphant's reaction was, "It's absolutely right. It sticks to organization lines." Haas remarked, "Last year, Garner was in for some purpose or other." HM, Jr. then said, "There is no reason to bring the Vice President in unless the President wants to and I imagine that if you always run to the Vice President that it might get under Joe Robinson's skin a little bit. That's my guess." Upham agreed, saying, "Oh, yes. Joe is the leader." HM, Jr. added, "He's the leader and the President has put it up to him."

Reverting to the meeting with the President, HM, Jr. also told the group, "The President said two or three times to Joe, 'This tax bill is in a mess. You have to get it in such shape that the House will go along. It does everything we don't want it to do and it particularly hits the little fellow and let's the big fellow escape.' Again he said, 'This bill is in a mess'. Mac, do you think that's right?" McReynolds answered, "I think it's perfect."

Concluding the meeting, HM, Jr. said, "If everybody is happy, we will go into your room, Taylor, to meet the accountants."
Preliminary Estimate

1. Repeal capital stock and excess profits tax.

2. Impose present corporate tax rate (12½ percent to 15 percent) on statutory net income as defined in present law, which includes 10 percent of inter-corporate dividends.

3. Define adjusted net income as the statutory net income less corporation income taxes plus 90 percent of dividends received. Define undistributed adjusted net income as adjusted net income less the dividend credit, less a special exemption of $15,000 to all corporations. Impose a tax on undistributed adjusted net income equal to the sum of the following:

   25 percent on the first 20 percent of the undistributed adjusted net income.

   35 percent on the amount of the undistributed adjusted net income which is in excess of 20 percent and not in excess of 40 percent of the adjusted net income.

   45 percent of the amount of the undistributed adjusted net income which is in excess of 40 percent of the adjusted net income.

Estimated Revenue on Incomes of Calendar Year 1936

<table>
<thead>
<tr>
<th>Net estimated increase in revenue</th>
<th>622</th>
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With the Compliments of

S. Stern

Vice President of
The Chase National Bank
Of the City of New York

I am told—contrary to the daily assertions of the Press—that Mr. Blum is considering a devaluation of the franc of 25 to 30%: this, however, he is unwilling to affect under duress, but states he will choose his own time, when he thinks circumstances will be favorable. These of course are but his intentions, and the course of events may run very differently. Politically, the country is perfectly calm, and is awaiting quietly, if with some inward anxiety, the results of the Socialistic experiment. The danger may come from the difficulties Mr. Blum is meeting with in the forming of his Ministry: in order to obtain a stable majority, he may have to make serious concessions to the Left wing of his Parliamentary majority.

Meanwhile, the activity of the Paris market decreases daily, while capital exports grow more and more important. The Exchange market is reduced owing to the fears of the eventual regulations the Socialist Government may endeavor to put in force. Brokers handle a fair amount of business in the mornings and in the evenings, but there is practically no market during the official session, as both clients and dealers are anxious not to give publicity to their transactions. This has resulted in a number of operations being handled in London, to the detriment of the Paris Market. If we add to this the stringent instructions given on May 11th by the Bankers' Syndicate to its members, enjoining them to deal in futures for commercial operations only, to avoid dealing in foreign banknotes as well as in gold coins, and to discourage speculation by every mean, it will be easily seen that the market's activities are very much crippled.

As to capital exports they take place mainly towards Switzerland which is favored as a neutral country. It is reported there is such a keen demand for safe deposit vaults accommodation in Genova and Lausanne, that the Swiss in order to satisfy their foreign clients. This shows once again that it is utterly impossible to prevent capital exports.

Every day, every hour almost bring forth fresh suggestions more or less practical, more or less sensible as to the financial means the Government may have recourse to: so far these are only rumors, and there is no really reliable information available. Mr. Tannery's departure is a sure thing, also that Banque de France will be nationalised: as fact it is said the officials of the Central Bank are preparing themselves the new regulations ...

The Socialistic experiment will bring about several months of uncertainty, of restrictions of every kind, perhaps of strict control over all the financial activities of the country, and it is thought that during these months great caution should be exercised.
May 27, 1936

My dear Mr. Secretary:

I am inclosing herewith a photostat of a memorandum from the President of the United States which I received on May 25. I am also inclosing herewith, for your confidential information, a true copy of a memorandum, dated April 30, from the Department of Justice, which was given to the President at Cabinet on May 14.

I am anxious to carry out the President's suggestion and get together with you and the Attorney General as soon as it is convenient. If you are free Thursday night, could we get together at your home or at your office?

Sincerely yours,

Secretary of the Treasury

The Honorable

The Secretary of State.
My dear Mr. Chen:

I have your two letters of May 22, 1936, in which you outline, as authorized by your Minister of Finance, Dr. H. H. Kung, the further measures of the monetary program of the National Government of China.

We are glad to be able to assist you in expediting the execution of your coinage plans, and to have the privilege of supplying the first new silver coins of your reformed currency.

In the light of your proposals, and to supplement the efforts of your Government in its program of monetary reform and currency stabilization, and to assist in the success of the specific measures Dr. Kung has authorized you to describe in your letter to me, I am forwarding to the Federal Reserve Bank of New York instructions for the transmission of offers to the Central Bank of China approximately in the form of the enclosed letters.

May I take this opportunity to express my gratification at the successful outcome of our numerous conversations with you and your colleagues? They have been mutually instructive. I believe that the kind of co-operative action effective in promoting the internal and external stability of national currencies has been well exemplified by the full and frank exchange of views in which we have engaged, and sincerely hope this mutual exchange of views between our countries will continue.

Permit me to convey to you, and through you to Dr. Kung, the expression of my highest regard.

Sincerely,

(Signed) Henry Morgenthau, Jr.

Mr. K. P. Chan,
C/o Federal Reserve Bank,
New York, New York.

Enclosures

[Handwritten notes and stamps]
Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

Dr. H. H. Kung, Chinese Minister of Finance, authorizes me to state as follows:

"The Minister of Finance will place trial order with United States Mints five million\(^1\) one dollar coin and five million piece fifty cent coin both 720 fine with security rim or some other similar device satisfactory to the Ministry; details of size and other feature could be left for future arrangement. First silver shipment will include sufficient silver for above order."

Confirmation of the above order will be sent through the diplomatic channel.

With expressions of high esteem,

Yours very sincerely,

K. F. Chen

\(^1\) This group is mutilated in transmission. It could read either two and half million or five million. It is being repeated.
Suite 682
Hayflower Hotel
May 22, 1936.

My dear Mr. Secretary:

Under instructions from Dr. H. H. Kung, Chinese Minister of Finance, I beg to communicate to you the following message from him to you:

"The reform and modernization of our monetary and banking system has received the attention of our Government for a long time, but it was only in recent years that the more significant steps in the contemplated program were initiated with a view to immediate adoption. These steps included the centralization of note issues, the stabilization of exchange value of our currency and the concentration of silver stocks and coins under the Currency Reserve Board. By the fall of 1935 the National Government of China was fully convinced that changes in the relative values of gold and silver were adversely

Hon. Henry Morgenthau, Jr.

Secretary of the Treasury

Washington, D.C.
adversely affecting the economic condition of the Chinese people, and, by virtue of the reservation to our ratification of the London Silver Agreement, some of the silver resulting from demonetized coins are being converted into gold and foreign exchange. It has been and is the purpose of the National Government of China to assist in accomplishing the aims of the London Silver Agreement. For this reason, among others, it is the intention of the National Government to proceed with its monetary program by putting into effect the following additional measures:

(1) To remove the limitation restricting the fineness of silver used in the arts and industry to 30%, which had been imposed as an emergency measure to assist in the program of nationalizing silver and in order to prevent smuggling.

(2) To begin at once the coinage and issue of new silver coins, of the denominations of one and half Yuans. The one Yuan pieces shall contain at least 138.24 grains of pure silver, and the fifty cent piece, at least 69.12 grains of pure silver.
silver. To expedite the coinage of the new silver coins, my Government hopes that it will be possible for the United States Mints to assist in supplying us with the new coins until the time when our Central Mint is able to fully undertake the task.

(3) To require that the banks of note issue maintain along with gold, foreign exchange and other collateral, a minimum reserve of 25% in silver against notes outstanding, using for this purpose the old silver Yuan — which has a bullion value 10% above its monetary value — until such a time when the change in circumstances warrants the use of another method of valuation. As there are now issued by the three government banks legal tender notes to the amount of Yuan 799,314,955 as of May 9th, 1936, a minimum amount of Yuan 199,828,509 in silver would be kept in China's monetary reserve.

I take this opportunity to express my deep appreciation for the courtesy you and your associates extended to representatives of our Ministry during their sojourn in Washington and for the spirit of sympathetic cooperation shown during all the conversations. I would appreciate receiving from you a reply.
a reply setting forth the ways by which you will cooperate with us in reaching our common objective, as you have definitely indicated to our representatives, namely: the purchase of silver and the furnishing of United States dollar exchanges.

With expressions of high esteem,

Yours very sincerely,

K. P. Chen
My dear Mr. Chen:

I have your two letters of May 22, 1936, in which you outline proposals on the part of the Minister of Finance of the Republic of China for further measures in connection with the monetary program of the National Government of China.

In the light of these proposals, I am forwarding to the Federal Reserve Bank of New York instructions for the transmission of offers to the Central Bank of China, approximately in the form of the enclosed letters.

I take this opportunity to express to you my admiration for the intelligence and ability manifested by the treatment this subject has been given and to convey to you, and through you to Dr. Kung, the expression of my highest regard.

Very truly yours,

Secretary of the Treasury.

Mr. K. P. Chen
Suite 682
Mayflower Hotel
Washington, D. C.

CVO 19 5/25/36
My dear Mr. Chen:

I have your two letters of May 22, 1936, in which you outline proposals on the part of the Minister of Finance of the Republic of China for further measures in connection with the monetary program of the National Government of China.

In the light of these proposals, I am forwarding to the Federal Reserve Bank of New York instructions for the transmission of offers to the Central Bank of China, approximately in the form of the enclosed letters.

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Very truly yours,

Secretary of the Treasury.

Mr. K. P. Chen
Suite 682
Mayflower Hotel
Washington, D. C.

CVO;BJ 5/25/36
Draft prepared by Mr. White
My dear Mr. Chen:

I have your two letters of May 22, 1936, in which you outline, as authorized by your Minister of Finance, Dr. H. H. Kung, the further measures of the monetary program of the National Government of China, and in which you state your intention of placing a trial order with the United States Mints for the Chinese new one dollar and 50-cent coins.

We are glad to be able to assist you in expediting the execution of your coinage plans, and thank you for the confidence you repose in our Mints. The honor accorded the United States in granting us the privilege of supplying the first new silver coins of your reformed currency is, we feel, another strand in the cable of mutual regard between the peoples of China and the United States — a regard which we hope will grow even stronger as time goes on.

I feel confident that the monetary program Dr. Kung has outlined for China will contribute materially to the internal as well as external stability of your currency, and to the establishment of a proper place for silver in the monetary systems of the world. In my opinion, the monetary reforms your Government is undertaking cannot but help to accelerate economic recovery in your country.

To supplement the efforts of your Government in its program of monetary reform and currency stabilization, and to assist in the success of the specific measures Dr. Kung has authorized you to describe in your letter to me, I am arranging with the Federal Reserve Bank of
Mr. K. P. Chen, 2

New York to undertake, under conditions mutually acceptable to your Government and mine, purchases from the Central Bank of China of substantial amounts of silver, and also to make available to the Central Bank of China, under conditions which safeguard the interests of both countries, dollar exchange for currency stabilization purposes.

I am enclosing for your information letters which are approximate copies of the instructions forwarded to the Federal Reserve Bank of New York for the transmission of offers to the Central Bank of China in pursuance of our intentions.

May I take this opportunity to express my gratification on the successful outcome of our numerous conversations with you and your colleagues. They have been mutually instructive. I believe that the kind of cooperative action necessary to improve the internal and external stability of national currencies has been well exemplified by the full and frank exchange of views in which we have engaged, and sincerely hope this mutual exchange of views between our countries will continue.

Permit me to convey to you, and through you to Dr. Kung, the expression of my highest regard.

Sincerely,

Mr. K. P. Chen,
Suite 682,
Mayflower Hotel,
Washington, D. C.
Draft prepared by Mr. Opper
My dear Mr. Chen:

I have your two letters of May 22, 1936, in which you outline proposals on the part of the Minister of Finance of the Republic of China for further measures in connection with the monetary program of the National Government of China.

In the light of these proposals, I am forwarding to the Federal Reserve Bank of New York instructions for the transmission of offers to the Central Bank of China, approximately in the form of the enclosed letters.

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Very truly yours,

Secretary of the Treasury.

Mr. K. P. Chen
Suite 682
Mayflower Hotel
Washington, D. C.
Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

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"The Minister of Finance will place trial order with United States Mints five million (1) one dollar coin and five million piece fifty cent coin both 720 fine with security rim or some other similar device satisfactory to the Ministry; details of size and other feature could be left for future arrangement. First silver shipment will include sufficient silver for above order."

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With expressions of high esteem,

Yours very sincerely,

[Signature]

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Suite 682
Mayflower Hotel
May 22, 1936.

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Under instructions from Dr. H. H. Kung, Chinese Minister of Finance, I beg to communicate to you the following message from him to you:

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Hon. Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D.C.
adversely affecting the economic condition of the Chinese people, and, by virtue of the reservation to our ratification of the London Silver Agreement, some of the silver resulting from demonetized coins are being converted into gold and foreign exchange. It has been and is the purpose of the National Government of China to assist in accomplishing the aims of the London Silver Agreement. For this reason, among others, it is the intention of the National Government to proceed with its monetary program by putting into effect the following additional measures:

(1) To remove the limitation restricting the fineness of silver used in the arts and industry to 30%, which had been imposed as an emergency measure to assist in the program of nationalizing silver and in order to prevent smuggling.

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silver. To expedite the coinage of the new silver coins, my Government hopes that it will be possible for the United States Mints to assist in supplying us with the new coins until the time when our Central Mint is able to fully undertake the task.

(3) To require that the banks of note issue maintain along with gold, foreign exchange and other collateral, a minimum reserve of 25% in silver against notes outstanding, using for this purpose the old silver Yuan — which has a bullion value 10% above its monetary value — until such a time when the change in circumstances warrants the use of another method of valuation. As there are now issued by the three government banks legal tender notes to the amount of Yuan 799,314,035 as of May 9th, 1936, a minimum amount of Yuan 199,828,509 in silver would be kept in China's monetary reserve.

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a reply setting forth the ways by which you will cooperate with us in reaching our common objective, as you have definitely indicated to our representatives, namely: the purchase of silver and the furnishing of United States dollar exchanges."

With expressions of high esteem,

Yours very sincerely,

[Signature]

---

Regraded Unclassified
K. P. Chen
Mayflower Hotel
Washington, D. C.

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.
Senate and referred in Congress.

Insurance amendment of estate tax was passed last year by the
Senate and referred in the upper bracket. It's important that
comprehensive and equitable supplemental reduction in the estate tax
universally, which would constitute a major step toward elimination
of insurance except to make the practice of taking such insurance
sentence which pays the tax out of the proceeds without the use
seems to be no reason time to draft amendment on an
estates and percentages-wise, to a marked degree.

amendment would constitute a major step toward elimination of
the estate tax as allowed under the amendment, the
sentence which pays the tax out of the proceeds without the use
of any insurance. The Senate Finance Committee has adopted an amendment to
the tax bill which would exempt from the estate tax the proceeds

Herbert Hoover
Secretary of Commerce

May 27, 1926

Treasury Department
A net estate of $4,107,700 (including $1,000,000 of the exempt insurance) would have its tax reduced from $1,461,400 to $1,000,000. A net estate of around $800,000,000 could save over $600,000 in tax. A net estate of over $51,000,000 could save $700,000 in tax.

But an estate of $109,600 could save only $1,652 tax, the difference between $11,252 and $9600.

The Bureau has made an extended study of this proposal which I have made available to Taylor because its enactment might have repercussions in the bond market.
May 29, 1936

The Secretary:

Once the tax bill is to be rewritten in conference, I think the President should be advised of how important it is that the Conference Committee be made large enough to include Vinson. With Vinson to lead the fight, the result will be altogether different than otherwise.

Much of the White House Conference was misleading. See attached.
The picture presented to the President Tuesday night was erroneous and misleading in many respects. Some of the more important are:

1. The nationwide picture of the number of corporations whose earnings are escaping surtaxes was completely misrepresented. During 1956 over four billion dollars of corporate earnings will, under present law, not go out to stockholders and thus be made to pass through the personal income tax mill; and the number of corporations involved is enormous. Senator Walsh talked about 300 corporations. That 300 was the mere handful which the Bureau of Internal Revenue has thought it worth while to attempt to proceed against, under the present hopeless provisions for preventing surtax evasion.

2. It was not pointed out that a part of the opposition witnesses before the Senate Finance Committee were representing the interests, not of corporations but of officers of corporations interested primarily in having large corporate surpluses with which to play. This accounts for much of the frequently expressed preference that the corporation income tax be increased rather than the tax be put on undistributed earnings.

5. All the Treasury's estimates on the yield of the House Bill and various modifications of it have allowed for cushions for the various types of corporations enumerated in the conference Tuesday night.
4. The talk about how little the tax on undistributed earnings would yield completely ignored the additional amounts which would come from individuals who would receive additional dividends as a result of such a tax on undistributed earnings.

5. The doubts expressed concerning the dependability of Treasury estimates were due to a complete lack of understanding of the techniques and machine procedures used in making Treasury estimates. It was like a group of laymen saying that the astronomer's estimate of the distance of the earth to the moon is a mere guess. That there is this complete lack of understanding was demonstrated by Senator King when he said the Treasury could, in a few minutes, supply the modified estimates agreed upon. The same erroneous idea has been expressed by many Senators on numerous occasions.

6. Probably most important was the talk about debt ridden corporations and other situations of supposed hardship. All this talk completely ignored the many provisions in the House Bill to avoid hardship, including the following which is of greatest importance but which almost everyone has overlooked:

Under the provisions of the House Bill, any corporation having debts or needing more capital can retain all of its
earnings and pay no tax on undistributed earnings by simply issuing to its stockholders a preferred stock dividend (to the amount of the earnings) to common stockholders or a common stock dividend to preferred stockholders.

Such stock dividends would be taxable in the hands of the stockholders and hence would bear their fair share of the tax burden, but the corporation would thus pay no tax on undistributed earnings although it had kept every dollar of them.

The corporation might later want to distribute the earnings in question and it would be left free to do so if it made the stock callable.
In response to the telephonic request of Mr. Frederick S. Burroughs for an appointment with Dr. Starch to see the Secretary, HM,Jr. today saw the two gentlemen in the company of Mr. Wideman and Mr. Oliphant. Mr. Burroughs is Vice President of the Associated Gas and Electric Company.

The following is a stenographic transcript of the meeting:

**HM,Jr.:** What is on the minds of you gentlemen?

**Mr. Burroughs:** We have one thing on our mind and that is very seriously on our mind. Last week, representatives of this Department appeared before a Senate Committee in opposition to some legislation and the reason for the opposition was primarily that the legislation, if passed, would be beneficial to Associated Gas and Electric. We don't understand why a Government Department, first we don't understand why they appeared at all and, secondly, we don't understand why they oppose the legislation because it is beneficial to Associated Gas and Electric.

**HM,Jr.:** Are you serious?

**Mr. B:** I am very serious.

**HM,Jr.:** I think it is one of the funniest things I have heard in my life. What I would like to know is how that amendment was put in there. Whose idea was it?

**Mr. B:** It's a very logical amendment to prevent strike suits, but even if it were put in at our suggestion, I fail to see why the Treasury Department should oppose legislation having to do with bankruptcy cases.

**HM,Jr.:** The object is very simple. We have a suit against you fellows and we certainly are not going to let a joker be put into some bill which is going to make it impossible for us to go through with this case.

**Mr. B:** Does Mr. Krause's success, who is bringing this case against us, have any particular significance with the Treasury?

**HM,Jr.:** Who is Krause?
Mr. Jr.: Who is Krause?

Mr. Wideman: He is attorney for the petition attorneys in the 77-B. Well, now, Mr. Burroughs, the Treasury has a tax claim.

Mr. Burroughs: Yes.

Mr. W: The Treasury is interested in collecting the amount of taxes, naturally, due from Associated Gas.

Mr. B: Correct.

Mr. W: It is anxious to do that in the most expeditious way consistent with reasonably fair treatment of the Associated Gas and the stockholders of the corporation. Now there are two or three methods of collecting that tax. One is through distraint on the jeopardy assessment that has been made and seizure of your property. The Treasury has attempted to avoid that if possible.

Mr. B: Yes.

Mr. W: A bill to foreclose the tax lien has been filed in the Collection District of New York as one more moderate method than seizure and distraint, and another probability of collecting the tax through more moderate means is through 77-B in the event they are successful.

Mr. B: I don't follow that. Why should it be through 77-B proceedings. How does that help the Treasury people?

Mr. W: It may be the most appropriate and desirable way of collecting the tax from two or three angles. One is it gives the creditors and the stockholders of Associated a look-in on the proceeding, in which the Government is collecting its tax, namely: the Government is not gobbling up everything, but giving the creditors a chance to be heard, whereas if you proceed otherwise, the creditors might be left out in the cold. In 77-B the Secretary may accept less than the full amount of tax and he cannot do so under other considerations.

Mr. B: But if there is no 77-B and no trusteeship the Secretary will not have to accept less than the full amount of tax. As soon as the full amount is determined, the
company will do as it always has done -- pay the tax.

Mr. W: As I understand it, the Treasury has taken the position that it has simply because it believes that it will get the same treatment in the future as it has in the past, in the matter of cooperation from the Associated, in getting information that is necessary on which to compute the tax and then collect it.

Mr. W: And by that you mean we have got no cooperation.

Mr. B: Is that right?

Mr. Oliphant: In substance.

Mr. B: If that is correct, it certainly is not in line with my understanding and not in line with the efforts of the Company. We have certainly tried to have our representatives give the Treasury every bit of information.

Mr. B: All right, but just lower your voice because you can't come in and scare me and threaten me because there are two cases, if you want to know, that I consider -- of all the dirty work behind them! One, if you are interested, is the Louisiana tax case -- the case following up Huey Long -- and the other is Associated Gas and Electric. Those are the two worst. There isn't a day passes where they don't hire some political lawyer or some slyster who thinks he can get in the back door of the Treasury. And let me tell you, there is no back door!

Mr. B: We don't want to get in the back door.

Mr. B: All we want is proper consideration.
HM, Jr.: You can't find a man who says he has walked in here and not gotten careful consideration.

Mr. B.: I do fail to understand why any Treasury Department employee should voluntarily -- and I have no evidence that it was not voluntarily -- appear before the Senate committee and oppose legislation on the ground that it would let Associated Gas off.

HM, Jr.: Who do you think the United States Treasury is? The United States Treasury belongs to the people of the United States and we are here to do our job fairly and honestly and if we think that legislation, which has suddenly appeared, is going to deprive the people of the United States from trying a case fairly, we volunteer and go up there to see that the people are protected.

Mr. B.: I don't think the point has been made clear. Please be open-minded about it.

HM, Jr.: And I don't mind saying that this whole question of how that legislation got in there -- the President wants to know how suddenly that joker appeared.

Mr. B.: It is not joker that 5% should be required to put a company in 77-B. No joker about that! You can't put through a plan of reorganization unless you have more than two-thirds.

HM, Jr.: My dear Mr. Burroughs, may I say this: when Associated Gas and Electric wants to really cooperate with the Government we would like to know it.

Mr. B.: You know it right now.

HM, Jr.: And may I ask your position?

Mr. B.: I am Vice President.

HM, Jr.: Are you Attorney?

Mr. B.: No, I am not Attorney.

HM, Jr.: Are you operating?

Mr. B.: No, I am financial officer.
HM, Jr.: And Dr. Starch?

Mr. B: Is a director.

HM, Jr.: What is his position?

Mr. B: No official position; a director of the company.

HM, Jr.: Mr. Wideman is in charge of this case for the Government, but if the Associated wants to really show that they are cooperating, we would be so pleasantly surprised we would fall over backwards.

Mr. B: As a matter of fact, you have been quoted as saying that there are too many lawyers in the case.

HM, Jr.: Perfectly true. You sent a lawyer from Philadelphia to see me. He came me and I asked him how he got the appointment and it traced right back to one of the politicians in New York.

Mr. B: Walter Saul is not our regular counsel.

HM, Jr.: He has a politician arrange an interview and I had not the slightest idea who he was and I turned him over to Oliphant. And I have said again and again, if any tax-payer has a grievance, he can walk in here and see me.

Mr. B: I think it was a mistake for Walter Saul to arrange an interview through a politician.

HM, Jr.: You had a man from Buffalo, whom you thought was a personal friend of Robert Jackson, here three days. Then you got Clarence Shinn because you thought he was a friend of my family.

Mr. B: No; he's trying other cases for us.

HM, Jr.: Then you got Bruce Kramer.

Mr. B: Clarence Shinn is the counsel who is going to argue our 77-B case before Judge Mack.

Mr. Oliphant: Mr. Secretary, as I understand it, there are a number of other important things you have to do
this morning and, so far, the purpose as I gather is to register a feeling on the part of these gentlemen that we should not have gone up there and that, I understand, they have registered and we understand the way they feel about it. Unless there is something else...

HM, Jr.: Just a minute. I will go a step further. I would like a list of the things we have asked the Associated Gas and Electric to get for us and have been unable to get.

Mr. B: I would like to find out why you have not been given everything you wanted.

HM, Jr.: You would be glad to give me that, wouldn't you Wideman?

Mr. Wideman: Yes.

HM, Jr.: You asked why we should voluntarily appear before the Committee and I answer that I am proud that our organization found this thing and went up there about it. not

Mr. Wideman: You are justified, Mr. Burroughs, in saying that the Government had no right to take an interest in the effect of that bill on the Associated Gas case because, I started to tell you, of course we can't proceed, as long as 77-B is going on, we can't proceed in any other way except through distraint because 77-B will absorb everything. Another reason why 77-B is the appropriate way to handle the thing is that the Court is authorized to determine the tax, if it can be done, more quickly than the Board of Tax Appeals. There are many reasons why that is good machinery — the best machinery in some respects from your standpoint — to determine this tax liability.

Mr. B: Isn't regular machinery set up in the Board of Tax Appeals for determining liability?

Mr. W: Oh, yes.

Mr. B: Why isn't that satisfactory in our case? We have always paid taxes promptly as they were determined by the Board of Tax Appeals.

Mr. W: Section 77-B has the effect of preserving the
assets. By the time the Board of Tax Appeals gets it, there may be nothing left to collect.

Mr. Oliphant: Your question goes to why we made jeopardy assessment?

Mr. B: No. I am not asking anything about the tax case. I am asking why don't you want Associated Gas relieved of 77-B.

Mr. Q: As I understand, the thing is we should not have gone down. Is he here to request that we go down and ask Congress to put those things back in the Act?

Mr. B: No. I am here to ask you why the Treasury Department felt that it was undesirable that we should be relieved of 77-B proceedings and why they appeared to oppose a law which would have relieved us.

Mr. Wideman: Let me give you one general answer. The stockholders and all creditors of the Associated Gas will get a hearing in the 77-B proceeding. In any other sort of proceeding toward collection of that tax, they will not be heard.

Mr. B: Let's assume the Company is perfectly solvent and will pay all its debts.

Mr. W: I can't go along with the idea that you will cooperate with the Government and are ready and able to pay the tax when due.

Mr. B: It may be a very salutary provision generally, but it seems to affect the situation of the Associated Gas. In other words, if there is some legislation, perfectly salutary but it let's Associated off, I don't think it should be answered.

Mr. W: I told you my answer. We thought it would let you off the hook.

Mr. B: Then do I understand from that, the Treasury Department is opposed to our being relieved from 77-B.

JM, Jr: You will have to answer that, Wideman.

Mr. Wideman: You know the position the Treasury has taken. We have not intervened -- we have not asked the Court
yet to be a party to the suit. I have given you what I think are two or three good reasons why that may be the best method of determining tax liability and collecting the tax. That ought to sufficiently demonstrate to you the attitude of the Treasury.

Mr. B: Then I understand the Treasury Department is opposed to our succeeding in the dismissal of that suit?

Mr. W: Yes, the Treasury Department is opposed to seeing that suit knocked out by these amendments to 77-B.

Mr. B: Then I suppose the Department is opposed to seeing 77-B, now pending against us, knocked out at all?

Mr. W: That will develop later.

Mr. B: You are opposed to its being knocked out by legislation by Congress?

Mr. W: That's right.

Mr. B: That is a very interesting position for a Department of the Government to take. I would not have believed it unless you gentlemen told me. I supposed that the Government was not interested in proving a company insolvent. I assumed that the Government was interested in collecting the tax and usually it is considered easier to collect from a solvent company than from one in bankruptcy.

Mr. Oppenent: The Treasury is interested in collecting the tax with a minimum of hardship to creditors.

Mr. B: No hardship if you collect it in full.

HMJr.: I -- really! You asked a specific question and you had a direct answer. Now, you made the statement that as far as you know, Associated Gas and Electric is cooperating with the Government. I have asked these two gentlemen to prepare for me a memorandum showing where you have not and the information we want. I will send it to you.

Mr. B: And I will say to you, right now, that I will immediately use every effort to see that any failure to cooperate is corrected immediately.
HM, Jr.: It will be a very interesting innovation for Associated Gas and Electric.

Mr. B: I will say to you, Mr. Secretary, I think many people that try to arrange interviews in Washington, not only with yourself but with other busy people here that are hard to see, use political avenues to get an interview. I think it is a great mistake, because I think it creates the wrong atmosphere. I purposely did not ask anybody to arrange my interview with you.

HM, Jr.: And you got the interview.

Mr. B: I thought the atmosphere was wrong if I asked someone to arrange it. And I think lawyers who have come to you through the good offices of someone else have made a mistake. I think they should have come to you and the members of your Department, put their cards right out on the table and said, 'We want to see you because this is a piece of business that we are in a jam about.'

HM, Jr.: That's perfectly proper.

Mr. Wideman: Why did you start out that way?

Mr. B: It started out, naturally, being handled by our Tax Department. As it increased in importance, it increased in who is attending to it.

HM, Jr.: I don't mind saying to you that as far as I am concerned, that of the two tax cases I mentioned, Associated Gas is "Public Enemy No. 1." That's what it is registered with me.

Mr. B: I want to undertake to change that opinion.

HM, Jr.: All right. And I will meet you more than half way.

Mr. B: I think with an opportunity I could convince you that we are not entitled to be treated that way or considered that way.

Mr. Wideman: If the amount of tax is determined tomorrow, do you mean you would come in and pay it?

Mr. B: Do you mean by the Board of Tax Appeals?
Mr. Wideman: Or the Court.

Mr. B: Why, certainly.

Mr. W: You have the money and would come in?

Mr. B: I don't say we have the money. We would get the money.

Mr. Oliphant: May I make the suggestion that in view of what he has indicated he could do, it would be very healthy and salutary if everybody knew that Mr. Wideman is solely and exclusively in charge of the case and everybody should see him.

HM, Jr: Perfectly right.

Mr. B: I think it would be helpful.

Mr. W: You said someone made objection to so many lawyers.

HM, Jr: I did.

Mr. W: When I first went into this case in New York and met Mr. Le Pine, I asked who was representing Associated Gas. I had a reason. I had heard of so many people that if I was going to have anything to do with it, I would like one and certainly not more than two to do business with. You talk to 8 or 9 or 10 people and they misconstrue it and it's all in confusion. That's probably what you have reference to and I have had several since that.

HM, Jr: I have said that.

Mr. W: I said it too.

HM, Jr: We have all said it.

Mr. B: I think probably we have made an error, not only with this Department, but with others in trying to use lawyers too much. I think it's a mistake.

HM, Jr: A lawyer has his proper place.

Mr. Oliphant: As soon as one was employed and made a commitment and went back, and then another one was employed and it was embarrassing.
HM, Jr: It's a joke around this town.

Mr. B: I think we can correct that.

HM, Jr: As Mr. Oliphant said, Mr. Wideman has been selected by the United States to handle this case and it's his job and I will give him all the backing he needs.

Mr. B: I know your time is limited and I would like to talk to Mr. Wideman. In this record I think there are some statements that are incorrect and, frankly, I would like to talk to you and ask why they are incorrect.

Mr. W: I don't know what can be accomplished.

Mr. B: Mr. Wideman is the Government representative. How about Mr. Hester?

HM, Jr: He represents me.

Mr. B: He represents you? There are a good many ....

HM, Jr: Let Mr. Wideman do what he wants, but I would like a list of what we have tried to get from Associated Gas.

Mr. Wideman: There ought to be records in the Treasury for the last four or five years.

Mr. B: I hope when we get your letter I will be able to give you a little different slant.

HM, Jr: But this is an interesting experience to me, but I live and learn!

Mr. B: You mean the interview?

HM, Jr: Yes. It's very interesting; very unique. I had one like it before. Sam Altmeyer came down and it was almost as good as this. Maybe you do want to cooperate. I don't know. But your company, as far as this Government is concerned, has a unique record. Your President has a unique record.

Mr. B: You mean Mr. Hopson? He, as a matter of
fact, is probably the largest stockholder, but he is not an officer or director of the company.

Mr. W: He really controls it, doesn't he? He is supervising the Court proceedings in New York.

Mr. B: That is not right. I don't think he ever attended, or only one meeting.

Mr. W: If you don't succeed in correcting matters of fact, then you do correct my statement that Mr. Hopson was in New York directing the conduct of the proceedings. We are not going to get very far, because Mr. Hopson was there and ...

Mr. B: It is not correct.

Mr. W: It is correct! Mr. Hopson was in Court!

Mr. B: Once.

Mr. W: I said he was in Court. I had reference to one day and he was directing what the lawyers and everybody did in Court in front of Judge Mack.

Mr. B: It doesn't make any difference.

Mr. W: But don't say it isn't right, because it is.

HM, Jr: If Mr. Wideman wants to see you, that's up to him.

Mr. Burroughs and Dr. Staron left, Mr. Oliphant and Mr. Wideman remaining. Mr. Wideman said, "Hopson was in the Court. Seriously, we are reaching the point very fast where we have got to decide whether or not the Government is going to take the initiative and take Treasury records over to New York into Court to prove that these people are insolvent." HM, Jr. promised Mr. Wideman thirty minutes, very soon, to talk over the Associated Gas case.
The Belgian Ambassador having asked for an appointment to see the Secretary, HM, Jr. asked him to call today. The purpose of the call was to discuss the smuggling of alcohol from Belgium.

The Ambassador stated that he had received a telegram from Mr. van Zeeland, the Prime Minister of Belgium, asking for information on what the laws of the United States are. He added that he did not know who the Prime Minister in Belgium will be who will replace Mr. Van Zeeland, as they have had new elections, but stated that they must have new legislation to do all that ought to be done to stop the smuggling.

HM, Jr. told the Ambassador that when he came here, overseas smuggling was very active. He also told the Ambassador, "We got Cuba, France, Great Britain, Mexico and Guatemala to put in special regulations, under the terms of which the exporter is required to put up a bond with the Government which guarantees that the alcohol will be landed at the place the ship's papers say it will be landed. If it is not landed there within a specified time, the shipper forfeits his bond." He told the Ambassador that if his Government would insist on these landing certificates on cargoes of alcohol coming from Belgium, it would be very helpful.

The Ambassador inquired whether we had an agreement with the Netherlands and HM, Jr. told him that they had assured our Government that they will propose the legislation, but so far they have not gone beyond the drafting of the legislation. The Ambassador stated that if the neighboring countries should introduce such legislation, his country would do so also. HM, Jr. reminded him that the only source of this illicit traffic at the present time is from Belgium and if that Government would put in effect the regulations which would require landing certificates it would be a very friendly gesture and, he repeated, "very helpful."

The Ambassador then asked whether the Secretary could stop the disagreeable articles in the newspapers. HM, Jr. replied, "If your Government does take steps to have this legislation introduced, we can certainly try to stop it. We certainly will not instigate these articles." He also told the Ambassador that Commander Thompson had been in Belgium for six months and had conferred with Mr. Van Zeeland and had explained to the Prime Minister just what was happening.
May 27, 1936.

A group of Federal Reserve officials met with the Secretary of the Treasury at 11 A.M. to discuss financing.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,
M.S. Eccles, Chairman of the Board of Governors, Federal Reserve System,
Wayne C. Taylor, Assistant Secretary of the Treasury,
Joseph A. Broderick, Member of the Board of Governors, Federal Reserve System,
M.S. Szymczak, Member of the Board of Governors, Federal Reserve System,
E.A. Goldenweiser, Division of Research & Statistics, Federal Reserve System,
G.L. Harrison, President, Federal Reserve Bank of New York,
W.R. Burgess, Vice President, Federal Reserve Bank of New York,
G.J. Schaller, President, Federal Reserve Bank of Chicago,
G.H. Hamilton, President, Federal Reserve Bank of Kansas City,
D.W. Bell, Assistant to the Secretary,
George C. Haas, Division of Research & Statistics, Treasury,
C.B. Upham, Assistant to the Secretary.

Prior to discussing the June financing, Mr. Burgess reported on a meeting which had been held at the Treasury, attended by representatives of the Federal Reserve Banks, for the purpose of tightening the regulations governing subscriptions to Treasury issues.

Mr. Burgess said that the March offering had shown a good many subscriptions not for legitimate needs of the subscribers but for resale at a speculative profit. In the past, reliance has been placed on a maximum subscription for the banks, cash deposit for other subscribers and reductions in the percentage of allotments made.
Mr. Burgess reported that the recommendation of the meeting which considered the matter was that a letter be wired today to Federal Reserve Banks for transmittal by them to member banks and others on their list of subscribers. The recommendations, he said, are conservative and go a part of the way toward keeping down over subscriptions and eliminating padding. The cash requirement would be increased from 5 to 10%, and the attention of all banks would be called to the certificate which they are required to make in connection with the subscription for account of others. The letter suggests to the banks that the purpose is to get equitable distribution and that loans made to customers for the purpose of making a cash deposit are undesirable.

Mr. Bell read the letter which had been prepared for transmittal to Reserve Banks and explained that it was thought better to put it in the form of a letter rather than incorporating it in a circular because the subject matter is in the form of requests rather than requirements.

Turning to the June financing, Mr. Bell reported that if the Treasury continues to raise funds by $50 million additional bills weekly through September, we will have raised by that method $1,050,000,000, $500 million of which will mature on December 15th and $550 million on March 15th. In addition if we raise $1 billion new money on June 15th by notes and/or bonds, we will probably need no more new funds until December and the month end balances will be as follows: May, $1,650,000,000, June $2,685,000,000, July, $2,230,000,000, August, $1,670,000,000, September $1,550,000,000, October, $1,125,000,000 and November $800 million. He estimated that the bonus payments during the period would amount to $1,500,000,000.
Mr. Morgenthau indicated that if the market looks good in September it might be possible to give up the additional bills for that month and have instead a $500 million issue of notes or bonds. Mr. Eccles commented that the bill program was very flexible. He asked what the deficit at the end of the year would be.

Mr. Bell replied that it had not been refurred but the chances are that it will be $3,500,000,000, exclusive of bonus payments.

Mr. Morgenthau commented that relief expenditures have steadily fallen off since March. He said that the program outlined by Mr. Bell was a perfect picture from the Treasury standpoint if it went through.

Mr. Burgess said we could probably tell early enough about September possibilities to start dropping bills in August.

Mr. Harrison asked if it were possible to stop the bills in the middle of July, but Mr. Bell replied that if so we would have to raise from $500 million to $600 million in September and he thought it could not be decided as early as July.

Mr. Eccles suggested that if we stopped the bills in July and then the bonus were bigger than expected and we didn't want to issue a note or bond in September we could resume the bills in September.

Mr. Morgenthau said that the matter of $1 billion new money had not been settled, but if this group and the President agreed he would announce it tonight at his press conference so that the market might have a couple of days to absorb the information.

Mr. Burgess reported that he had been talking to banks and dealers in New York to see what the market would take. There was divided opinion as to whether the market is better now than in March.
Prices are better but the market is pretty thin. On the whole it is a pretty good market. The situation in France is being watched and will come to a head about June 9th or 10th. The market is affected by the experience of the last two years when August and September were bad months and there is some thought that maybe a seasonal movement in Government bond prices has established itself. The natural thing to suggest is a continuation of the December and March policy with a 5 year note, plus a bond for cash in equal amounts. The maturity might be gradually stepped up. In December we had a 10-12 year bond and in March a 12-15 year. We might now go to a 15-18 year. There is some logic to this and the prices look good for it.

On the matter of a note, the market looks good enough for a rate of 1-3/8% and the Street agrees that could be placed. Some alternatives for the note have been suggested. One is a 5 year note, maturing in June 1941. One difficulty with that is that there is a maturity of $500 million in March 1941 and one of $800 million in August 1941. This gives enough competition to suggest some other date. Consideration has been given to September 1939 or September 1940, but it seems more logical to save those dates for a possible September issue. Another alternative is a short bond for 6 years maturing in 1942 or for 9 years maturing in 1945. This would attract something the same market as a note but the cost to the Treasury would be considerably more. Moreover, many people will not take an issue of more than 5 years maturity. Mr. Burgess also suggested that there is not complete tax exemption on the bond.

With respect to the bond, Mr. Burgess said there were several
alternatives. One suggestion is for a 10 year bond at 2-1/4%. This would be popular but would not help out on the Treasury problem of increasing the longer dated debt. It would be a step backward. Perhaps it would not be good to give the banks so low a rate. Another suggestion is a 2-7/8% or a long 3%. The market might not be too receptive to too long a bond. If the maturity is too far out there would be a limitation placed on the block of buyers. It was remarked that the Standard Oil Company of New Jersey had recently put on the market a 25 year bond at 3% on a 3.11 basis which might furnish an unfavorable comparison with a Treasury 3% at this time. The market seems to favor a 2-3/4%. Another possibility is that some more of the bonds issued in March or of the 2-7/8% of 1955-60 but these would have to be sold at a premium and would encounter some resistance.

Some banks want a new bond. The majority lean to a new 2-3/4%. The precise maturity might be somewhere in the neighborhood of a 15-18 year bond and to carry something over 1½ point premium for so large a block. A 15-19 year bond maturing in 1952-55 doesn't sound quite so good from some standpoints but with 1 point premium might stand a little more chance.

With respect to the division between bonds and notes the majority view is that cash offering should be 50-50 with holders of maturing securities having the choice.

Mr. Harrison asked what would have to be paid on a 20-25 year bond and Mr. Burgess replied that we might get away with 2-7/8% but there is some prejudice against the 2-7/8% because of a slump in that issue. As the maturity is extended the market to which we appeal is limited. We must lead the market along a step at a time.
Mr. Harrison said it is clear from the corporate market that a long bond will sell. He suggested a long maturity now and saving the short maturity for September.

Mr. Burgess said on the other hand we have a big block now and the market might turn adverse, to which Mr. Harrison replied that it is always true that the market might turn adverse.

Mr. Morgenthau said, "does anyone think we can't get $1 billion new money -- no, I will put it otherwise", he said, "does anyone think we take a risk in asking for $1 billion."

Mr. Harrison said he did not think so assuming that the issue carries the same gravy as usual.

Mr. Morgenthau asked if the size of the financing would affect the decision of the Federal Reserve System on excess reserves and Mr. Eccles replied that it would not affect it one way or the other.

Mr. Harrison said he thought it would be better so far as the Federal Reserve System is concerned because that much Treasury financing would be out of the way before any action was taken.

Mr. Eccles said he would like to have all the financing in June and no financing in September for several reasons.

Mr. Morgenthau asked if anyone thought the plan Mr. Bell outlined is unwise for between now and December 15th.

Mr. Harrison said that he thought bills should be kept free as an outlet in case of a pinch. It is a pity not to avoid their use when there is no pinch. It may be allright to go ahead now but the principle should be to use bills when it is risky to do otherwise.

Mr. Morgenthau said he would like to be in a position where he doesn't have to finance in September.
Mr. Harrison suggested the possibility of tapering off bills in July if the bonus payment is small.

Mr. Eccles said the possibility of increasing bills is almost as good as actual balance.

Mr. Hamilton asked if there was some advantage to a quarterly financing and Mr. Morgenthau replied that we have established that principle and it seems acceptable to bond buyers.

Mr. Burgess agreed and said that it would be a great help in the program of changing from short to long maturities. He added that by the same token September is a good month for financing and it is a pity to drop a tax date unless we need to.

Mr. Harrison said that failing to finance on a quarterly date might be as much misunderstood as financing at some other date. He said that he thought the plan outlined ultra-conservative, and added that he made that as a comment not as a criticism.

Mr. Morgenthau asked him if他认为 a 2-3/4% bond maturing in 1950-55 conservative, and Mr. Harrison said yes, that corporations are in no better position than the Treasury and that the Treasury could reach out further if it wanted to be less conservative.

Mr. Eccles asked if a rate over 2-3/4% was not bad psychology. We have been able to lengthen the maturity without increasing the rate. It would be a mistake to go out so far that we have to put up the rate. He wants a long maturity as 2-3/4% will stand.

Mr. Harrison suggested some day we may have to go higher and it might be well to have one when we don't have to.

Mr. Morgenthau asked how the group felt about $1 billion.

Mr. Burgess replied it is just right. We should take all we can comfortably but anything over $1 billion we would be taking a chance.
Mr. Eccles asked why the new money should be divided between the notes and the bonds. He said it is desirable that the securities be taken by individuals and institutions rather than banks since that is less inflationary. Banks are more inclined to take notes. Why not have a pretty heavy issue of bonds only or make the division 60-40 or 75-25.

Mr. Burgess said that he had felt that way a few days ago but we must play to two groups of buyers — the cash buyers and those who want to exchange. If too much cash weight is put on the bonds they will be depressed and we will get less exchanges. We will get the maximum on exchanges if the division is 50-50. He urged that we keep the offering simple and follow tradition.

Mr. Eccles said that if there is a 1% premium on a 2-3/4%, 15-16 year bond we should get much more than $500 million.

Mr. Burgess said that was debatable and said that we would not be taking much risk if we made the proportion 60-40.

Mr. Schaller asked if that wouldn’t force banks into bonds and Mr. Eccles said that would have a leeway on the exchanges.

Mr. Harrison said he had great sympathy with Mr. Eccles’ point of view. He would like to make the issues tempt banks less and individuals more, as the sooner we get sounder financing the better. There is criticism and fear of bank investments in governments and long term corporate bonds. He is not so sure that we have to rely on the banks now and so he is thinking of a long term bond. Yield is more important than maturity now. A long bond will tap a field long closed.

Mr. Eccles said that he thought a 2-3/4% bond will tap that field and that it would be a reflection on Government credit to have
to raise the rate now.

Mr. Broderick added that it will make people say that conditions are getting worse.

Mr. Morgenthau said that we would make up our minds as to the proportion between notes and bonds on Friday.

Mr. Morgenthau summed up the sentiment of the conference as being to give holders of maturing issues an option of a 5 year 1-3/8% note or a 2-3/4% bond maturing somewhere around 1950-55 with $1 billion new money on the same bond and note divided 50-50 or 60-40 or some proportion to be later agreed upon.

"Unless someone thinks this is away off", he said, "it sounds good to me."
I talked to the President about the bond issue and he was perfectly satisfied. He had no suggestions to make.

I suggested that he see Farley and me about the Board of Tax Appeals.

I showed him the slip from the news ticker that Ickes was to get 250 million from RFC for either loans or grants. I said that this will put his budget 250 million out of balance. He got very angry and annoyed at me and said, "you do not understand it". He went through the same rigmarole that he went through a couple of weeks ago when I brought the same matter up. He said, "I told you the money will not be spent". I continued to protest and he said very angrily, "do you want me to give it to you in writing that the money will not be spent?" I said, "that will not be necessary. The newspapers will interpret that your budget is 250 million out of balance", to which he replied, "don't worry about it". He practically told me it was none of my business. I told him that I felt that the budget was my business and he had no comeback on that.

Before all of this started he leaned back and said, "I do not think you realize the significance of last night's tax meeting". I said, "I am afraid that I do not because I was very tired last night". He then said, "well I had my nerve with me. I tackled the lion in his own den". He said, "I went up against the Democratic Members of the Finance Committee knowing that the majority were against me. I told them a thing or two, didn't I?" I gave him no encouragement and did not sit there at his feet and say what a great guy he was because I did not feel that he had done a good job last night and I will be very much surprised if the Senate Finance Committee gives in to his wishes. The fact that I did not sit there in glowing admiration most likely put him in a bad humor and then he let me have it because I dared raise the question about the 250 million for Ickes. Unquestionably what happened was that when the Committee called on him from the House suggesting that 700 million out of the 1½ billion be earmarked for Ickes he agreed to give them 250 million out of the RFC funds and in that way got the bill through the House and he is not man enough to admit it to me and I do not think to himself that through this deal he has definitely thrown his budget out of balance by 250 million dollars.

When Hull came out of the office I spoke to him and he told me that it would not be necessary for us to meet
as it was up to me to carry out the law. I asked him, if he had time, to read the Attorney General's memorandum which I sent him this morning and he said he had not. I asked him if he had read the President's memorandum and evidently he had. I told him that if we were not going to have a big meeting I would like to see him about this alone. Evidently Hull has made up his mind that he is going to go through with it and there is nothing more that he can do about it.
ADD RELIEF BILL, SENATE

THE COMMITTEE ALSO APPROVED A PLAN TO PERMIT ADMINISTRATOR ICKES TO MAKE GRANTS AS WELL AS LOANS FROM THE $250,000,000 REVOLVING FUND HE MAINTAINS WITH THE RFC.

THE RELIEF FUND WAS CONTAINED IN THE $2,368,580,044 DEFICIENCY APPROPRIATION MEASURE WHICH THE COMMITTEE VOTED TO REPORT FAVORABLY TO THE SENATE FOR ACTION BEFORE THE END OF THE WEEK.

IN DECIDING TO TURN THE MONEY OVER TO MR. ROOSEVELT, THE COMMITTEE REVERSED THE HOUSE VERSION OF THE BILL. THE HOUSE ALSO HAD REFUSED TO MAKE ANY PROVISION FOR ICKES' AGENCY.

5/27--RB135P
THE WHITE HOUSE
WASHINGTON

6. Cash $50,000,000
7. Return $50,000,000
200,000,000
My dear Mr. Chen:

I have your two letters of May 22, 1936, in which you outline, as authorized by your Minister of Finance, Dr. H. H. Hsing, the further measures of the monetary program of the National Government of China.

We are glad to be able to assist you in expediting the execution of your coinage plans, and to have the privilege of supplying the first new silver coins of your reformed currency.

In the light of your proposals, and to supplement the efforts of your Government in its program of monetary reform and currency stabilization, and to assist in the success of the specific measures Dr. Hsing has authorized you to describe in your letter to me, I am forwarding to the Federal Reserve Bank of New York instructions for the transmission of offers to the Central Bank of China approximately in the form of the enclosed letters.

May I take this opportunity to express my gratification at the successful outcome of our numerous conversations with you and your colleagues? They have been mutually instructive. I believe that the kind of co-operative action effective in promoting the internal and external stability of national currencies has been well exemplified by the full and frank exchange of views in which we have engaged, and sincerely hope this mutual exchange of views between our countries will continue.

Permit me to convey to you, and through you to Dr. Hsing, the expression of my highest regard.

Sincerely,

(Signed) Henry Morganthau, Jr.

Mr. H. F. Chen,
C/o Federal Reserve Bank,
New York, New York.

Enclosures

CVO-HW 15
5/27/36
I called Mr. Bolton at 11:45 today. Bolton, the same as Cariguel, felt that nothing would happen on Sunday or Monday. As a matter of fact, it seemed to him that nothing could happen until about the second week in June. There was nothing new in the situation; the main difficulty, it seemed to him, was the fact that the whole world felt certain that something had to happen in France.

I made reference to the steadily diminishing gold stock of the Bank of France and ventured the opinion that we could be very far from the irreducible minimum in the gold supply which the French would want to, or would have to, keep for defense purposes, be that minimum 55 or 50 billion, or something like that. Bolton picked me up on that and asked whether I felt that the war chest theory was the right one. I told him I certainly did in the light of past history. Bolton, however, did not seem to be as sure of it as I.

I inquired about business in the London gold market. Bolton replied that that market was not in bad shape; daily prices were very nearly on parity with Paris; hoarding demand was not very large. I mentioned that I was glad to see that from time to time they were able to pick up some gold under our order.

Bolton then inquired what the feeling was in this country about the dollar-sterling rate. I replied that in my own humble opinion a high sterling rate would be no more popular than a low sterling rate; what was primarily desired was a stable rate. I asked him whether he agreed with that and he said, "Yes, of course."
Mr. Carigué called me at 11:15 today. He said that, as things looked at present, the Sarraut Government would resign on the fourth of June whereupon the President would call upon Mr. Blum to form a new government. This new government probably would be formed on the fifth or the sixth of June. On about the tenth or the eleventh, the new government would present itself before the Chamber of Deputies. Nothing was likely to happen over the weekend.

I inquired about how things were going in Paris now. Carigué replied that dollars were wanted and that the American banks had so far sold about $7,000,000 against gold to be shipped to New York. The British Fund had been operating but he did not know yet to what extent. The last two days the Fund had been out of the market. The renewed weakness of the franc, Carigué thought, was due to spasmodic outbreaks of labor strikes in the provinces which had made a bad impression on the public.
Re: German subsidies

Mr. Viner's letter makes two points: First, that the statute should, in substance, be given a strained construction to avoid the imposition of countervailing duties. The standard of my office is that this and other statutes shall be given a fair construction, without, on the one hand, straining the language in order to impose countervailing duties or, on the other hand, straining it to avoid such imposition. The Treasury Decision (4164), which he cites, does not support his proposition because, in that case, there were additional reasons for not imposing countervailing duties which were considered to be so weighty as to settle the question without going into other matters.

Mr. Viner's second point is that no bounty is paid "unless the exporter, in addition to what he received from the purchaser of his goods, also received from some other source additional remuneration." This proposition is obviously fallacious and if adopted would completely nullify the countervailing duty statute. Any foreign government could operate a wholesale bounty scheme and escape the countervailing duty statute by adopting the following plan:

The foreign government would itself transmit to American importers money credits equal to, for example, 20% of the amount of the goods each American importer had bought from the country in question during 1935, with the provision that these credits could be used by the American importer in paying up to 20% of the price of his imports from that country during 1936.

There would be no question that the scheme proposed would constitute the payment of a bounty because the statute covers payments made "directly or indirectly" and "however the same be paid." Yet under this scheme the exporter would not receive, in addition to what he received from the purchaser of his goods, anything from any other source.

Finally, Mr. Viner cites the Board of Appraisers decision No. 3577 which, with the other case he cited, was included with the list of decisions we had sent him. That decision quoted from Wharton's Law Dictionary, and is not quoted in Wharton's Law Dictionary as Mr. Viner stated. The decision itself is wholly beside the point since it
related to a foreign drawback, not to our countervailing duty. Wharton's Law Dictionary says that a bounty "enables a commodity to be sold abroad for less than its natural cost, whereas a drawback enables it to be sold exactly at its natural cost." Mr. Viner comments on this quotation by stating that, "Except for the bond and scrip cases, a German exporter cannot sell abroad for less in marks than the cost of his goods in marks without suffering a loss." Our countervailing duty statute contains no such limitation, and hence, his statement, though true, has no bearing on the proper construction of our statute.

Part not underlined verbatim from the attached stenographic notes made by Miss Elizabeth Shelly.

Mr. Oliphant: How's it going Bob?

Mr. Jackson: I am trying to keep twenty-six million dollars of your money from being tied up by the soapmakers. I argue that case here tomorrow and next week in St. Paul.

Mr. Oliphant: Say Bob, there must have been some misunderstanding somewhere along the line in our conversation concerning the Louisiana question as to whether or not the Secretary would want to make a recommendation as to whether Vioosa should be continued or as to whether or not they should be dismissed. I say a letter has come from Vioosa that he is going to dismiss them.

Mr. Jackson: I don't know whether any such letter has come in. It hasn't come to my attention if it has. I was my understanding that you didn't want to make any recommendation in connection with the cases at all.

Mr. Oliphant: The question you raised with me was whether or not it was worth while to talk to the Secretary about Vioosa's handling the cases. Well, of course, if he answers, it will have to be more or less covered by his judgment. I gathered from a discussion of the matter with the Secretary that we felt that it was not our concern who should handle the cases.

Mr. Jackson: Well, of course, that more or less determines what is going to happen.

Mr. Oliphant: What's that?

Mr. Jackson: In other words, what we are up against -- Vioosa was appointed by Borah who has already been reported as displeased about out butting in on him. The matter of conviction depends entirely upon the court's and the community's attitude. If we supersede Vioosa and send somebody else down there to try the cases, he has got to face that local situation, and in addition to that, he is going down there as an Administration man. The Administration is not directly responsible
for what he may do about it. My judgment was that
under the circumstances, and under statements made by
Judge Foster, we would be foolish to send somebody
down who would supersede Viosca. I am sure I wouldn't
 go, and I wouldn't send any of my friends. (He said
with a laugh.)

Mr. Oliphant: Well, I just wanted to repeat that the Treasury thinks
those cases ought to be prosecuted. The thought I was
trying to convey was that, I understood that the
Secretary's position was, we shouldn't interfere
on this matter as to who is to prosecute them.

Mr. Jackson: Of course, the hands you let them go through in all
probability will determine their outcome.

Mr. Oliphant: I suppose this is true Bob; going back to what I said
the Secretary's decision was that he wouldn't assume
responsibility for who should handle them or that
Viosca should handle them.

Mr. Jackson: I suppose in the final analysis the President is re-
ponsible for he names the United States attorneys
in that district. As long as Viosca is there, I
have got to deal with him, and I certainly wouldn't
take the responsibility of suggesting superseding him
in those cases.

Mr. Oliphant: I could understand that decision on your part or
whoever makes it there.

Mr. Jackson: Well, I understood that you didn't want the responsi-
bility.

Mr. Oliphant: It is fair to say that the Treasury thinks those
cases should be prosecuted; the Department of Justice
should decide who is to prosecute them.

Mr. Jackson: I have reported to the Attorney General that they
should be prosecuted, and should result in convictions.

Mr. Oliphant: You and I agree on that point, don't we Bob?

Mr. Jackson: I didn't base that on any talk with you, but on my talk
I had with Irey. It was his opinion that they ought
to be prosecuted. You didn't want to express the
opinion about anything. Whether that was misunderstood
or not, the report I made to the Attorney General was
that Viosca should be advised the cases were in his hands. He would have to handle them the best he could under local conditions, but it was the opinion of the Treasury that they should be prosecuted and should result in convictions, and I am sure that was conveyed to Viosca. So, whether we misunderstood or not, he had understood that that was the opinion of the men in the Treasury -- that that was the case, and I communicated it.
From the Legal Office / Assistant Counsel.

Telephone Conversation between Herman Oliphant and Robert E.

Part not underlined verbatim from the attached stenographic notes made by Miss Elizabeth Shelley.

Mr. Oliphant: How's it going Bob?

Mr. Jackson: I am trying to keep twenty-six million dollars of your money from being tied up by the soapmakers. I argue that case here tomorrow and next week in St. Paul.

Mr. Oliphant: Say Bob, there must have been some misunderstanding somewhere along the line in our conversation concerning the Louisiana question as to whether or not the Secretary would want to make a recommendation as to whether Viosca should be continued or as to whether or not they should be dismissed. I say a letter has come from Viosca that he is going to dismiss them.

Mr. Jackson: I don't know whether any such letter has come in. It hasn't come to my attention if it has. It was my understanding that you didn't want to make any recommendation in connection with the cases at all.

Mr. Oliphant: The question you raised with me was whether or not it was worth while to talk to the Secretary about Viosca's handling the cases. Well, of course, if he answers, it will have to be more or less covered by his judgment. I gathered from a discussion of the matter with the Secretary that we felt that it was not our concern who should handle the cases.

Mr. Jackson: Well, of course, that more or less determines what is going to happen.

Mr. Oliphant: What's that?

Mr. Jackson: In other words, what we are up against — Viosca was appointed by Porooh who has already been reported as displeased about our butting in on him. The matter of conviction depends entirely upon the court's and the community's attitude. If we supersede Viosca and send somebody else down there to try the cases, he has got to face that local situation, and in addition to that, he is going down there as an Administration man. The Administration is not directly responsible.
Regraded Unclassified

If you and I agree on those points, don't we both

should be proceeded? and should result in connection

have to be proceeded, presumably with that

It's fair to ask what the reason there

is whatever making it there

I could understand that because on your part or

In those cases

decision is the reason for the answers or probably for the answers?

I suppose there is time to give an opinion on. I wish I could.

Of course, the reason for those topics of discussion

Well, I just wanted to restate that the reason there

When I laughed,

don't we proceed, I don't want to know, I would have proceeded. Where do we proceed? and where do we proceed?

Judge expressed, and under circumstances which under circumstances and under circumstances and as such, expressed was that for whom he may do about it. My judgment was that.
that Viosca should be advised the cases were
in his hands. He would have to handle them
the best he could under local conditions, but it
was the opinion of the Treasury that they should
be prosecuted and should result in convictions,
and I am sure that was conveyed to Viosca. Se,
whether we misunderstood or not, he had understood
that that was the opinion of the men in the
Treasury — that that was the case, and I com-
municated it.
The Secretary conferred this morning with Mr. Sheldon H. Green, Second Vice President of the Chase National Bank, regarding the forthcoming financing. I was also present.

The Secretary explained to Mr. Green that he had asked him to come down to discuss the Treasury financing for the quarter beginning June 15, and that while he couldn't disclose exactly what the Treasury had in mind, he wanted to get his views on the general picture.

Mr. Green said his personal view was that the Treasury should issue a long-term bond for the entire amount of money which the Treasury had stated it needed, namely, $1,000,000,000. He said he realized that many things could happen within twenty-four hours and that possibly the more conservative suggestion would be for only a part of the offering to be put into a long-term bond and a part into five-year notes.

As to the long-term bond he thought that we could sell a 2-3/4 per cent 15-20 year bond (1952-56), or any time within the period from 1950 to 1956. He thought we could even go beyond this period and have a 2-7/8 per cent bond, but he was quite certain that the market was expecting the 2-3/4 per cent bond for the shorter period. He suggested that the billion dollar offering be split so as to offer $650,000,000 of 2-3/4 per cent bonds and $350,000,000 of 1-3/8 per cent five-year notes. He had given some thought to the possibility of offering an additional amount of the March 15 notes on a basis to yield approximately 1-3/8 per cent. This would give the Treasury a premium of
possibly seventy-five cents on each one hundred dollar note. He said he
would also give the holders of the notes maturing on June 15 and August 1
the right to convert such notes into either the bonds or the notes to be
offered.

He did not think that there was any doubt but what the offering
on this basis would go and go well. The present market, he said, was
right for the long-term bond and there is always a demand for the shorter
term securities in the form of five years or less.

The Secretary then asked him if he had any other suggestions re-
garding the Treasury financing in general. He said that he thought one way
to prevent padding in the smaller amounts was to insert a requirement in
our circular to the effect that all bonds issued on allotments up to, say,
$10,000 must be registered in the name of the owner. This would have the
effect of precluding individuals from putting in subscriptions for each
member of their families or their other relatives. The suggestion is worth
noting for future consideration.

He said he also would like to see the Treasury stop issuing Treasury
bills with a maturity on December 15. He admitted that this was largely
for selfish reasons, but said that most of the people who buy Treasury bills
would prefer to see the maturity go beyond the end of the year. Furthermore,
he said that tax dates are usually in April. A great many people buy the
Treasury bills and hold them for that date. He thought it might be well to
start just as soon as possible to sell Treasury bills with a maturity on
March 15 so as to more nearly meet this tax situation and this would have the
effect of taking these tax buyers out of the regular bill market.

He suggested that in view of the fact that a large part of the subscriptions of the June 15 offering would no doubt be made in cash and the further fact that the Treasury would receive large income tax payments on that date, it might be well to give consideration to the elimination of the extra Treasury bills for the last two or three weeks of June, certainly until the bonus payments begin to go out in volume. At that time the Treasury bills could be started again so as to more nearly equalize the money market from the standpoint of Government expenditures.

He called attention to the fact that a great many times large blocks of Treasury bills come onto the market, and it is rather difficult because of the small yield basis on which they are dealt to dispose of them. He thought it would be very helpful if the Federal Reserve System would adopt the policy of having flexibility in the portfolio of Government securities. The past two years have been entirely too rigid. He thought that if they could go up and down within a range of $250,000,000, the Federal Reserve System could readily absorb large offerings of this kind and at the same time be very helpful to the institutions which find it necessary to dispose of them on short notice. This is an excellent suggestion.
Meeting held in Regard to the Application of Countervailing Duties with Respect to Germany

Place of Meeting: Secretary of State Hull's Office
State Department
Date: Friday morning, May 29, 1936
Present: Secretary of State Hull
Secretary of Treasury Morgenthau
Attorney General Cummings
Mr. Herman Oliphant
Mr. Wayne C. Taylor
Mr. Johnson
Mr. Bell
Mr. Archie Lochhead

The meeting opened with Secretary Morgenthau referring to the memorandum he had received from the President regarding countervailing duties. He also referred to the memorandum relative to the opinion which was asked of the Attorney General by the President on this subject. Mr. Oliphant also read from Section 303. The Secretary pointed out that the Treasury Bureau of Customs had informed him that Section 303 should be invoked and so advised the Secretary on April 2. This question had also been referred to the Treasury's General Counsel who also agreed that it should be invoked. After receiving these opinions, Mr. Morgenthau had referred this question to the President, who in turn had referred it to the Attorney General for an opinion, who returned it after a period of about four weeks with a brief on the subject rather than an outright opinion, from which he read one paragraph on Page 12 which stated that the use of script and bonds seemed to fall under the provision of a bounty or grant. The Secretary stated that from all the evidence and opinions submitted the law apparently obligated him to invoke Section 303, but that any suggestions which could be offered which were further reasons as to why it would not be necessary for him to carry out the law would be
very welcome. Secretary Hull stated at this time that he did not realize
that the decision was to be made without further conferences with the President
but he admitted he was not sure on this point. Attorney General Cummings stated
that when he received the request for an opinion on this point on April 16 he
thought it would be simple, but upon investigation he found that there were a
great number of complications to be thought out and he had therefore requested
the Department to make a further report. He thought that there was a question
of policy to be decided and decided to submit a memorandum to the President in-
stead of an opinion, as a legal opinion might prove embarrassing to the President.

Mr. Morgenthau: But no conclusion was drawn?

Cummings: Yes, there was on legal points.

Hull: The law would apparently call for action.

Cummings: No doubt the statute is mandatory and if you carried out
the statute it would be doing what the law called for.
Mr. Hull: What we are concerned about in the State Department is not confined to the legal phases but is the question of dealing with a difficult situation and the serious effects which this may have on international relations with every country. We have been working very hard with Germany for the last two years in order to settle some very difficult questions of trade and their debt to the United States. We have been making very insistent demands to Germany in regard to trade discriminations and the non-payment of debt and have made some headway in clearing this up but the situation is still very acute. Germany has been showing more disposition to adjust these questions and has agreed not to use the $400,000,000 script as a subsidy fund to subsidize exports to the United States. We have been gaining more and more concessions from them but it is very difficult because of the fact that they also have to straighten out these affairs with Britain and other countries. The German government at the present time controls every dollar's worth of trade in and out of the country but they claim they want to get away from these restrictions just as soon as possible and that this will be possible when the registered marks and debt payments are cleared up. This question was taken up by the Commercial Policy Committee, who unanimously suggested that it should be the endeavor of the Government to find a policy to cover the situation instead of carrying out the technical law. The application of this law would touch every export from Germany and at the present time Germany's export trade is $100,000,000 and her import trade $70,000,000, with a favorable trade balance of $30,000,000 in favor of the United States.

Mr. Hull explained that there was no misunderstanding as to the Treasury's position in this matter but he was simply giving the background from which the State Department was considering the subject. Mr. Morgenthau stated that he had held up this question for over two months
now in order that it might be properly considered and all objections answered and that he had finally informed the President, who in turn had referred it to the Attorney-General. Mr. Hull said "There is no question of law". Mr. Morgenthau - "and there is no question of policy but I have been very careful regarding this whole question and I have considered it from every angle regardless of my personal position". Mr. Hull - "The Commercial Policy Committee finds this a very serious thing. If this law is carried out it is difficult to see where it will end and I am afraid that it may break down our whole international trade program.

Mr. Morgenthau: I might mention to you that the President's memorandum on this subject was entirely his own and he went into it carefully before preparing it.

Mr. Hull: Would it be possible to have another conference with the President before any action is taken on this subject?

Mr. Morgenthau: This is rather doubtful as we went over it last Friday with the President and others.

Mr. Cummings: This is really a serious problem and one which I do not think should be decided on hastily as there is no way of holding it to the immediate question. It will probably apply to all other countries and I am thinking particularly of South America, where we are endeavoring to promote trade relations and wonder what will happen there.

Mr. Morgenthau: This method of selective and partial devaluation which is employed by Germany in financing her export trade is one of the greatest obstacles we have to world stabilization at the present time. There is no doubt but that England worries more about Germany and what she will do about devaluation than she does about any other country and this type of devaluation or selective devaluation is the
greatest barrier we encounter when considering stabilization and I think you will agree, Mr. Hull, that we cannot have world stabilization or lasting trade agreements while this condition exists.

Mr. Hull: We have been trying to work these things out in a spirit of fairness and without recourse to any drastic action. Whenever things go wrong, at the present time the tendency seems to be to hit the other fellow on the nose and we do not think this is the right way to proceed. We want to work things out in a spirit of fairness and good fellowship.

Mr. Morgenthau: I would like you to get my position very clear on this. I have been leaning over backwards in my endeavor to handle this situation and have held up the decision for a great length of time simply to convince myself that I have looked at it from every possible angle but I cannot see any way out and that is why I have asked you gentlemen if you can point out any means by which I could avoid what appears to be clearly my legal responsibility.

Mr. Hull: I do not think there are any questions on this subject and certainly no fault-finding with your position.

Mr. Oliphant: This is a question of the legal responsibility of the Secretary of the Treasury. The responsibility seems to be clearly defined and the only way in which the Secretary could avoid taking action next week would be to have Congress change the existing law. They are still in session. A change in the law is the only way in which I think this action could be avoided.

Mr. Hull: If the Secretary of the Treasury would consent to hold this up until there was a chance to call it to the President's attention it would be very helpful.

Mr. Morgenthau: I am to see the President this afternoon for a few moments in regard to the coming financing and although my time with
him will be limited, I will be very glad to report to him the substance of this meeting, if you gentlemen are content to let me give my version, which I will endeavor to do as fairly as possible.

Mr. Hull: That would be perfectly satisfactory.

Mr. Oliphant: Although the memorandum was dated April 16th, it would be only fair to state that this question was taken up last Fall.

Mr. Hull: I wish to add that we have no quarrel with the Treasury but it takes two or three years to work out a solution of this kind.

After this meeting, Secretary Morgenthau, Attorney-General Cummings, Mr. Bell and Mr. Oliphant stopped for a moment or two before returning to their offices. Mr. Cummings and Mr. Bell agreed that the law unquestionably called for the Secretary to impose these prevailing duties and that it was apparent there was no loop-hole whatsoever. Mr. Cummings stated that there was no doubt regarding this and the only way the Secretary could avoid it would be by simply ignoring the law.
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LIST OF COMMODITIES
IMPORTED FROM GERMANY
IN CONNECTION WITH WHICH
COMPLAINTS OF DUMPING HAVE BEEN FILED SINCE
JANUARY - 1931
TOGETHER WITH
NAMES AND ADDRESSES OF COMPLAINANTS

Prepared by:
Division of Appeals and Protests.
ANCHORS, FIBRE SCREW Rawlplug Co., Inc., 98 Lafayette St., N.Y.C.

MESH BAGS Hon. Jos. W. Martin, Jr., M.C.

BALL RETAINERS, BICYCLE Bearings Co. of America, Lancaster, Pa.

BATHROOM ACCESSORIES China Accessories Trade Assn., 234-6 West 14th St., N.Y.C.

WOODEN BOXES Siegel & Mandel, New York City, attorneys for Arrow Mfg. Co., Inc., 15th & Hudson St., Hoboken, N.J.
(Paper Covered)

BOBBINS
Allentown Bobbin Works, Allentown, Pa.
Freeland Bobbin Corp., Freeland, Pa.
Booth Felt Co., Inc., 463-473 - 19th St., Brooklyn, N.Y.
L. M. Hartson Co., North Windham, Conn.
Felters Company, 210 South St., Boston, Mass.
Mfrs. Assn. of Conn., Inc., Hartford, Conn.

Hon. C. Murray Turpin, M.C.
Hon. Daniel O. Hastings, U.S. Senate
Hon. Robert F. Rich, M.C.
Hon. David I. Walsh, U.S. Senate
Hon. William F. Connery, Jr., M.C.
Hon. Henry W. Watson, M.C.
Hon. John G. Townsend, Jr., U.S. Senate
Hon. Marcus A. Coolidge, U.S. Senate
Hon. Hiram Bingham, U.S. Senate
Hon. Lenning Harvey, U.S. Senate
Hon. David H. Reed, U.S. Senate
Hon. Robert N. Wagner, U.S. Senate
Hon. E. W. Goss, M.C.
Hon. Royal S. Copeland, U.S. Senate
Hon. L. T. McFadden, M.C.

BRAKE LINING Asbestos Brake Lining Assn., Inc., 7 E. 44th St., N.Y.C.

DOG CHAINS Bridgeport Chain Co., Bridgeport, Conn.
WHISTLE CHAINS
John M. Russell Mfg. Co., Inc., P. O. Box 246, Naugatuck, Conn.
American Chain Co., York, Pa.

VOIDS, GERMAN BRIQUETTES
Hon. David I. Walsh, U. S. Senate

COUMARIN AND VANILLIN
Monsanto Chemical Works, St. Louis, Mo.

CUTLERY
* Hon. E. W. Goss, M. C.
American Knife Co., Winsted, Conn.

WOODEN FAUCETS
Redlich Mfg. Co., 637-47 West Oak St., Chicago, Ill.

FERRO-CERIUM
New Process Metals Corp., 46 - 50 Center St., Newark, N. J.

FERRO MANGANESE
Electro Metallurgical Co., Niagara Falls, N. Y.

FIELD GLASSES
* Bausch & Lomb Optical Co., Rochester, N. Y.
Hon. David A. Reed, U. S. Senate

TROPICAL FISH
Goldberg's Tropical Fish Hatchery, Yonkers, N. Y.

TRAVELLING RAG FRAMES
U. S. Chamber of Commerce, Washington, D. C.

UMBRELLA FRAMES
National Umbrella Frame Co., 29 East 10th St., N. Y. C.
Lamb & Lerch, Attorneys, 25 Broadway, N. Y. C.

GAS PURIFIER
Connelly Iron & Sponge Co., Elizabeth and Chicago, Ill., and N. Y. C.
STEEL WHEEL GLASS CUTTER

COTTON FABRIC GLOVES

STEEL GRINDING BALLS

ALUMINUM FOIL

POTASH

SMALL PIPE

HYDROGEN PEROXIDE

GLUE

National Association of Leather Glove Mfgs., 53-54 South Main St., Gloversville, N. Y.
Century Glove Co., Newark, N. J.
Clark Bros., Glen Falls, N. J.
Queen City Textile Corp., Allentown, Pa.
Picardy Mills, Inc., Brooklyn, N. Y.
Quality Glove Corp., N. Y. C.
Townes Brothers & Co., Inc., Amsterdam, N. Y.
Grun's, Inc., Johnstown, Pa.
Hon. Frank W. Mondell, Attorney at Law, Washington, D. C.

Landon P. Smith, Inc., Irvington, N. J.

Darling & Co., So. Ashland Ave. at 42nd St., Chicago, Ill.
Armour & Co., 1355 West 31st St., Chicago, Ill.
Swift & Co., Chicago, Ill.
Peter Cooper Corp., Gowanda, N. Y.

Buffalo Electro-Chemical Co., Inc., Buffalo, N. Y.

Hon. William H. King, U. S. Senate
Hon. Elbert D. Thomas, U. S. Senate
Chamber of Commerce & Commercial Club, Salt Lake City, Utah

* Hon. T. C. Cochran, M. C.
Sharon Tube Co., Sharon, Pa.

Reynolds Metals Co., 19 Rector St., N. Y.

American Forge Co., 25 - 37 Tehama St., Near First, San Francisco, Calif.
Hon. Hiram W. Johnson, U. S. Senate
Coates Steel Products Co., Greenville, Ill.
Excelsior Steel Ball Co., P. O. Box 52, Buffalo, N.Y.
STEEL GRINDING BALLS
(continued)
Colorado Fuel & Iron Products Co., Denver, Colo.
Sheffield Steel Corp., Kansas City, Mo.
Pacific Coast Steel Corp., San Francisco, Calif.
Wilmer C. Swartley, Philadelphia Steel & Iron Co.,
Conshohocken, Pa.
Hon. Albert E. Carter, M. C.

STEEL SHAPES AND
SWEEPS (Agricultural
Implement Parts)
Lamb & Lerch, Attorneys, Cunard Bldg., N. Y. C.
Empire Plow Co., Cleveland, Ohio
Brown-Manly Plow Co., Malta, Ohio
The Harriman Mfg. Co., Harriman, Tenn.
B. F. Cevery & Sons Co., Louisville, Tenn.
King Plow Co., Atlanta, Ga.
Southern Plow Co., Columbus, Ga.
The Ohio Cultivator Co., Bellevue, Ohio
A. G. Kelly Plow Co., Longview, Texas

ALUMINOUS ABRASIVES
General Abrasive Co., Inc., Niagara Falls, N. Y.

PAPER COATED
ABRASIVES
The Carborundum Co., Niagara Falls, N. Y.
Armour & Co., Chicago, Ill.
Behr-Manning Corp., Troy, N. Y.
George Link, Jr., McKercher & Link, Attorneys,
Coated Abrasive Association, 17 John St., N. Y. C.

HORSESHOES
Felix H. Levy, Levy & Sweedler, Attorneys for Horseshoe
& Allied Products Manufacturer's Assoc., 11 Broadway,
N. Y. C.
Tredagar Iron Works, Richmond, Va.
Burden Iron Co., Troy, N. Y.
Hon. Herbert H. Lehman, Gov., State of N. Y.
Hon. Carter Glass, U. S. Senate
Hon. David I. Walsh, U. S. Senate
Hon. Harry F. Byrd, U. S. Senate
Hon. Royal S. Copeland, U. S. Senate
Hon. James J. Davis, U. S. Senate
Hon. Joseph P. Guffey, U. S. Senate
Charlton Ogburn, General Counsel, American Federation
of Labor
Hon. Marcus A. Coolidge, U. S. Senate
SHELLAC  
William Zinser & Co., 516 W. 59th St., New York City

SILICO SPHEEEL  
(Manganese Silicon)  
Stanley Williamson, Carbide & Carbon Bldg., 30 E. 42nd Street, New York City

SODIUM PERBORATE R. & H. Division, E. I. duPont de Nemours Co., Wilmington

STEEL FORGINGS  
(Garden Tools)  
International Fork and Hoe Co., New Haven, Ind.

STARCH, POTATO  
Col. F. O. P. Theocander, New Orleans

STEEL PRODUCTS  
( Including hoop, band and scroll steel; bars, channels, angles, flanges, tubes, beams, joists, nails, barbed wire, baling ties, wire rope and wire rods)  
American Iron and Steel Institute, Empire State Bldg., New York City, representing the majority of domestic iron and steel manufacturers, the industry including 114 manufacturers of steel bars; 24 manufacturers of hoops and bands; 42 manufacturers of structural shapes (angles, channels, etc.); 23 manufacturers of blue annealed sheets; 34 manufacturers of universal and sheared plates; 42 manufacturers of tubes and pipe; 62 manufacturers of rolled steel and forging billets; 30 manufacturers of sheet and tin-plate bars; and 34 manufacturers of wire rods. (Note: Some firms included in 2 or more categories)

Separate appearances entered by:
  Alan Wood Steel Co., Conshohocken, Pa.
  Bethlehem Steel Co., Bethlehem, Pa.
  Black Hardware Co., and } Galveston, Tex.
  Texas Nail & Wire Co., }
  Jones & Laughlin Steel Corp., Pittsburgh, Pa.
  United States Steel Corp., New York City
  National Association of Flat Rolled Steel Manufacturers, Cleveland, Ohio.

* Hon. Hiram Bingham, U. S. Senate
* Hon. Hamilton F. Ken, U. S. Senate, on behalf of Purdy F. Benedict and Heller Brothers Co., Newark, N.J.
  Hon. Royal S. Copeland, U. S. Senate, on behalf of Bethlehem Steel Corp.
  Frederic J. Gillespie, 522 Fifth Avenue, New York City.
  Hon. Robert D. Bulkley, U. S. Senate
(STEEL PRODUCTS
CONT.) * Hon. H. D. Hatfield, U. S. Senate, and
Hon. Chester C. Bolton, M. C., on behalf of
National Association of Flat Rolled Steel Mfrs.

SUGAR, GRANULATED M. Golodetz & Co., 91 Wall Street, New York City.

TACKS, THUMB Arthur P. Jackson, 85 Warren St., New York City.
Waterbury Tack Co., Waterbury, Conn.
Hon. Augustine Lonergan, U. S. Senate
* Hon. Edward W. Goss, M. C.

TERPINOL Dr. E. C. Kuns, Exec.-Mgr., Civanan-Delawanna Co.,
Inc., New York City

THYMOL CRYSTALS Orbis Trading Co., Inc., 215 Pearl St., New York City

TRICHLORETHYLENE E. I. duPont de Nemours Co., Wilmington, Del.

TWINE, BINDER J. S. McDaniel, Secy., Cordage Institute, 60 E. 42nd
Street, New York City.

VANILLIN AND COUMARIN Monsanto Chemical Works, St. Louis, Mo.

WIRE, PHONOGRAPH
NEEDLE Hon. David I. Walsh, U. S. Senate, on behalf of
Hy-Carbo Steel Co., P. O. Box 1211, Lowell, Mass.

WRENCHES Hon. Francis D. Culkin, M. C., on behalf of
International Nutrop Tool Corp., Oswego, N. Y.

WOOD PULP Raymond Chamber of Commerce, Raymond, Wash.
Olympia " " " , Olympia, Wash.
Manufacturers' Association of Washington, Seattle, Wash.
Port Townsend Chamber of Commerce, Port Townsend, Wash.
Everett Chamber of Commerce, Everett, Wash.
Puget Sound Pulp & Timber Co., Everett, Wash.
PAPER, NEWSPRINT

Inland Empire Paper Co., Millwood, Wash.
Hawley Pulp & Paper Co., Oregon City, Oregon.
Pejepscot Paper Co., 42 Broadway, New York City.
The Wright Co., 49 East 49th Street, New York City.
Gould Paper Co., Lyons Falls, N. Y.
Minnesota & Ontario Paper Co., Minneapolis, Minn.
Great Northern Paper Co., 342 Madison Ave., N. Y. C.

Hon. Royal S. Copeland, U. S. Senate, on behalf of The Wright Co. (see above)

RIBBONS, COTTON

Century Ribbon Mills, Inc., 80 Madison Ave., N. Y. C.
Wellington Sears Co., 65 Worth St., N. Y. C.

NAILS, UPHOLSTERERS'

Thomas B. Jordan, Secy., Upholstery Nail Institute, Organization Service Corp., 74 Trinity Place, N. Y. C.

COKE

A. C. Welsh, Brooklyn Chamber of Commerce, Brooklyn, N. Y.
(on behalf of Brooklyn Union Gas Company;
Koppers Seaboard Coke Company;
Koppers Gas & Coke Company, Kearny, N. J.;
Consolidated Gas Company;
Hudson Valley Fuel Corp., Troy, N. Y.;
Frederick I. Thompson, State Docks Commission, Mobile, Ala., and New England Coke Co., 250 Stuart St., Boston, Mass.

Regarded Unclassified
LEATHER, CALF


LEATHER, KID

De Vries, Crawford and McCook, Washington, D. C., attorneys for undisclosed members of American industry.

MICROSCOPES

Spencer Lens Co., 5 S. Wabash Ave., Chicago, Ill., Hon. Fred A. Britten, M. C., in behalf of above.

MINTS (Candy)

Life Savers, Inc., Port Chester, N. Y.

MOULDINGS AND CARVINGS

Illinois Manufacturers Association, Chicago, Ill., in behalf of Boynton & Co., 1725 Dickson St., Chicago, Ill.

NAILS, WIRE

Included in general steel cases.

CREOSOTE OIL


* Hon. Arthur H. Robinson, U. S. Senate, in behalf of Indiana Consumers Gas & By-Products Co., Terre Haute, Ind.

* Hon. A. D. Sanders, M. C., in behalf of Rochester Gas & Electric Corp., Rochester, N. Y.

Hon. J. Hamilton Lewis, U. S. Senate, in behalf of Interlake Iron Corp., Chicago, Ill.

Hon. Robert J. Bulkeley, U. S. Senate, in behalf of The Valley Camp Coal Co., Cleveland, Ohio.

James F. Curtis of Curtis, Fosdick & Belknap, attorneys for various complainants, 61 Broadway, New York City.
MINERAL OIL FROM GERMANY

Sherwood Petroleum Co., Bush Terminal Bldg., #1, Brooklyn, N. Y.
Standard Oil Co. of California, Std. Oil Bldg., San Francisco, Calif.
Stanco Incorporated, 2 Park Ave., New York City
L. Sonneborn Sons, Inc., 88 Lexington Ave., N. Y. C.
Standard Oil Co. (Indiana) 910 South Michigan Ave., Chicago, Ill.

CHILLED IRON ROLLS


PRINT ROLLERS

M. J. Flynn, Executive Secy., America's Wage Earners Protective Conference, 504 Carpenters Bldg., Washington, D. C.
Matthew F. Norton's Sons, 564 Walton Ave., N. Y. C.

RULES

Eagle Rule Mfg. Corp., 510 Hunts Point Ave., Bronx, N. Y.
Master Rule Mfg. Co., Inc., 815 East 136th St., N.Y.C.

HUGS, HOOKED

George C. Webber, attorney for undisclosed clients, Auburn, Maine.

Hon. Wallace H. White, Jr., U. S. Senate, in behalf of above.

SALT CAKE

Sodium Products Corp., 1404 N. Los Robles Ave., Pasadena, Calif. (Also Altadena, Calif.)
DeVries, Crawford & McCook, attorneys, Southern Bldg., Washington, D. C.
Bay Chemical Co., Inc., New Orleans, La.

Hon. Harry L. Minglebright, M. C.) in behalf of Myles
Hon. Paul H. Maloney, M. C. ) Salt Co. and Bay
Chemical Co.

The American Mining Congress, Washington, D. C.

* Hon. Reed Smoot, U. S. Senate, in behalf of the
Great Salt Lake Chemical Co.

Rhodes Alkali & Chemical Corp., San Francisco, Calif.
Mutual Chemical Co. of America, 270 Madison Ave., N.Y.C.
SALT CAKE (Cont.)

- Ozark Chemical Co., Tulsa, Oklahoma.

- Hon. Taaker L. Oddie, U. S. Senate
- Hon. Carl Hayden, U. S. Senate
- Hon. E. S. Broussard, U. S. Senate
- Hon. H. E. Barbour, M. C.
- Hon. John N. Sandlin, M. C.
- Hon. Richard J. Walsh, M. C.
- Hon. Numa F. Montel, M. C.
- Hon. Key Pittman, U. S. Senate
- Hon. J. C. Fernandez, M. C.
- Hon. Samuel M. Shortridge, U. S. Senate
- Hon. James L. Whitley, M. C.

BARRELS, BEER

- The Jefferson Woodworking Corp., Louisville, Ky.
- Kimball-Tyler Co., Baltimore, Md.
- Gembrinus Cooperage Works, Louisville, Ky.
- Chess & Wymond, Louisville, Ky.
- The Associated Cooperage Industries of America, Inc., 411 Olive St., St. Louis, Mo.

FLOUR, WHITE RYE

- Herman Packlar, Millers National Federation, Washington, D.C.
- Broenniman Export Corp., New York City.
- Weyauwega Milling Co., Weyauwega, Wisconsin.
- David Stott Flour Mills, Detroit, Michigan.
- Bay State Milling Co., Winona, Minnesota.
- Duluth-Superior Milling Division of Standard Milling Co., Minneapolis, Minn.
- Eagle Roller Mills Company, New Ulm, Minnesota.
- Upper Hudson Rye Flour Mills, Inc., Troy, N. Y.

PAPER, ONIONSKIN


TICKINGS, COTTON

- Cotton Textile Institute, 320 Broadway, New York City.

FILTERING MATERIALS

- Cellulo Company, Sandnaky, Ohio

- Hon. William L. Fiesinger, M. C.

POT CLEANERS, COPPER

Metal Textile Corp., Orange, N. J.

WOVEN WIRE FENCING

American Iron & Steel Institute, Empire State Bldg., New York City, representing some domestic interests as represented in general steel case.


Wickwire Bros., Cortland, N. Y.


John A. Roebling's Sons Co., Trenton, N. J.

Keystone Steel & Wire Co., Peoria, Ill.

California Wire Cloth Co., Inc., Oakland, Calif.

Wickwire Spencer Steel Co., New York City.

Northwestern Barbed Wire Co.


AMMONIUM SULPHATE

Rochester Gas & Elec. Corp., Rochester, N. Y.

Minnesota By-Products Coke Co., St. Paul, Minn.

Hamilton Coke & Iron Co., Hamilton, Ohio.


Chicago By-Products Coke Co., Chicago, Ill.

Conn. Coke Co., New Haven, Conn.

Woodward Iron Co., Birmingham, Ala.

Alabama By-Products Corp., Birmingham, Ala.

Laclede Gas Light Co., St. Louis, Mo.

Seaboard By-Product Co., Kearney, N. J.

Youngstown Sheet & Tube Co., Youngstown, Ohio.

Republic Steel Corp., Youngstown, Ohio.

North Shore Coke & Chemical Co., Chicago, Ill.

Interlake Iron Corp., Chicago, Ill.

Sloss-Sheffield Steel & Iron Co., Birmingham, Ala.

Donna-Hanna Coke Corp., Buffalo, N. Y.

Koppers Construction Co., agent for Brooklyn Union Gas Co., Brooklyn, N. Y.

Manufacturing Chemists Association of U. S., Washington, D. C.
AMMONIUM SULPHATE (Cont.)

Tennessee Products Corp., Nashville, Tenn.
Providence Gas Co., Providence, R. I.
Thomas R. Chashee, Shoreham Bldg., Washington, D.C.
attorney representing Koppers Gas & Coke Co.,
Pittsburgh, Pa.
Indiana Consumers Gas & By-Products Co., Terre
Haute, Ind.
Semet-Solvay Corp., New York City.
Thos. J. Doherty, Tariff Counsel, American Iron
and Steel Institute, 75 West Street, N. Y. C.
E. C. Alvord, Esq., attorney for certain domestic
interests, Shoreham Bldg., Washington, D. C.

Hon. S. D. Fess, U. S. Senate
Hon. Carl R. Chindbloom, M. C.
Hon. Robert J. Birkley, U. S. Senate
* Hon. Cordell Hull, U. S. Senate
* Hon. James E. Watson, U. S. Senate
* Hon. Edward H. Crump, M. C.
Hon. S. D. McReynolds, M. C.
Hon. John G. Cooper, M. C.

James H. Curtis of Curtis, Fosdick & Belknap,
attorneys, 61 Broadway, N. Y. C., representing
complainants.

* Members of Congress no longer serving are indicated by an asterisk.
Preliminary Estimate

Senate Finance Committee Proposal No. A-12

I. Tax Provisions

1. Retain present taxes on statutory net income as now defined.
2. Retain present capital stock and excess profits taxes.
3. Repeal exemption of dividends from normal tax on individuals.
4. Define adjusted net income as the statutory net income less ordinary corporation income taxes plus 90 percent of dividends received. Define undistributed adjusted net income as adjusted net income less dividends paid, and, in the case of corporations with adjusted net income less than $15,000, a special credit of $1,000. Impose a tax on undistributed adjusted net income equal to the sum of the following:

0 percent of the amount of the undistributed adjusted net income which is not in excess of 30 percent of the adjusted net income.

20 percent of the amount of the undistributed adjusted net income which is in excess of 30 percent and not in excess of 50 percent of the adjusted net income.

30 percent of the amount of the undistributed adjusted net income which is in excess of 50 percent of the adjusted net income.

II. Estimated Revenue, Calendar Year 1936

Estimated net increase in revenue $490 millions

May 29, 1936
Preliminary Estimate

Senate Finance Committee Proposal No. A-12

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   $1,000. Impose a tax on undistributed adjusted net income equal
   to the sum of the following:

   0 percent of the amount of the undistributed adjusted
   net income which is not in excess of 30 percent of
   the adjusted net income.

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   net income which is in excess of 30 percent and not
   in excess of 50 percent of the adjusted net income.

   30 percent of the amount of the undistributed adjusted
   net income which is in excess of 50 percent of the
   adjusted net income.

II. Estimated Revenue, Calendar Year 1936

Estimated net increase in revenue $490 millions

May 29, 1936
Additional revenue (million dollars)

1. Retain capital stock and excess profits tax . . . . $ 168

2. Impose present corporate tax rate (12½ percent to 15 percent) on statutory net income as defined in present law, which includes 10 percent of intercorporate dividends received. . . . .

3. Define adjusted net income as the statutory net income less corporation income taxes plus 90 percent of dividends received. Define undistributed adjusted net income as adjusted net income less the dividend credit, less a special exemption of $15,000 to all corporations. Impose a tax on undistributed adjusted net income equal to the sum of the following:

- 15 percent on the amount of the undistributed adjusted net income which is not in excess of 20 percent of the adjusted net income.
- 25 percent on the amount of the undistributed adjusted net income which is in excess of 20 percent and not in excess of 40 percent of the adjusted net income.
- 40 percent on the amount of the undistributed adjusted net income which is in excess of 40 percent of the adjusted net income.

Yield of such tax on undistributed adjusted net income and of surtax on dividends to individuals. $790

TOTAL ADDITIONAL REVENUE $622

Additional revenue (million dollars)

1. Retain capital stock and excess profits tax . . . .

2. Impose present corporate tax rate (12½ percent to 15 percent) on statutory net income as defined in present law, which includes 10 percent of intercorporate dividends received. . . . .

3. Define adjusted net income as the statutory net income less corporation income taxes plus 90 percent of dividends received. Define undistributed adjusted net income as adjusted net income less the dividend credit, less a special exemption of $15,000 to all corporations. Impose a tax on undistributed adjusted net income equal to the sum of the following:

- 15 percent on the amount of the undistributed adjusted net income which is not in excess of 20 percent of the adjusted net income.
- 25 percent on the amount of the undistributed adjusted net income which is in excess of 20 percent and not in excess of 40 percent of the adjusted net income.
- 40 percent on the amount of the undistributed adjusted net income which is in excess of 40 percent of the adjusted net income.

Yield of such tax on undistributed adjusted net income and of surtax on dividends to individuals. $630

TOTAL ADDITIONAL REVENUE $630

If the percentage of intercorporate dividends now subject to corporate income tax be increased from 10 percent to 13-1/3 percent, the additional yield would be $5 million. If from 10 percent to 16-2/3 percent, the additional yield would be $10 million.

These estimates assume no changes in existing law other than those cited above and that the new bill will contain provisions which will prevent any avoidance of the above taxes.

May 27, 1936
May 29, 1936.

Mr. Howard J. Simons,
Secretary, Board of Trustees,
Endowment Fund,
American National Red Cross,
Washington, D. C.

Dear Mr. Simons:

I am returning herewith copy of resolution of the Board of Trustees of the American National Red Cross Endowment Fund, which was enclosed with your letter of April 9, 1936, having indicated thereon my disapproval of the purchase of 125M Pacific Gas and Electric 3 3/4% bonds of 1961 and 250M Southern California Edison 3 3/4% of 1960 and my approval of the purchase of 45M U. S. Treasury 2 7/8's for 1960-55. I have retained a copy of the resolution for my files.

In recent months I have been giving considerable thought to the subject of trust funds and I have come to the conclusion that safety of principal is such a completely determining factor in connection with trust fund management that I feel I cannot indicate my approval for the purchase of any securities other than the direct obligations of the United States Government or obligations of Governmental organizations guaranteed by the United States Government as to both principal and interest. I realize that this decision on my part may present complications for the Board of Trustees of the National Red Cross Endowment Fund, but I feel so strongly on this point that I cannot take any other action.

Very truly yours,

(Signed) H. Morgenthau, Jr.

H. Morgenthau, Jr.,
Chairman, Board of Trustees,
Endowment Fund,
American National Red Cross.

(Substituted for two page letter of same date - (returned))
Mr. Howard J. Simons,
Secretary, Board of Trustees,
Endowment Fund,
American National Red Cross,
Washington, D. C.

Dear Mr. Simons:

I am returning herewith copy of resolution of the Board of Trustees of the American National Red Cross Endowment Fund, which was enclosed with your letter of April 9, 1936, having indicated thereon my disapproval of the purchase of 125M Pacific Gas and Electric 3 3/4% bonds of 1961 and 25OM Southern California Edison 3 3/4% of 1960 and my approval of the purchase of 45M U. S. Treasury 2 7/8%'s for 1960-55. I have retained a copy of the resolution for my files.

In recent months I have been giving considerable thought to the subject of trust funds and I have come to the conclusion that safety of principal is such a completely determining factor in connection with trust fund management that I feel I cannot indicate my approval for the purchase of any securities other than the direct obligations of the United States Government. I realize that this decision on my part may present complications for the Board of Trustees of the National Red Cross Endowment Fund, but I feel so strongly on this point that I cannot take any action other than that indicated in my disapproval of the purchase of Pacific Gas and Electric and Southern California Edison bonds.

Very truly yours,

(Signed) H. Morgenthau, Jr.

H. Morgenthau, Jr.,
Chairman, Board of Trustees,
Endowment Fund,
American National Red Cross.

Enclosure

(This letter returned by Mr. Simons of R. C.
and new letter of May 29 substituted)
WE ARE SAILING ON BREMEN FOR EUROPE PLEASE ACCEPT OUR DEEPEST APPRECIATION FOR ALL YOUR KINDNESS DURING OUR STAY IN WASHINGTON AND FOR THE BEAUTIFUL FLOWERS YOU SENT US:

K P CHEN P W KUO.
May 29th

I gave the President the material to sign on the bond issue at 2:45. He questioned me and I satisfied him and he signed it.

Next I told him about the German matter; that we met this morning at Hull's office with the Attorney General. No question was raised about the law and everybody agreed that the law ordered me to carry this out. I told the President that Hull had some idea in his mind 5 or 6 weeks ago that the President had said at Cabinet that he would see all of us together before the Treasury did anything but I said I supposed that his memorandum of the 22d of May superseded this. He said, "as long as the law is clear there is nothing for you to do but to carry it out." I told him how I was going to handle the publicity. He approved. I said I was not at all sure that Hull was right that this would disrupt our trade with Germany as after all Germany was following what I had nicknamed "selective devaluation. The President then gave me some examples of German trading in marks that he picked up while he was at the Republic of Columbia. He seemed entirely satisfied with my procedure. I thanked him for the backing that he had given me and told him that the whole situation had been most difficult for me.

I then said, "Mr. President, I have to tell you something very disagreeable but I feel as a friend of long standing that I must tell you." I said, "within the past 48 hours the Attorney General sent a letter to Viasco in New Orleans telling him to use his own judgement in regard to the two Seymour Weiss cases". I said, "this morning Viasco appeared before Judge Borah and had the cases dismissed and Weiss did not even pay his taxes plus the penalty." The President seemed very much shocked and turned to me and said, "what shall I do?" and I replied, "I think you ought to send for Robert Jackson who knows all about this and let him talk to you". I said, "amongst other things he will tell you that in the past 48 hours he appeared before the Attorney General and told him that the Treasury wanted the cases tried and that we believed they could be won. Notwithstanding this fact the Attorney General went ahead and wrote the letter that he did".
May 29th

I showed this to the President at the request of the State Department and the President read it and said, "it has nothing to do with the devaluation".
PARAPHRASE OF TELEGRAM

TO: Secretary of State, Washington.
DATED: May 28, 1936, 8 p.m.
RECD.: May 28, 4:45 p.m.
NO.: 162

STRICTLY CONFIDENTIAL. The following statement was transmitted by Von Haeffer this afternoon:

"(1) That it is the mutual desire of the German Government and the Government of the United States to clarify their relations was brought out plainly in the recent discussions undertaken upon the initiative of Minister President Goering. The time has now come, the German Government believes, to translate this desire into accomplished fact.

(2) The German Government agrees that the first objective should be the amicable disposal of the old sabotage claims. It accepts the view that the effort to dispose of these claims is unconditional.

(3) It is the assumption of the German Government that the wider questions involved will be taken up at an early date.

(4) The proposal to send an appropriate representative according to the understanding arrived at in
in mutual discussion is received with appreciation by the German Government, which delegates Minister President Goering to receive the representative in Germany during June.

(5) Instructions have been issued to the appropriate German officers to undertake, with the consent of the process representatives of the American Government, the necessary process measures thus making it possible to postpone immediately the process discussions pending before the Mixed Claims Commission.

In private conversation with von Pfeffer gave assurances that his Government is thoroughly aware that we cannot agree to condition a settlement of the sabotage cases on the solution of the larger problems; in consequence, there is no question of conditioning the one upon the other. The first paragraph of the statement, he said, was intended to reproduce the views which we in our discussions had expressed to him.

In reply to my repeated and careful inquiry regarding the instructions referred to in the last paragraph of the statement, von Pfeffer assured me that Minister President Goering had already requested the Foreign
Foreign Office to instruct the German agent in Washington to seek the postponement of the hearing. Informally von Pfeffer led me to understand that, while Goering had communicated his wishes to the Foreign Office, certain difficulties might arise (presumably through the Foreign Office); Herr Goering hoped therefore that the Department would cooperate with regard to the matter of postponement and that the American agent would facilitate as much as possible the task of the German agent. I agreed to communicate this desire to the Department but on the clear understanding - and von Pfeffer agreed to this once again - that the German agent should take the initiative with regard to adjournment.

MAYER.
Mr. Bolton called me at 10:30 a.m. to let me know how things were going in Europe. Francs were very weak today, he said, and so were the guilder and the Swiss franc. The Paris Bourse had had a bad time, partly because of talk in Paris about communism. All three countries had lost quite a bit of gold this week, the Swiss and Dutch to London where they had been selling in the bullion market. Today's market was active; the Fund had so far done in the neighborhood of $1,000,000 and he estimated the total of gold engaged for New York at from 7 to 8 million dollars. This was rather a crude guess, he said, because he had found it very difficult to get hold of Cariguel who seemed very much rushed. I mentioned that our commercial banks estimated that the Fund's operations yesterday had been about 100,000,000 francs. Bolton corrected that to about 2/3 of the amount. He seemed to be interested in knowing what these estimates were based on. I explained to him that our banks here received these estimates from their correspondents in London and that they were each bank's individual guesses. Bolton replied that he would be very glad to keep us advised as long as he was assured that anything he told us would not go further because he, of course, had a personal responsibility. I told him that, as far as this bank was concerned, he need never worry and he replied that he would make it a habit to call me more frequently.

With reference to the Treasury's sterling position regarding which we had kept the Bank of England posted from the very beginning, I told Bolton that it had, during the current month been completely covered. Bolton thanked me for the information.

LWK; KNC
BRITISH EMBASSY, 
WASHINGTON, D.C. 

May 29th, 1936.

Dear Mr. Secretary:

I take the occasion of Mr. Bewley's visit to communicate to you a message from the Chancellor of the Exchequer.

Mr. Chamberlain is most anxious that there should be full and frank communication between the two Treasuries, and he hopes that for this purpose you will make the utmost use of Mr. Bewley as a member of the British Embassy. He feels that in the difficult times through which we are passing and in the perhaps still more difficult days to come, the closest and most friendly contact between the two Treasuries is desirable, and he hopes that whenever there are particular points on which you desire further information/

The Honourable 
Henry Morgenthau, Jr., 
United States Treasury, 
Washington, D.C.
information, or whenever you yourself are in a position to afford information as regards your own policy, you will not hesitate to ask Mr. Bewley to call upon you.

Believe me,

My dear Mr. Secretary,

Very sincerely yours,

R. L. Lindsay
British Embassy,
Washington, D.C.

May 29, 1936.

Dear Mr. Secretary:

I take the occasion of Mr. Bewley’s visit to communicate to you a message from the Chancellor of the Exchequer.

Mr. Chamberlain is most anxious that there should be full and frank communication between the two Treasuries, and he hopes that for this purpose you will make the utmost use of Mr. Bewley as a member of the British Embassy. He feels that in the difficult times through which we are passing and in the perhaps still more difficult days to come, the closest and most friendly contact between the two Treasuries is desirable, and he hopes that whenever there are particular points on which you desire further information, or whenever you yourself are in a position to afford information as regards your own policy, you will not hesitate to ask Mr. Bewley to call upon you.

Believe me,

My dear Mr. Secretary,

Very sincerely yours,

(Signed) R. C. Lindsay

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.
June 1, 1936.

My dear Mr. Secretary:

I am enclosing herewith a photostat copy of a letter from Ambassador Lindsay which was delivered by hand to me by Mr. Bewley.

I think that this letter is most significant and I should like to discuss it with you at your convenience.

Sincerely,

The Honorable,

The Secretary of State.